Liquid Air Corporation Annual Report 1981

Corporate Profile

Liquid Air is a major producer of industrial gases, welding products, and safety and diving equipment. Over the past ten years, Liquid Air has, sometimes with the assistance of its parent L'Air Liquide, distinguished itself in the marketplace by researching and developing important technologies for the industries it serves. Behind that commitment to Research and Development is a belief that bringing technology to market is the most important service Liquid Air can provide. The cover photo symbolizes Liquid Air's contributions to a new energy technology—Enhanced Oil Recovery.

Contents

Financial Highlights*

(Millions of dollars except per share amounts)

LIQUID AIR CORPORATION

Years ended December 31	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Net sales	$127.8	$175.5	$220.0	$240.8	$265.6	$284.5	$304.3	$369.1	$408.2	$428.0
Net earnings	8.1	12.1	14.1	17.6	21.2	19.8	18.3	24.3	29.4	31.5
Per share:(1)										
Net earnings	$1.24	$1.63	$1.89	$2.35	$2.73	$2.73	$2.48	$2.45	$2.76	$2.86
Dividends paid	(2)	1.20	1.15	1.25	1.25	1.40	1.40	1.40	1.40	1.55

December 31	1980	1981
Total assets	$444.9	$484.3
Shareholders' equity(3)	222.3	259.0

*See Note A of notes to consolidated financial statements.

(1)Per common share and common equivalent share.

(2)Cash dividends paid prior to 1973 are not reported as they are not considered relevant to a current evaluation.

(3)Includes $24.0 million of redeemable preferred stock.

The Year in Brief

- 1981 earnings from operations increased to $31.5 million from $27.4 million.
- 1981 net sales were $428 million.
- The increase in earnings was primarily attributable to the Brazilian and United States industrial gas operations.
- A major expansion of the company's liquid nitrogen facilities was launched to primarily serve the Enhanced Oil Recovery customers in the Utah, West Texas and Rocky Mountain areas.
- A capital expenditure program was also launched to increase air separation capacity in selected areas.
- A new research center was opened in Chicago to keep pace with customers' needs for improved technology.
- During the first quarter of 1982, the company announced the acquisition of Cardox Corporation, a major carbon dioxide producer.
- New and expanded lines of credit were created to help finance the capital expansion program and the acquisition of Cardox.

To Our Shareholders and Employees

Jean H. Delorme

Pierre A. Salbaing

Since the date of our last Annual Report, I am pleased to state that Liquid Air has taken several significant steps to strengthen its position as an effective force in the marketplace for industrial gases. First, the Company launched an ambitious capital expenditure program to increase our air separation capacity. That increase will be concentrated in those areas of the United States and Canada where we expect the economy to remain strongest. To help finance this program, the Company's parent, L'Air Liquide, subscribed for $30,000,000 of common stock in October in lieu of rights.

On March 31, 1982, the Company acquired Cardox Corporation from Allegheny International, Inc. Cardox, previously a division of Chemetron Corporation, is an important producer and distributor of CO_2 throughout the United States. This acquisition complements the Company's industrial gas operations.

Before this acquisition, the Company operated only one small carbon dioxide facility in the United States. During 1979, when we purchased the industrial gas assets of Chemetron, we were required to divest our two other CO_2 plants, located in the Southwest, to comply with a consent degree.

The completion of this acquisition will enable Liquid Air to achieve its long stated goal to compete in the U.S. marketplace from a position of strength. To improve our overall position, we have also consolidated our existing operations to provide a solid base on which to build. In addition to acquiring Cardox, we also initiated some of our medium- to long-term objectives, which include new plants, an important new technology center, and continued bolstering of executive personnel. To help meet this people-oriented goal, we hired Richard Johnson, a man of considerable experience in our industry, as Senior Vice President of the Company and Executive Vice President of our Industrial Gases Division. Mr. Johnson, together with Mr. Slattery, who joined the Company in 1979, bring to Liquid Air many years of leadership in the field of industrial gases.

Liquid Air Corporation's 1981 overall results continued to improve in spite of depressed economic conditions, which are continuing into 1982 in both the United States and Canada. Net earnings from operations were $31.5 million, 15% over last year's net earnings from operations of $27.4 million. After reflecting the issuance of 1,426,731 common shares at $21 per share on October 1, 1981 (discussed later in this report), net earnings from operations per share were $2.86 in 1981 compared with $2.57 in 1980. The 1980 net earnings, including a gain on the disposal of certain industrial gas assets, amounted to $29.4 million or $2.76 per share. Sales in 1981 increased by 5% from $408.2 million to $428 million.

Our Brazilian operations, which showed a substantial increase in both sales and earnings, and the United States industrial gas operations accounted for most of the increase in earnings for the Company.

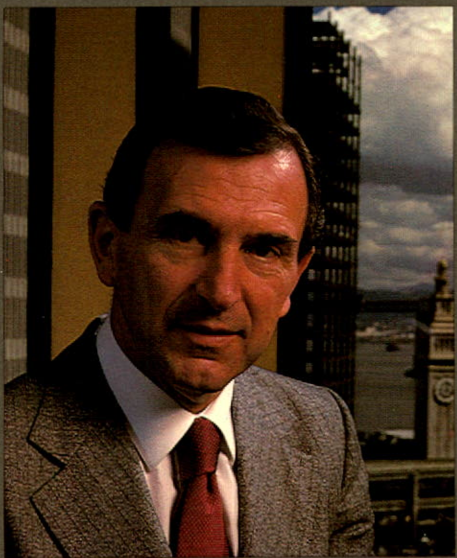
The Canadian operations were negatively affected by an extended shutdown of the Company's largest air separation plant, occasioned by an employee strike of a large on-site customer. The lower value of the Canadian dollar detracted from Canadian results as well. Finally, our underwater diving and life support equipment operations also suffered a reduction in earnings.

Today, it appears that 1982 may well be a difficult year. Nonetheless, we believe that our industry is well-positioned to weather the economic storms ahead.

We are committed to this industry, and armed with the human and technological resources to succeed, we welcome 1982 as a year of opportunity.

Jean H. Delorme
Chairman of the Board

Pierre A. Salbaing
President and
Chief Executive Officer



Mike V. Breber

Liquid Air's growth over the years has been accomplished thanks to our commitment to respond to industry's needs.

Bringing Technology to Market

1981 represented a year of significant moves toward the achievement of Liquid Air's most important goals. Detailed below are highlights of those accomplishments throughout our company.

The United States

In the West Texas and Rocky Mountain areas, the Company announced new air separation capacity to enable Liquid Air to keep pace with the rapidly growing demand for nitrogen in the enhanced oil recovery markets and energy-related industries operating in these regions. In the Rocky Mountain area, the first stage of this expansion, scheduled to be on stream by the end of 1982, will increase the nitrogen liquefaction capacity at the Company's plant in Provo, Utah by 100 tons per day. The second stage of this expansion will be a new air separation plant on the western side of the Rocky Mountains with a daily production of 240 tons of oxygen and nitrogen. The new West Texas facility, which is scheduled for completion in the summer of 1983, will provide for approximately 240 tons per day of liquid nitrogen. Recently, we started up a new automatic nitrogen generator, and we are nearing completion of a second unit to serve the growing electronics industry in this intermountain area.

In anticipation of growth in the Pacific Northwest by such industries as aerospace, metal fabricating and pulp and paper, we intend to expand the Company's Sea-Tac tonnage air separation plant. It is expected that this expansion will provide the Company with an additional 200 tons per day of oxygen, nitrogen and argon production. The last expansion of this plant occurred in 1977, when its capacity was doubled.

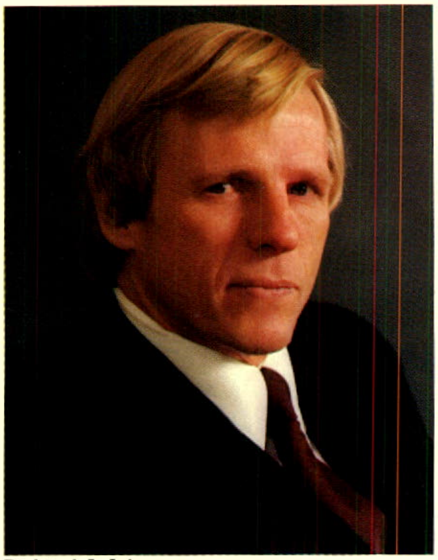
This past summer, the Company started up a 600 ton-per-day air separation plant with a 200 ton-per-day liquid capacity at a site adjacent to a steel company in Coatesville, Pennsylvania. This plant, like most of the Company's newer plants, is highly automated and operates twenty-four hours a day, seven days a week.

Technical Center

Our growth over the years has been largely accomplished thanks to our commitment to respond to industry's needs. A major focus of this commitment was the creation of a technical applications force. One objective of this group was to make applications specialists available to our customers throughout the United States, and we have accomplished that objective by establishing regional specialists to provide local service to our customers. Now, to support the efforts of that group and to create an area for research development and demonstration, in September we opened a new technology research center in Chicago.

Centrally located, this new research center provides an American focal point for the Company's expertise and research in industrial gas applications. A large staff of engineers permanently based at this 13,000 square foot facility maintain daily contact with the largest research and development facility in the industrial gas industry, the 27-acre Claude Delorme Center in France, owned by our parent, L'Air Liquide. This technology center also functions as a central demonstration facility where equipment is designed, built and placed in operation to solve specific production problems for our customers. The Chicago center is one of the most important steps in the Company's transition from a pure commodities seller to a supplier of technology for the rapidly evolving

Thomas E. Slattery



Richard A. Johnson

In 1981, Liquid Air's senior management team was strengthened by the addition of Richard Johnson, as Senior Vice President of the company and Executive Vice President of our Industrial Gases Division. Mr. Johnson, together with Mr. Slattery, who joined the company in 1979, bring to Liquid Air many years of leadership in the field of industrial gases.

industrial gas industry. As you will note throughout this report, increasing technological advice and service has been a definite trend for Liquid Air over the years. The center's staff represents a variety of specialties, including engineering, metallurgy and chemistry. High on the agenda of demonstration, service and testing at the center, Liquid Air's heat treating innovations have made it one of the corporate leaders in new sales in this industrial gas area. By demonstrating the Company's newest ALNAT heat treating system, the center will enable Liquid Air to better service the entire metal transformation and fabrication industry, from automobile to aerospace companies to small metal parts manufacturers.

Sales and net earnings from operations increased in 1981. We anticipated the difficult economic conditions of 1981 and consequently we were able to improve our earnings through cost controls. The negative trend in the fourth quarter continued into the first quarter of 1982 and obliged us to seek further cost savings in order to lessen the effect of lower sales on our 1982 results.

Canada

Canadian Liquid Air initiated a major program of cost reductions last year, and, as in the United States, is concentrating most of its growth efforts in the west, Canada's most dynamic area. There, a new wholly-owned subsidiary of Canadian Liquid Air was created. This new company, known as Liquid Air Energy Corporation, is headquartered in Calgary, Alberta and will serve energy-related industries with engineering and construction of cryogenic plants, industrial gas application technology and over-the-fence supply of industrial gases. The formation of Liquid Air Energy

Corporation coincides with the expansion of the Company's production facilities in Edmonton, Alberta, which are being tripled in order to keep up with the energy developments in this region. Mr. John Taylor of Calgary, formerly President of Pan-Canadian Oil, has been appointed President of Liquid Air Energy Corporation.

Our company engineers have been working in close consultation with the engineers of Dome Petroleum Limited and Husky Oil Limited on a new process which involves the introduction of oxygen, under controlled conditions, into certain oil reservoirs to increase the recovery of the vast heavy oil deposits located in western Canada. With more and more attention focused on the need to recover known oil resources, it is clear that oxygen will play an increasingly important role in the recovery process. In fact, the oxygen-enhanced heavy oil recovery process represents a major contribution to Canadian petroleum recovery technology. This new in situ combustion process should dramatically increase the results of the current fireflood recovery method.

In spite of the depressed economic conditions, our Canadian operations would have had satisfactory results in 1981 had it not been for the strike by the employees of a large on-site customer, which shut down the Company's largest plant for an extended period of time.

The fourth quarter economic trend, as in the United States, continues into the first quarter of 1982 and has forced our Canadian operations to search for additional cost savings to compensate for loss of sales volume.

South America

Oxigenio do Brasil, the Company's Brazilian operation, had an excellent year. Sales increased 24% and net earnings increased 55%. These results were made possible by large volume and price increases coupled with expense control. We do not however expect this rate of growth to continue into 1982 as the economic conditions in Brazil signal a slower economy. The Company is presently installing a 40 ton-per-day liquid plant in the south of Brazil, near Puerto Alegre. This plant should be completed in mid-1982 and will serve this growing area.

In September of 1980, we announced an expansion of our activities in South America when we reached an agreement in principle for the purchase of the South American industrial gas businesses of Allegheny International. Unfortunately, this purchase was not completed because we were unable to fulfill certain South American legal and other requirements.

U.S.D. Corp

All of our divisions anticipated the economic problems of 1981 and instituted appropriate cost saving measures. However, due to the business cycle of the underwater diving operations, we missed the opportunity to adjust these costs in time. Consequently, USD Corp showed a reduction in earnings despite a 7% increase in sales. Since the end of 1981, the economic slowdown has further affected the results of this operation. We have therefore made major reductions in personnel to counterbalance any further deterioration in earnings.

Corporate

The expansion requirements that exceed our cash flow will be funded in two ways: from new and increased long-term revolving lines of credit; and from the proceeds of our rights offering which was made to Liquid Air shareholders on the basis of the right to subscribe for one new share for each four shares held, at a subscription price of $21 per share. If all the rights were exercised, approximately 2.5 million shares would be issued by the Company for aggregate proceeds of $53.5 million.

The Cardox acquisition is particularly important in view of the Company's current emphasis on the field of secondary oil and gas recovery. This acquisition will complement the growing need for nitrogen and oxygen which are now in place and which will allow the Company to grow with this important market. As noted elsewhere in this report, the Company is already directing considerable amounts of time, energy and money to developing and expanding new business through the use of nitrogen, oxygen and carbon dioxide in this increasingly important field of recovering secondary oil and gas deposits throughout North America.

The financing of the Cardox acquisition will come primarily from borrowings from the Company's banks pursuant to new and existing lines of credit and from capital contributions.

Finally, the Company is in the process of completing the last divestiture mandated by the FTC pursuant to our acquisition in 1979 of the domestic industrial gas operations of Chemetron. This divestiture, which involves the sale of our two CO_2 plants in Texas and the related business, is now before the FTC, and we believe that this will be completed in the second quarter of this year.

In the Pacific Northwest, Liquid Air delivers important technology

The Pacific Northwest, blessed with cool green rain forests, a tumultuous coastline and the snowy caps of the Cascades, has always been an especially attractive draw for the outdoorsman and adventurer. Among the first were the explorers Lewis and Clark, who in 1805 charted a course into this new land, which they found to be as boundless as the imaginations of those who would follow their path.

Timber was chief among the natural resources of the Pacific Northwest that attracted those farsighted men who came down the Columbia River to harvest the great stands of timber and then stayed on to found the great lumber and paper empires of the region.

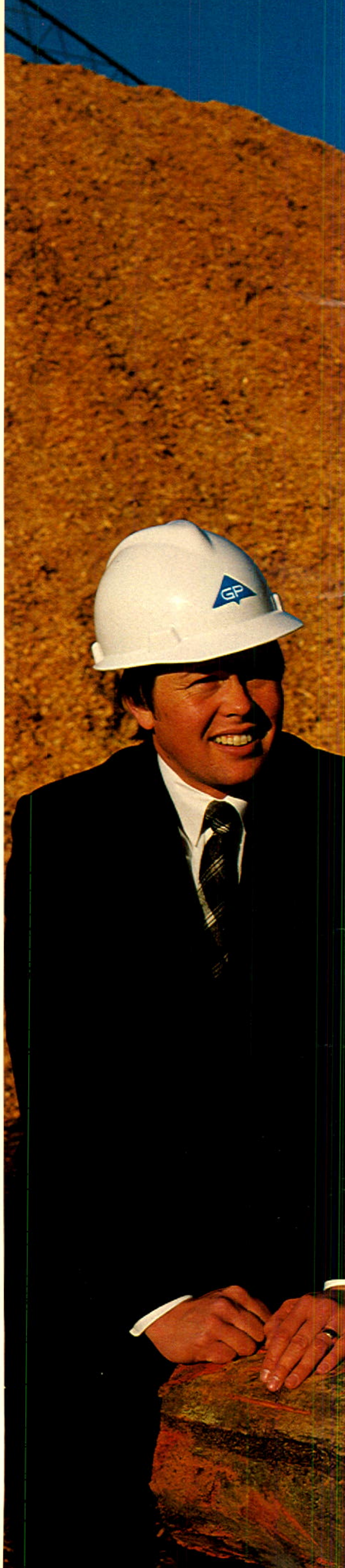
More than 150 years later, Liquid Air would continue the pioneering spirit that gave birth to the pulp and paper industry. In 1970, we were one of the first corporations to use oxygen in the process of bleaching pulp. Within three years, we had improved on this process, and we built the first oxygen bleaching plant with the capability of fully recovering bleaching effluents.

Tests have proven that oxygen-enrichment in lime kilns and calciners can substantially increase lime production while significantly decreasing unit energy consumption. These improvements, made possible with oxygen from Liquid Air, more than pay for the equipment and oxygen needed to achieve them. Liquid Air oxygen can also increase the capacity of sludge plants and reduce pollutants. Innovations such as these have helped Liquid Air's customers in the pulp and paper industries save money, control effluents and improve productivity.

More recently, pioneers of another sort have been settling in the Pacific Northwest – pioneers in the fields of aerospace and electronics. Technological advances in these fields have put man on the moon and computers that process and store vast quantities of information into homes and businesses across the country.

None of this would have been possible without pioneering efforts, and at Liquid Air we've been an important part of these efforts. For example, Liquid Air developed a series of nine Blue Shield gas mixtures for use in welding, thereby helping improve the quality and efficiency of aircraft, spacecraft and other industrial equipment fabrication operations.

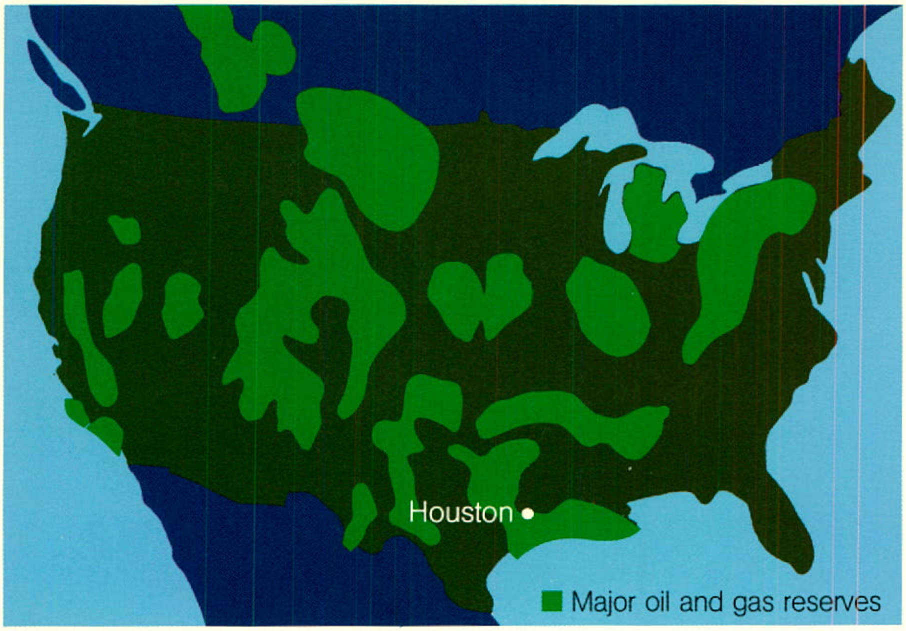
Because Liquid Air's quality control and purity monitoring standards were so high, our oxygen was used for the fuel cells on Apollo IV and V. Nitrogen, another important gas manufactured and distributed by Liquid Air, is used to provide the correct atmosphere in which semiconductor crystals are grown. Other gases, such as argon, are required to produce the semiconductors. As an important supplier of these valuable gases, Liquid Air is helping to bring technology to market.



City of Seattle

The densely wooded lands of the Pacific Northwest are home to the giants of the pulp and paper industries, companies like Georgia-Pacific. At Georgia-Pacific's Bellingham pulp and paper mill on the Puget Sound, Liquid Air Sales Representative Dave Wangsness and G-P's purchasing manager Robert Ellerby symbolize a partnership that helps keep the lumber industry green and growing. For more than a decade, Liquid Air technology in oxygen has helped the pulp and paper industry save money, control effluents and improve productivity.

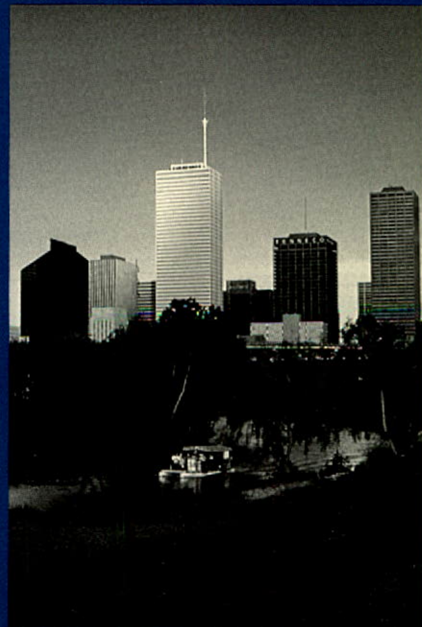
In Enhanced Oil Recovery, Liquid Air is part of a booming industry



In the United States, there are still vast wells beneath the earth's surface–the untapped pools of "black gold"–waiting to be exploited. The one-time ranges, now oil fields, are rich in one of America's most precious and expensive resources. In the early days of drilling, it was easy to sink a pipe into the ground and hit a gusher. The natural pressure would push the oil out of the ground. Most of the oil has long since been tapped, but experts claim that as much as 45 billion barrels remain trapped in rocks beneath the surface of the earth.

The same determination that resulted in opening up the American West is helping to seek out and extract the elusive supplies of oil from these one time range lands. A primary tool in the process is nitrogen. Supplied by Liquid Air, nitrogen is pumped deep into the ground, at high pressure to fracture the oil-soaked rocks. The freed oil is then pumped to the earth's surface.

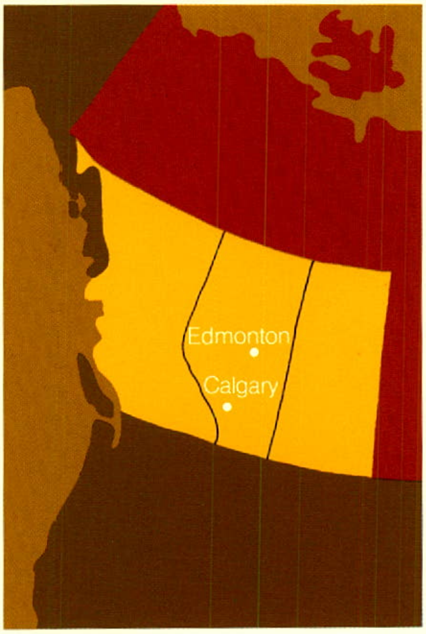
Using nitrogen to recover new supplies of oil and gas is becoming more and more cost effective and efficient now that the price of oil and gas has soared. Liquid Air, in helping to tap these new reserves of hydrocarbons, is helping to reduce America's dependency on foreign suppliers. It is but one more example of how the technology developed in our research labs moves into areas where it is both productive and beneficial.



City of Houston

Oil. If a single natural resource has preoccupied the last decade, surely it's this – the black gold that keeps the engines of industry humming. Today, Enhanced Oil Recovery (EOR) represents one of the brightest prospects for recovering large volumes of oil out of fields when conventional means are exhausted. Liquid Air is an important part of that effort, supplying large volumes of nitrogen, critical to EOR success. In Bryan, Texas, at a drilling location, Liquid Air's Jim Dobbie, oil well service account manager teams up with Jim Ogle, region sales manager to deliver nitrogen technology where it matters most.

In Western Canada, Liquid Air Energy Corporation keeps pace with the region



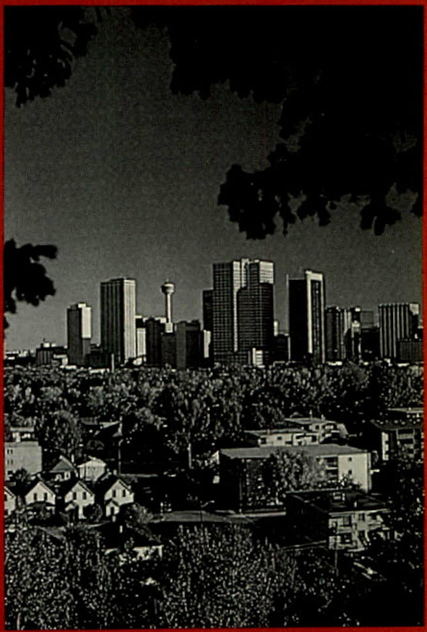
Up from the relative flatness of the prairies rises the bold "new" city of Calgary–a gleaming exclamation mark punctuating the surprise of those who might have expected a sleepier, old-fashioned cow town.

Calgary is anything but that. Its high rise architecture of steel, glass and concrete is dazzling. And yet, at heart, Calgary is still deeply rooted in its historic agricultural and livestock industry base. The Calgary Stampede, one of the world's greatest rodeos, is testimony to the city's wild and rowdy past.

Today, grain and cattle share Calgary's economic frontier with the oil and gas industry, which has discovered vast quantities of hydrocarbons under the Alberta plains. Many of these hydrocarbons cannot be produced by conventional methods because they are simply too heavy and thick to extract. New techniques are being developed to bring these heavy oils to the surface. Oxygen in situ combustion or fireflooding is one of them. Liquid Air is deeply involved in the promising new technology of injecting pure oxygen into heavy oil reservoirs and igniting the resident hydrocarbons. The oil is cracked and heated, thereby reducing viscosity and driving it to nearby production wells.

Liquid Air's oxygen and injection technology makes it possible to recover oil that was too costly to extract by conventional drilling methods.

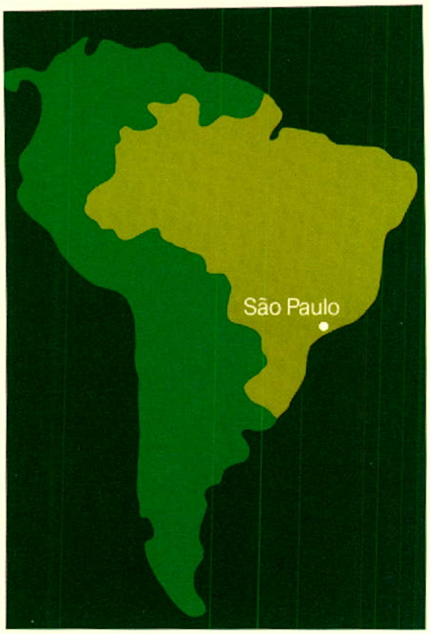
Calgary has become the center of the oil and gas industry in Canada. And, as it continues to grow, change and prosper, Liquid Air in Canada will also grow, change and prosper. Our new company–Liquid Air Energy Corporation–is headquartered in Calgary to serve all of Western Canada's energy-related industries. From here, the benefits of Liquid Air's experience, expertise and research will find a perfect fit in Canada's burgeoning oil and gas industry.



City of Calgary

In Alberta, the oil capital of Canada, companies like Dome Petroleum Ltd. are pioneering new techniques in oil recovery with Liquid Air. There, Dome's Dr. Gil Cady, Manager, Engineering Heavy Oil Recovery, works with Liquid Air Energy Corporation's Gib Brown on a technological frontier: fireflooding. That process, which injects pure oxygen into heavy oil reservoirs, is expected to increase dramatically the chances of recovering vast oil deposits previously thought unreachable.

In Brazil, Oxigenio do Brasil meets growing customer needs



Brazil, the fifth largest nation in the world, is one of the few places left on earth with dense, unexplored jungles, rivers and mountains. Yet this vast nation, divided by the equator, is the site of one of the world's most dramatic economic transitions.

Within the last two decades, Brazil has converted an economy based primarily on agriculture into that of a full-fledged industrial nation. Starting from a base of almost no internal manufacturing, chemical processing or heavy industry, Brazil has developed these areas in less than one generation. Blessed with an abundance of natural resources and strategic minerals, Brazil has experienced an industrial growth rate that exceeds that of even the United States.

Liquid Air's subsidiary, Oxigenio do Brasil, has played an important role in this growth. In the Southeast area of the country, where industrialization has occurred at an almost staggering pace, Oxigenio do Brasil was ready with the technologies that growing industries and booming population centers demanded. New steel mills and foundries relied on the knowledge and experience of the world-wide Liquid Air family. Chemical processors depended on supply reliability that has always been a Liquid Air standard. The growing cities, like São Paulo, almost as large as New York City, and Rio de Janeiro, experienced tremendous growth in their needs for manufacturing and medical gases. Again, Liquid Air was prepared to meet those needs.

The story of Brazil's economic growth has not ended, nor has Liquid Air's participation in it. Brazil still faces years of development in order to realize the full potential of its vast resources and economic strengths. Liquid Air, through Oxigenio do Brasil, has the strength and technology necessary to maintain its role as a vital part of Brazil's developing industrialization.

City of São Paulo

Within the last two decades, the fifth largest nation in the world has undergone an economic transformation. Brazil's annual industrial growth rate often exceeds that of the United States. Liquid Air has been a presence in that growth, with Oxigenio do Brasil providing industrial gases and technology to serve steel mills and foundries, chemical processors and the manufacturing and medical sector. In São Paulo, Oxigenio do Brasil's Paulo Costa works with C.A. Riva of Rhodia, a large multinational company involved in the production of chemicals and textiles.

Management's Discussion and Analysis

Results of Operations

The Company's 1981 overall results continued to show improvements despite depressed economic conditions experienced in 1981 both in the United States and Canada.

Sales in 1981 totaled $428.0 million, an increase of $19.8 million, or 5% over 1980. The increase in industrial gas sales came mostly from price and volume increases in Brazil. The United States operations experienced an overall increase in sales despite the absence of sales related to the two divestitures (see Note B of notes to consolidated financial statements). Canada had a modest increase despite a lower value of the Canadian dollar and a shutdown for an extended period of the Company's largest plant caused by a strike of the employees of a large on-site customer.

Sales in 1980 totaled $408.2 million, an increase of $39.1 million, or 11% over 1979. Price increases in Canada and price and volume increases in Brazil were mainly responsible for sales increases in these two areas of the Company's operations. The sales increase in the United States was largely due to the acquisition of the NCG Division from Chemetron Corporation on March 28, 1979. Also, the absence, in 1980, of sales from certain industrial gas business disposed of on June 6, 1980, offset some of the sales increase in the United States.

1981 net earnings from operations were $31.5 million, an increase of $4.1 million, or 15% over 1980 net earnings from operations of $27.4 million. 1980 net earnings, including a gain on disposal of certain gas assets (see Note B of notes to consolidated financial statements) were $29.4 million. The Brazilian operations, which showed a substantial increase in both sales and earnings, and the United States industrial gas operations accounted primarily for the increase in earnings for the Company.

Net earnings in 1980 were $29.4 million, an increase of $5.1 million, or 21% over 1979. This increase resulted primarily from (i) higher operating profits in all Company operations, (ii) a gain on the sale of certain industrial gas business and assets in the United States and (iii) beginning in 1980, the capitalization of interest costs associated with the financing of plant and equipment under construction as required by generally accepted accounting principles. Partially offsetting this increase in net earnings was an increase in the effective tax rate which was largely due to a lower investment tax credit in the United States and higher effective foreign tax rates, particularly in Brazil.

Liquidity and Capital Resources

The Company, being in a capital intensive industry, must utilize the debt markets to the extent its cash flow is insufficient to meet its requirements. Accordingly, the ratio of its long-term debt to total capitalization (long-term debt plus equity, including preferred stock) is critical since it indicates what potential it has to utilize the debt markets. This ratio was 28% at the end of 1981, compared with 31% at the end of 1980 and 33% at the end of 1979. However, since the Company had excess cash at the end of each year and long-term certificates of deposit of $14.2 million at the end of 1981, which are available to pay off long-term debt, this ratio can be viewed as 17%, 26% and 31% at the end of 1981, 1980 and 1979. This ratio is at a reasonable level and has improved since 1979.

During 1981, the Company commenced a subscription rights offering to its shareholders, on the basis of the right to subscribe for one new share for each four shares held of record on December 9, 1981, the record date for the offering. The subscription rights are exercisable at a price of $21 per share, with the subscription period to remain open until September 8, 1982. If all the rights are exercised, 2,550,111 shares will be issued by the Company for aggregate proceeds of $53,552,331. At December 31, 1981 the Company has issued 1,426,731 shares to L'Air Liquide in lieu of rights (which includes the 904,125 shares previously held in Treasury) for proceeds of $29,961,000.

Effective December 8, 1981, the Company increased the authorized common stock from 12,000,000 to 16,000,000 shares in order to effect the subscription rights offering.

Also, in March, 1982, the Company reached agreement with a number of banks to increase its long-term revolving lines of credit from $75.8 million to $160.0 million at substantially the same terms or better (see Note E of notes to consolidated financial statements). This increased the unused long-term credit lines available to the Company from $27.0 million to $111.2 million. These credit lines are available through 1987.

It is expected that these unused long-term credit lines of $111.2 million, the excess cash of at least $33.0 million, the long-term certificate of deposit of $14.2 million and the projected 1982 cash flow will be sufficient to enable the Company to finance all of its 1982 capital programs, cash dividend requirements, working capital requirements and the purchase of Cardox Corporation.

Impact of Inflation

The Company has been concerned for some time about the effects of inflation on individual businesses and has published its interpretation of this subject for a number of years in its annual report to shareholders in a section entitled "Accounting for Inflation"—see page 32 for this year's report.

Reference is also made to Note N of notes to consolidated financial statements for financial information on the effects of inflation using measurement bases developed by the Financial Accounting Standards Board.

Ten Year Summary of Earnings*

Years ended December 31
(Millions of dollars except per share amounts)

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
SALES	$428.0	$408.2	$369.1	$304.3	$284.5	$265.6	$240.8	$220.0	$175.5	$127.8
Cost of products sold	222.7	209.0	190.9	162.0	152.4	138.2	127.5	117.3	93.1	64.9
Operating expenses	126.8	121.3	109.9	87.7	81.7	75.9	64.4	58.4	50.0	38.9
Depreciation and amortization	27.3	26.6	23.7	16.6	14.2	13.0	10.9	10.0	8.4	7.2
OPERATING PROFIT	51.2	51.3	44.6	38.0	36.2	38.5	38.0	34.3	24.0	16.8
Other income	3.6	7.4	3.4	.3	3.3	2.5	1.2	.3	.2	.6
Interest—net(3)	4.3	7.8	9.9	9.6	9.2	5.9	6.7	6.8	3.7	3.2
EARNINGS BEFORE TAXES	50.5	50.9	38.1	28.7	30.3	35.1	32.5	27.8	20.5	14.2
Income taxes	19.0	21.5	13.8	10.4	10.5	13.9	14.9	13.7	9.5	6.1
EARNINGS BEFORE EXTRAORDINARY ITEM	31.5	29.4	24.3	18.3	19.8	21.2	17.6	14.1	11.0	8.1
Extraordinary item									1.1	
NET EARNINGS	$ 31.5	$ 29.4	$ 24.3	$ 18.3	$ 19.8	$ 21.2	$ 17.6	$ 14.1	$ 12.1	$ 8.1
Per Share:(1)										
Earnings before extraordinary item	$ 2.86	$ 2.76	$ 2.45	$ 2.48	$ 2.73	$ 2.73	$ 2.35	$ 1.89	$ 1.48	$ 1.24
Net earnings	2.86	2.76	2.45	2.48	2.73	2.73	2.35	1.89	1.63	1.24
Dividends paid	1.55	1.40	1.40	1.40	1.40	1.25	1.25	1.15	1.20	(2)

(1) Per common share and common equivalent share.
(2) Cash dividends paid prior to 1973 are not reported as they are not considered relevant to a current evaluation.
(3) Net of interest income.

Summary by Geographic Location*

Years ended December 31
(Millions of dollars)

	1981**	1980**	1979**	1978	1977	1976	1975	1974	1973	1972
SALES	$428.0	$408.2	$369.1	$304.3	$284.5	$265.6	$240.8	$220.0	$175.5	$127.8
United States	240.7	235.2	214.5	165.5	157.3	140.5	122.0	118.3	96.8	62.0
Foreign	187.3	173.0	154.6	138.8	127.2	125.1	118.8	101.7	78.7	65.8
Canada	135.4	132.0	119.9	103.1	97.4	97.6	93.8	81.1	65.2	56.8
Brazil	51.9	41.0	34.7	35.7	29.8	27.5	25.0	20.6	13.5	9.0
OPERATING PROFIT	51.2	51.3	44.6	38.0	36.2	38.5	38.0	34.3	24.0	16.8
United States	17.6	20.0	18.1	13.0	14.0	16.1	15.6	13.9	10.0	6.0
Foreign	33.6	31.3	26.5	25.0	22.2	22.4	22.4	20.4	14.0	10.8
Canada	21.3	23.9	21.1	17.8	17.8	18.3	18.5	16.9	12.0	10.5
Brazil	12.3	7.4	5.4	7.2	4.4	4.1	3.9	3.5	2.0	.3

*See Note A of notes to consolidated financial statements.
**See Note M of notes to consolidated financial statements.

Summary by Operating Group*

Years ended December 31
(Millions of dollars)

	1981**	1980**	1979**	1978	1977	1976	1975	1974	1973	1972
SALES	**$428.0**	**$408.2**	**$369.1**	**$304.3**	**$284.5**	**$265.6**	**$240.8**	**$220.0**	**$175.5**	**$127.8**
Industrial gases	327.0	311.8	271.8	184.8	171.8	155.7	134.6	113.9	93.5	72.5
Welding products	61.6	59.7	61.3	88.4	87.1	86.2	87.8	87.8	65.3	42.4
Underwater diving and life support	39.4	36.7	36.0	31.1	25.6	23.7	18.4	18.3	16.7	12.9
OPERATING PROFIT(1)	**51.2**	**51.3**	**44.6**	**38.0**	**36.2**	**38.5**	**38.0**	**34.3**	**24.0**	**16.8**
Industrial gases	45.5	43.6	40.4	37.8	35.6	35.7	32.2	27.8	22.8	16.9
Welding products	2.3	3.2	1.0	(2.5)	(1.6)	.4	4.0	5.3	(.7)	(1.6)
Underwater diving and life support	3.4	4.5	3.2	2.7	2.2	2.4	1.8	1.2	1.9	1.5
DEPRECIATION AND AMORTIZATION(2)	**27.3**	**26.6**	**23.7**	**16.6**	**14.2**	**13.0**	**10.9**	**10.0**	**8.4**	**7.2**
Industrial gases	26.0	25.3	22.7	15.8	13.4	12.3	10.3	9.5	8.0	6.8
CAPITAL EXPENDITURES(2)	**61.8**	**60.5**	**50.7**(3)	**37.1**	**31.9**	**32.0**	**27.2**	**23.4**	**25.5**	**23.1**
Industrial gases	59.9	58.4	48.9(3)	35.5	31.0	30.6	26.3	22.6	24.8	22.7

(1) Operating profit is before interest expense, other income and income taxes.
(2) Depreciation and amortization and capital expenditures relating to welding products and underwater diving and life support equipment are not significant.
(3) Excludes $52.5 million of property, plant and equipment acquired in acquisition—See Note B of notes to consolidated financial statements.
*See Note A of notes to consolidated financial statements.

Summary of Identifiable Assets

Years ended December 31
(Millions of dollars)

	1981**	1980**	1979**	1978	1977	1976	1975	1974	1973	1972
BY GEOGRAPHIC LOCATION	**$484.3**	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**	**$159.2**
United States	272.3	256.4	259.1	180.7	170.7	152.3	120.3	115.1	102.2	90.5
Foreign	212.0	188.5	158.2	136.9	122.4	108.0	108.0	107.7	91.4	68.7
Canada	160.8	145.2	120.4	101.3	90.5	78.6	76.9	77.6	68.2	57.3
Brazil	51.2	43.3	37.8	35.6	31.9	29.4	31.1	30.1	23.2	11.4
BY OPERATING GROUP	**$484.3**	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**	**$159.2**
Industrial gases	378.7	356.0	340.9	237.0	216.2	187.0	168.7	149.2	132.1	115.0
Welding products	33.0	29.0	28.5	47.3	46.6	47.0	41.0	42.8	31.2	23.6
Underwater diving and life support	25.5	26.2	26.8	20.3	17.0	16.9	11.9	11.4	10.7	8.2
Corporate	47.1	33.7	21.1	13.0	13.3	9.4	6.7	19.4	19.6	12.4

**See Note M of notes to consolidated financial statements.

Quarterly Data

(Millions of dollars except per share amounts and stock price range)

LIQUID AIR CORPORATION

1981 Industrial gases	1981 Welding products	1981 U.S.D. Corp*	1981 Total	SALES	1980 Industrial gases	1980 Welding products	1980 U.S.D. Corp*	1980 Total
$ 81.9	$16.1	$11.8	$109.8	First	$ 80.5	$15.3	$11.1	$106.9
83.4	16.4	9.5	109.3	Second	78.3	15.3	9.7	103.3
81.8	14.8	8.7	105.3	Third	75.6	14.6	7.3	97.5
79.9	14.3	9.4	103.6	Fourth	77.4	14.5	8.6	100.5
$327.0	**$61.6**	**$39.4**	**$428.0**	Total	**$311.8**	**$59.7**	**$36.7**	**$408.2**
				OPERATING PROFIT				
$ 13.7	$ 1.4	$ 1.7	$ 16.8	First	$ 13.4	$ .7	$ 1.8	$ 15.9
11.4	1.1	.3	12.8	Second	9.7	1.1	1.0	11.8
11.6	.1	.1	11.8	Third	10.2	.9	.5	11.6
8.8	(.3)	1.3	9.8	Fourth	10.3	.5	1.2	12.0
$ 45.5	**$ 2.3**	**$ 3.4**	**$51.2**	Total	**$ 43.6**	**$ 3.2**	**$ 4.5**	**$ 51.3**

1981 Net earnings	1981 Earnings per share	1981 Dividends paid	NET EARNINGS, EARNINGS AND DIVIDENDS PER SHARE	1980 Net earnings	1980 Earnings per share	1980 Dividends paid
$9.4	89¢	35¢	First	$8.2	77¢	35¢
7.5	70¢	40¢	Second	8.4**	79¢**	35¢
7.1	66¢	40¢	Third	6.5	61¢	35¢
7.5	62¢	40¢	Fourth	6.3	59¢	35¢

1981 High bid	1981 Low bid	COMMON STOCK PRICE RANGE	1980 High bid	1980 Low bid
29¾	26	First	24¼	20¾
29	23	Second	22¼	19¾
23	18	Third	27½	21¼
18½	16¾	Fourth	34½	26¼

*Underwater diving and life support equipment.

**Includes a gain of $2.0 million (19 cents per share) from the sale of certain industrial gas assets and the business related thereto.

Ten Year Financial Summary*

Years ended December 31
(Millions of dollars)

SOURCE AND APPLICATION OF FUNDS	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
SOURCE OF FUNDS										
From operations	$ 58.2	$ 65.2	$ 53.3	$ 42.0	$ 38.8	$ 36.8	$ 30.3	$ 27.3	$ 22.5	$ 15.8
Additional long-term debt	23.1	8.0	18.1	20.8	46.7	33.6	9.5	22.6	17.3	20.3
Shares issued for cash										
Preferred					24.0					19.0
Common	30.0						7.9	2.1	3.1	1.7
Shares issued to acquire companies			60.0							17.7
Decrease in other assets					5.3		.2	6.4		
Property, plant and equipment sold	11.7	22.4	1.1	.7	.3	.7	.5	.7	.4	.4
Decrease in noncash working capital	9.8	5.9	2.2						3.2	
	$132.8	**$101.5**	**$134.7**	**$ 63.5**	**$115.1**	**$ 71.1**	**$ 48.4**	**$ 59.1**	**$ 46.5**	**$ 74.9**
APPLICATION OF FUNDS										
Property, plant and equipment acquired	$ 61.8	$ 60.5	$ 50.7	$ 37.1	$ 31.9	$ 21.7	$ 27.2	$ 23.4	$ 25.5	$ 13.0
Property, plant and equipment of subsidiaries acquired			52.5			10.3				10.1
Reduction of long-term debt	22.5	9.3	10.2	10.7	32.9	19.4	18.2	9.5	5.0	10.7
Cash dividends paid	17.7	15.6	14.4	10.9	10.4	9.6	9.1	8.4	8.5	4.3
Cancellation of a subsidiary's preferred shares										19.0
Purchase of common shares					28.9					
Increase in goodwill		1.7		.3	1.3	.8	.1	.5	.2	6.6
Increase in other assets	17.5	6.5	2.1	.9	.7	5.4			7.3	1.0
Other			(1.9)			1.5		.1	.1	(.5)
Increase in noncash working capital				7.7	1.9	3.9	4.1	9.2		3.3
Cash and certificates of deposit increase (decrease)	13.3	7.9	6.7	(4.1)	7.1	(1.5)	(10.3)	8.0	(.1)	7.4
	$132.8	**$101.5**	**$134.7**	**$ 63.5**	**$115.1**	**$ 71.1**	**$ 48.4**	**$ 59.1**	**$ 46.5**	**$ 74.9**

BALANCE SHEET DATA	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
ASSETS										
Cash and certificates of deposit	$ 36.8	$ 23.5	$ 15.6	$ 8.9	$ 13.0	$ 5.9	$ 7.4	$ 17.7	$ 9.7	$ 9.8
Other current assets	111.4	116.8	116.8	105.2	97.6	86.0	74.3	74.0	59.4	49.1
Other assets	31.9	14.4	8.0	5.0	4.1	8.7	3.3	3.5	9.9	2.6
Property, plant and equipment, net of accumulated depreciation	285.0	270.8	259.0	180.3	160.3	142.6	126.9	111.1	98.4	81.5
Goodwill	19.2	19.4	17.9	18.2	18.1	17.1	16.4	16.5	16.2	16.2
	$484.3	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**	**$159.2**
LIABILITIES AND EQUITY										
Current liabilities	$ 88.9	$ 83.9	$ 77.3	$ 63.6	$ 63.6	$ 54.9	$ 50.8	$ 56.4	$ 49.0	$ 34.3
Long-term debt	99.0	98.9	101.0	90.2	80.2	65.4	51.7	58.7	47.6	36.5
Deferred taxes	37.4	39.8	30.6	25.3	18.3	13.4	10.8	9.2	6.2	4.4
Shareholders' equity(1)	259.0	222.3	208.4	138.5	131.0	126.6	115.0	98.5	90.8	84.0
	$484.3	**$444.9**	**$417.3**	**$317.6**	**$293.1**	**$260.3**	**$228.3**	**$222.8**	**$193.6**	**$159.2**
(1) Includes redeemable preferred stock	24.0	24.0	24.0	24.0	24.0	16.9	16.9	19.0	19.0	19.0

*See Note A of notes to consolidated financial statements.

Consolidated Statement of Earnings

Years ended December 31
(Thousands of dollars except per share amounts)

LIQUID AIR CORPORATION

	1981	1980	1979
SALES	$427,991	$408,249	$369,109
COSTS AND EXPENSES			
Costs of products sold	222,697	209,029	190,864
Selling, distribution, general and administrative expenses	126,789	121,315	109,970
Depreciation and amortization (principally applicable to costs of products sold)	27,346	26,560	23,707
	376,832	356,904	324,541
OPERATING PROFIT	51,159	51,345	44,568
OTHER EXPENSES (INCOME)			
Interest (net of interest income of $8,008 in 1981, $2,890 in 1980 and $1,535 in 1979)	4,310	7,764	9,918
Gain on sale of assets	(1,000)	(4,800)	
Other income	(2,617)	(2,493)	(3,426)
	693	471	6,492
EARNINGS BEFORE INCOME TAXES	50,466	50,874	38,076
INCOME TAXES			
Current	19,595	12,248	8,441
Deferred	(655)	9,178	5,341
	18,940	21,426	13,782
NET EARNINGS	$ 31,526	$ 29,448	$ 24,294
NET EARNINGS PER COMMON SHARE	$2.86	$2.76	$2.45

See notes to consolidated financial statements.

Consolidated Balance Sheet

December 31
(Thousands of dollars)

LIQUID AIR CORPORATION

ASSETS	1981	1980
CURRENT ASSETS		
Cash	$ 10,488	$ 2,382
Certificates of deposit	26,331	21,162
Receivables		
Trade, less allowances ($3,222 in 1981 and $2,816 in 1980)	62,776	73,829
Other	6,115	4,679
Due from affiliates	2,014	260
Inventories	37,025	34,041
Prepaid expenses and deposits	3,421	3,943
	148,170	**140,296**
CERTIFICATES OF DEPOSIT	**14,228**	
OTHER ASSETS	**17,704**	**14,428**
PROPERTY, PLANT AND EQUIPMENT—at cost	457,212	429,340
Less accumulated depreciation	(172,186)	(158,562)
	285,026	**270,778**
GOODWILL	**19,179**	**19,402**
	$484,307	**$444,904**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1981	1980
CURRENT LIABILITIES		
Bank indebtedness	$ 9,632	$ 10,557
Accounts payable	48,271	50,788
Accrued interest	2,097	3,434
Accrued taxes, other than income taxes	4,108	3,254
Due to parent and other affiliates	2,487	2,009
Income taxes	16,853	9,021
Current maturities of long-term debt	5,451	4,869
	88,899	**83,932**
LONG-TERM DEBT, exclusive of current maturities	**99,002**	**98,930**
DEFERRED INCOME TAXES	**37,451**	**39,808**
REDEEMABLE PREFERRED STOCK, convertible, par value $100		
Authorized and issued 240,000 shares	**24,000**	**24,000**
COMMON STOCK, no par value		
Authorized 16,000,000 shares		
Issued 11,627,176 shares in 1981 and 11,104,570 shares in 1980, at stated value	**37**	**32**
OTHER SHAREHOLDERS' EQUITY		
Capital surplus	**150,882**	**149,858**
Retained earnings	**91,101**	**77,276**
Cumulative translation adjustment	**(7,065)**	
Treasury shares—at cost (904,125 shares)		**(28,932)**
	$484,307	**$444,904**

Consolidated Statement of Changes in Funds

Years ended December 31
(Thousands of dollars)

	1981	1980	1979
SOURCE OF FUNDS			
FROM OPERATIONS			
Net earnings	$ 31,526	$ 29,448	$ 24,294
Expenses not affecting working capital			
Depreciation and amortization	27,346	26,560	23,707
Deferred income taxes	(655)	9,178	5,341
Total from operations	**58,217**	**65,186**	**53,342**
Common stock issued	29,961		60,030
Additional long-term debt	23,123	8,069	18,067
Sales of property, plant and equipment	11,752	22,410	1,075
Decrease in noncash working capital	9,786	5,884	2,154
Total source of funds	**132,839**	**101,549**	**134,668**
DISPOSITION OF FUNDS			
Additions to property, plant and equipment	61,818	60,469	50,714
Assets and liabilities of business acquired			50,549
Increase in certificates of deposit	14,228		
Repayment of long-term debt	22,469	9,325	10,166
Cash dividends	17,701	15,601	14,433
Increase in goodwill	72	1,758	
Increase in other assets	3,276	6,474	2,106
Total disposition of funds	**119,564**	**93,627**	**127,968**
Increase in cash and certificates of deposit	13,275	7,922	6,700
Cash and certificates of deposit at beginning of year	23,544	15,622	8,922
CASH AND CERTIFICATES OF DEPOSIT AT END OF YEAR	**$ 36,819**	**$ 23,544**	**$ 15,622**
CHANGES IN COMPONENTS OF NONCASH WORKING CAPITAL			
INCREASE (DECREASE) IN CURRENT ASSETS			
Receivables	$ (9,617)	$ 8,786	$ 13,581
Due from affiliates	1,754	(3,214)	3,173
Inventories	2,984	(4,177)	(3,232)
Prepaid expenses and deposits	(522)	180	(256)
Income taxes recoverable		(1,595)	(1,667)
	(5,401)	**(20)**	**11,599**
INCREASE (DECREASE) IN CURRENT LIABILITIES			
Bank indebtedness	(925)	1,388	3,975
Accounts payable and accrued expenses	(3,000)	(1,156)	19,039
Due to parent and other affiliates	478	(372)	(9,882)
Income taxes	7,832	6,004	621
	4,385	**5,864**	**13,753**
DECREASE IN NONCASH WORKING CAPITAL	**$ (9,786)**	**$ (5,884)**	**$ (2,154)**

Balances at January 1, 1981 of certain foreign subsidiaries have been restated using the current rate of exchange for the purpose of preparing the statement of changes in funds.

See notes to consolidated financial statements.

Consolidated Statement of Common Stock and Other Shareholders' Equity

Years ended December 31 (Thousands of dollars except per share amounts) LIQUID AIR CORPORATION

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Cumulative Translation Adjustment	Treasury Shares
BALANCE DECEMBER 31, 1978	**7,769,570**	**$22**	**$ 89,838**	**$ 53,568**		**$(28,932)**
Stock issued in acquisition	3,335,000	10	60,020			
Net earnings				24,294		
Cash dividends						
Common ($1.40 per share)				(13,113)		
Preferred ($5.50 per share)				(1,320)		
BALANCE DECEMBER 31, 1979	**11,104,570**	**32**	**149,858**	**63,429**		**(28,932)**
Net earnings				29,448		
Cash dividends						
Common ($1.40 per share)				(14,281)		
Preferred ($5.50 per share)				(1,320)		
BALANCE DECEMBER 31, 1980	**11,104,570**	**32**	**149,858**	**77,276**		**(28,932)**
Cumulative translation adjustment, January 1, 1981					$(7,704)	
Current year's translation adjustment					639	
Stock issued in lieu of rights	522,606	5	1,024			28,932
Net earnings				31,526		
Cash dividends						
Common ($1.55 per share)				(16,381)		
Preferred ($5.50 per share)				(1,320)		
BALANCE DECEMBER 31, 1981	**11,627,176**	**$37**	**$150,882**	**$ 91,101**	**$(7,065)**	**$**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1981

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The financial statements include the accounts of the Company and its majority-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions have been eliminated.

L'Air Liquide, Societe Anonyme pour l'Etude et l'Exploitation des Procedes Georges Claude (L'Air Liquide) owns directly or through other affiliates approximately 61% and 55% of the Company's common stock outstanding and all of its preferred stock outstanding as of December 31, 1981 and 1980.

Depreciation and Amortization: The Company follows the policy of providing for depreciation principally on the straight-line method for financial reporting purposes and by the declining balance method for income tax purposes. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

Goodwill: Goodwill represents the cost in excess of net assets of businesses acquired. Goodwill of $9,767,000 arising from acquisitions prior to November 1, 1970 is not being amortized since, in the opinion of the Company, there has been no diminution in value. Goodwill acquired since November 1, 1970 is being amortized over a 40 year period.

Research Expenses: Royalties paid to L'Air Liquide and its affiliates to secure rights to their research and development amounted to $4,149,000, $4,052,000 and $3,715,000 in 1981, 1980 and 1979.

Income Taxes: Deferred income taxes have been provided as a result of timing differences, primarily relating to depreciation methods, in reporting income for financial statements and income tax purposes.

Consolidated retained earnings include $122,199,000 and $96,578,000 of retained earnings of foreign subsidiaries at December 31, 1981 and 1980, for which no provision has been made for taxes which would be payable upon remittance, as it is intended to indefinitely reinvest such retained earnings. Foreign subsidiaries have paid and are expected to continue to pay dividends from current earnings.

Investment tax credits have been accounted for by the flow-through method.

Interest Expense: Beginning in 1980, the Company began capitalizing interest as part of the costs of newly constructed manufacturing facilities in accordance with FASB Statement No. 34. Accordingly, interest amounting to $4,805,000 in 1981 and $3,227,000 in 1980 has been included in the costs of newly constructed manufacturing facilities.

Change in Accounting for Foreign Currency Translation: The financial statements of foreign entities for the year ended December 31, 1981 have been translated to U.S. dollars in accordance with FASB Statement No. 52, "Foreign Currency Translation." Under that Statement, for certain foreign operations, all balance sheet accounts are translated at the current exchange rate and income and expense items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of shareholders' equity. In 1980 and prior years, certain balance sheet accounts, principally property, plant and equipment, and related income and expense items are translated at historical exchange rates, and all translation adjustments are made directly to income.

The adoption of Statement No. 52 for 1981 resulted in an increase in net earnings of $885,000 ($.08 per share).

Reclassification: Certain minor reclassifications have been made to prior years' financial statements, including the segment data, to conform to the presentation in the 1981 financial statements.

NOTE B—ACQUISITIONS AND DIVESTITURES

On March 28, 1979, the Company purchased all the domestic assets and business of the Industrial Gases Division (the "Division") of Chemetron Corporation ("Chemetron"), a wholly owned subsidiary of Allegheny International, Inc. The assets and business purchased did not include the facilities used by Chemetron for the production, sale or distribution of carbon dioxide and calcium carbide. In full consideration for the purchase of such assets and business, the Company, in addition to assuming certain liabilities of the Division, issued 3,335,000 shares of the Company's common stock valued at $60,030,000. The acquisition has been accounted for by the purchase method of accounting. The excess (approximately $9,891,000) of the carrying value of the net assets acquired over the value of the securities issued has been applied against property, plant and equipment.

Following is an unaudited pro forma summary of the results of operations as if the acquisition had been consummated January 1, 1979 (without giving effect to the sale of the United States welding products business):

	Year Ended December 31, 1979
Sales	$393,450,000
Net earnings	$ 26,110,000
Net earnings per common share	$2.43

In connection with this acquisition, the Company entered into a settlement agreement with the Federal Trade Commission under which the Company was obligated to dispose of certain of its and the Division's facilities, which do not constitute a significant portion of the combined entity. On June 6, 1980, the Company sold to MG Burdett Gas Products Company, formerly Burdett Oxygen Company, for a cash sales price, a substantial portion of the facilities required to be disposed.

This disposal increased net earnings by $2,000,000 ($.19 per share). Effective May 31, 1981, the Company contracted to dispose of the balance of the facilities required to be divested, subject to Federal Trade Commission approval, for a cash sales price, resulting in no significant effect on net earnings.

During 1979, the Company sold its United States welding products business to a wholly owned subsidiary of L'Air Liquide (the "purchaser"). This disposal increased net earnings by $216,000 ($.02 per share). In connection with the sale, the purchaser has agreed to lease certain fixed assets from the Company and to pay the Company an annual administration fee. The purchaser paid the Company $280,000 in 1981, $280,000 in 1980 and $233,000 in 1979 as rental for the leased fixed assets and an administration fee of $1,333,000 in 1981, $1,338,000 in 1980 and $833,000 in 1979. The Company engaged the purchaser to act as agent for the Company in the sale of compressed gases sold in cylinders at the leased premises and paid the purchaser commissions totaling $10,300,000 in 1981, $9,033,000 in 1980 and $7,285,000 in 1979.

On January 29, 1982, the Company entered into an agreement to purchase, for cash, Cardox Corporation (previously operating as the Cardox Division), from Allegheny International, Inc. On March 31, 1982, the Company acquired Cardox Corporation.

NOTE C—INVENTORIES

Inventories are priced at the lower of cost or market. Welding products are primarily determined on the last-in, first-out method. Underwater diving and life support equipment and industrial gases are primarily determined using the first-in, first-out method. The excess of current inventory costs over LIFO values aggregated approximately $7,692,000 at December 31, 1981 and $4,642,000 at December 31, 1980.

	1981	1980
Finished goods	$20,643,000	$16,957,000
Work in progress	3,286,000	3,338,000
Materials and supplies	13,096,000	13,746,000
	$37,025,000	$34,041,000

NOTE D—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (including assets purchased from affiliates of approximately $73,925,000 and $66,702,000 at December 31, 1981 and 1980) are summarized as follows:

	1981	1980
Land	$ 11,233,000	$ 10,333,000
Buildings	37,992,000	33,483,000
Cylinders	97,897,000	93,433,000
Machinery and equipment	290,537,000	265,385,000
Construction in progress	19,553,000	26,706,000
	$457,212,000	$429,340,000

Cost to complete construction in progress at December 31, 1981 is estimated at $16,041,000.

NOTE E—CREDIT ARRANGEMENTS

The Company has both short-term and long-term lines of credit as follows at December 31, 1981:

	Short-Term	Long-Term
Total available	$24,793,000	$75,750,000
Amount unused	15,161,000	27,000,000
Amount used	$ 9,632,000	$48,750,000

Short-term lines of credit have no termination dates but are reviewed annually for renewal. Commitment fees of ¼% to ½% are paid on unused long-term lines of credit which are available to the Company through 1987 at the prime rate or less, and up to ½% over the London Interbank Offer Rate (LIBOR).

These credit arrangements do not require that the Company maintain any compensating balances.

NOTE F—LONG-TERM DEBT

	1981	1980
9% note payable to an insurance company, due April 1, 1993, payable in annual installments of $1,000,000	$ 12,000,000	$ 13,000,000
8¾% note payable to an insurance company, due February 1, 1996, payable in annual installments of $2,000,000 commencing February 1, 1982	30,000,000	30,000,000
Prime rate, or less, revolving loans to a maximum of $55,750,000, due in 1985, 1986 and 1987	40,750,000	22,928,000
Prime rate, or less, revolving loans to a maximum of $20,000,000, payable in installments commencing in 1985 through 1986	8,000,000	20,400,000
Various long-term indebtedness at rates from 5½% to 13%, payable in varying maturities through 1994	13,703,000	17,471,000
	104,453,000	103,799,000
Less current maturities	5,451,000	4,869,000
	$ 99,002,000	$ 98,930,000

Long-term debt includes the U.S. dollar equivalent (approximately $6,235,000 and $7,864,000 at December 31, 1981 and 1980) of loans repayable in foreign currencies.

The principal payments required on long-term debt at December 31, 1981, during the succeeding five years, are as follows:

1982	$ 5,451,000
1983	4,809,000
1984	4,525,000
1985	17,947,000
1986	23,705,000

Debt agreements require the maintenance of stated amounts of working capital and net worth. The Company was in compliance with these agreements at December 31, 1981. Approximately $76,624,000 and $52,553,000 of consolidated retained earnings were unrestricted under these agreements as to the payment of dividends at December 31, 1981 and 1980.

NOTE G—REDEEMABLE PREFERRED STOCK

Redeemable preferred stock is redeemable from and after December 31, 1986, at par plus a 5.5% premium and accumulated dividends. The premium declines each year thereafter by .25% and in any event the Company must redeem any remaining shares on July 1, 2012. The holders of the preferred shares do not have voting rights except in the event of dividend arrearages for four quarters in which case they may appoint two directors. A total of 375,000 common shares are reserved for conversion of the preferred shares.

NOTE H—COMMON STOCK

During 1981, the Company commenced a subscription rights offering to its shareholders, on the basis of the right to subscribe for one new share for each four shares held of record on December 9, 1981, the record date for the offering. The subscription rights are exercisable at a price of $21 per share, with the subscription period to remain open until September 8, 1982. If all the rights are exercised, 2,550,111 shares will be issued by the Company for aggregate proceeds of $53,552,331. At December 31, the Company has issued 1,426,731 shares (which includes the 904,125 shares previously held in Treasury) for proceeds of $29,961,000.

Effective December 8, 1981, the Company increased the authorized common stock from 12,000,000 to 16,000,000 shares in order to effect the subscription rights offering.

NOTE I—PENSIONS

The Company and its significant subsidiaries have pension plans for eligible employees, including certain employees of a foreign subsidiary. It is the policy of the Company and its subsidiaries to fund actuarially determined pension costs as accrued and to amortize prior service costs over a period of 30 to 40 years. Total pension expense amounted to $1,564,000, $1,551,000 and $2,010,000 in 1981, 1980 and 1979. The decrease in pension expense in 1980 was due to a revision of the turnover assumption used in the actuarial calculation.

Accumulated plan benefit information, as determined by consulting actuaries, and plan net assets for the Company's domestic plans are presented below:

	January 1 1981	1980
Actuarial present value of accumulated benefits:		
Vested	$11,333,000	$ 9,267,000
Nonvested	1,162,000	1,066,000
	$12,495,000	$10,333,000
Net assets available for pension benefits	$14,082,000	$13,595,000

The assumed rate of return used in determining the actuarial value of accumulated plan benefits ranged from 5½% to 8% for both 1981 and 1980. The Company's foreign pension plan is not required to report to certain governmental agencies pursuant to ERISA and does not otherwise determine the actuarial value of accumulated plan benefits or net assets available for pension benefits as calculated and disclosed above. For that plan, the value of the plan assets exceeds the actuarially computed value of vested benefits.

NOTE J—LEASES

The Company leases certain real property and equipment. Rental expense was $11,738,000, $11,438,000 and $9,663,000 for 1981, 1980 and 1979.

The approximate future rental payments under noncancellable operating leases are as follows:

1982	$ 6,027,000
1983	4,835,000
1984	2,813,000
1985	1,546,000
1986	738,000
Thereafter	1,364,000
	$17,323,000

NOTE K—INCOME TAXES

The components of earnings before income taxes consist of the following:

	1981	1980	1979
Domestic	$13,867,000	$19,341,000	$12,356,000
Foreign	36,599,000	31,533,000	25,720,000
	$50,466,000	$50,874,000	$38,076,000

The provision for income taxes consists of:

	Federal and State		Foreign		Total	
	Current	Deferred	Current	Deferred	Current	Deferred
1979	$2,563,000	$1,676,000	$ 5,878,000	$3,665,000	$ 8,441,000	$5,341,000
1980	1,175,000	7,148,000	11,073,000	2,030,000	12,248,000	9,178,000
1981	704,000	3,650,000	18,891,000	(4,305,000)	19,595,000	(655,000)

The reasons for the difference between total tax expense and the amount computed by applying the statutory federal income tax rate to earnings before income taxes are as follows:

	1981	1980	1979
Statutory federal rate	46.0%	46.0%	46.0%
Investment tax credit	(8.8)	(5.9)	(8.9)
Lower effective foreign rates	(1.0)	(1.0)	(2.7)
Other	1.3	3.0	1.8
Effective tax rate	37.5%	42.1%	36.2%

Deferred income taxes resulted from timing differences in the recognition of revenue and expense for tax and financial reporting purposes are as follows:

	1981	1980	1979
Accelerated depreciation for tax purposes	$ (842,000)	$6,098,000	$9,274,000
Capitalization of interest costs	2,253,000	1,600,000	
Vacation pay accrual	85,000	1,088,000	(429,000)
Gain on sale of assets		642,000	
Acquisition costs	576,000	737,000	
Provision for doubtful accounts in excess of allowable tax expense		1,073,000	(1,295,000)
Investment tax credits	(2,007,000)	(2,100,000)	(1,626,000)
Other	(720,000)	40,000	(583,000)
	$ (655,000)	$9,178,000	$5,341,000

NOTE L—EARNINGS PER SHARE

Earnings per share are computed by dividing net earnings, less preferred stock dividends, by the average number of outstanding common shares (10,560,059, 10,200,445 and 9,378,116 in 1981, 1980 and 1979). The preferred stock is not deemed to be a common share equivalent. Fully diluted earnings per share are not shown, as the effect of conversion of the preferred stock would be anti-dilutive.

NOTE M—SEGMENTS OF BUSINESS AND FOREIGN OPERATIONS

Summaries of Operations and Assets by Geographic Location and by Operating Group are contained on pages 15 and 16. Business segment information for 1981, 1980 and 1979 included therein is an integral part of the financial statements.

Certain selling, distribution, general and administrative expenses are not directly traceable to operating groups and, accordingly, have been allocated by a method which best expresses management's estimate of the relative operating results of the respective groups. Such method resulted in expense allocation in 1981, 1980 and 1979 of $16,700,000, $15,500,000 and $14,400,000 to industrial gases and $11,000,000, $9,600,000 and $9,400,000 to welding products. Included in these expenses are $2,100,000, $1,700,000 and $1,500,000 of general corporate expenses, which in view of their immateriality, have been deducted in computing operating profit.

Net earnings of the foreign subsidiaries included in consolidated net earnings amounted to $25,621,000, $20,760,000 and $17,540,000 for 1981, 1980 and 1979. The consolidated balance sheet includes total assets of the foreign subsidiaries of $212,000,000 and $188,500,000 and net assets of $143,400,000 and $123,300,000 for 1981 and 1980, respectively.

Included in other income are gains on foreign currency translations of $646,000, $477,000 and $445,000 in 1981, 1980 and 1979.

NOTE N—SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES (Unaudited)

For a number of years, the Company has been concerned about the effects of inflation on individual businesses and its impact on the Company's operations. The Company has experimented with sundry methods proposed by accounting bodies and other regulatory authorities for measuring inflation. These methods included constant dollar and current cost methods. The Company has found that certain historical ratios provide the best indices of its success in keeping pace with inflation. No one of these indices taken alone is a sufficient guide. One should look at all ratios together and observe whether the ratios have improved or weakened over a long period. It is through these ratios and their trends, rather than trying to measure in precise terms the effects of inflation on a corporation, that one can best judge how an enterprise is affected by inflation. This utilization of ratios gives one additional useful information which the current cost or constant dollar methods do not. The Company has published this information for a number of years in its annual report to shareholders in a section entitled "Accounting for Inflation." See page 32 for this year's report.

However, current reporting requirements under generally accepted accounting principles have been extended to require that the Company provide historical financial information converted to two bases—constant dollar and current cost—using specified methods notwithstanding the Company's own opinion that this information may be less meaningful than that presented on page 32. This required information is provided in the two tables set below. The Company believes this information was prepared on a reasonable basis; however, judgmental decisions were required. Accordingly, the Company cannot represent that this additional information accurately reflects the effects of inflation.

For both constant dollar and current cost, generally accepted accounting principles require a restatement of the reported costs of inventory and property, plant and equipment, as well as the related costs of products sold and depreciation expense. It was assumed that all revenues and all expenses other than costs of products sold and depreciation expense were earned or incurred rateably throughout the year in such a way that these amounts are already stated in average 1981 dollars. As prescribed by generally accepted accounting principles, no adjustments have been made to income tax expense.

For certain foreign operations the proposed amendment to FASB Statement No. 33 "Financial Reporting and Changing Prices," relating to foreign currency translation, has been applied for the year 1981. The proposed amendment incorporates the translation requirements of FASB Statement No. 52 "Foreign Currency Translation" in the reporting on the effects of changing prices.

For the constant dollar method, the Consumer Price Index for all urban consumers or the functional currency general price level index was used to restate costs of product sold and depreciation expense into currencies whose purchasing power is equivalent to the average purchasing power of the currency for the year 1981.

For current cost, generally accepted accounting principles require that the Company develop its best estimate to restate the necessary items. The Company used a combination of published governmental and business indices, internally generated indices and representative costs of construction of plant and equipment.

Certain air separation plants have been built to largely supply specific customers on the basis of long-term contracts which require contractual payments to be made to the Company. These plants have been included at historical costs under both the constant dollar and current cost methods. The costs of these plants have not been adjusted because of the direct relationship between historical costs and contractual revenues. These assets are treated as monetary assets and thus affect the unrealized gain on net monetary liabilities. The net book value of these plants were $48,480,000 at December 31, 1981.

Depreciation expense recomputed under both methods exceeds comparable amounts computed on a historical cost basis as a result of the continuing impact of inflation; however, because the Company uses the LIFO method for welding products inventory valuation, the impact on costs of products sold is not material. The purchasing power gain from holding net monetary liabilities during the year is largely due to the amount of long-term debt used to finance property, plant and equipment.

Statement of Earnings Adjusted for Changing Prices
Year ended December 31, 1981
(In millions of dollars)

	As Reported	Constant Dollar	Current Costs
Sales	$428.0	$428.0	$428.0
Costs of products sold	222.7	225.0	223.0
Operating expenses	126.8	126.8	126.8
Depreciation and amortization	27.3	39.8	41.4
Other income	(3.6)	(3.6)	(3.6)
Interest expense—net	4.3	4.3	4.3
Earnings before income taxes	50.5	35.7	36.1
Income taxes	19.0	19.0	19.0
Net earnings	31.5	16.7	17.1
Purchasing power gain from holding net monetary liabilities during the year		3.3	3.3
Increase in current costs of inventory and property, plant and equipment held during the year			31.8
Effect of increase in general price level			33.9
Excess of increase in the general price level, over increase in current costs			2.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Changing Prices

(In millions of dollars except per share data and Consumer Price Index)

(Average 1981 dollars)	1981	1980	1979	1978	1977
Sales	$428.0	$450.7	$462.6	$424.3	$427.5
Historical cost information adjusted for current costs:					
Operating costs and expenses	349.8	365.1	378.6		
Operating profit*	78.2	85.6	84.0		
Depreciation and amortization	41.4	43.5	42.0		
Other income	(3.6)	(8.1)	(4.3)		
Interest expense	4.3	8.6	12.4		
Earnings before income taxes	36.1	41.6	33.9		
Income taxes	19.0	23.6	17.3		
Net earnings	17.1	18.0	16.6		
Net earnings per common share	1.50	1.61	1.59		
Excess of increase in general price level over increase in current costs in 1981 and excess of increase in current costs over increase in the general price level in 1980 and 1979	2.1	(2.1)	(19.1)		
Translation adjustment	1.2				
Net assets at year end	391.0	387.2	380.6		
Constant dollar information:					
Operating costs and expenses	351.8	368.2	379.8		
Operating profit*	76.2	82.5	82.8		
Depreciation and amortization	39.8	40.5	41.0		
Earnings before income taxes	35.7	41.5	33.7		
Net earnings	16.7	17.9	16.4		
Net earnings per common share	1.45	1.61	1.57		
Translation adjustment	1.2				
Net assets at year end	359.1	349.0	345.8		
Other information:					
Purchasing power gain from holding net monetary liabilities during the year	3.3	9.5	10.9		
Cash dividends declared per common share	1.55	1.55	1.75	1.95	2.10
Market price per common share at year end	16.93	31.36	28.15	35.92	37.34
Average Consumer Price Index	272.4	246.8	217.4	195.4	181.5

*Operating profit is defined as profit before depreciation and amortization, other income, interest expense and income taxes.

Report of Ernst & Whinney Independent Accountants

Shareholders and Board of Directors
Liquid Air Corporation
San Francisco, California

We have examined the consolidated balance sheet of Liquid Air Corporation and subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of earnings, common stock and other shareholders' equity and changes in funds for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Liquid Air Corporation and subsidiaries at December 31, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

San Francisco, California
February 26, 1982

Accounting for Inflation

General

In view of the widespread concern about the effects of inflation on individual businesses, the Company submits the following information to help the reader evaluate earnings and other operating results over the last ten years.

To test the impact of inflation on its own operations—to make sure that the strengthening trend of its earnings and of its balance sheet is real and not illusory, the Company has experimented with the sundry methods proposed by accounting bodies and other regulatory authorities for measuring inflation. It has found that certain historical ratios provide the best indices of its success in keeping pace with inflation. No one of these indices taken alone is a sufficient guide. The reader should look at all the ratios together and observe whether the ratios have improved or weakened over a long period.

Current dollars operating ratios

a) Before taxes
represents profit (after LIFO inventory costing) before depreciation, interest expense, interest income, exceptional gains and income taxes to sales

This ratio indicates whether or not the Company was able to recover the rising current costs from its customers through volume and price increases. During inflationary periods, this ratio should be maintained.

b) After taxes
same as above except it is after taxes which are calculated at the effective tax rate of a given year

This ratio, together with the above ratio, should tell the reader whether or not lower tax rates have compensated the Company for rising current costs that were not recovered through price and volume increases.

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
a)	19.1%	19.8%	19.6%	18.1%	18.9%	20.9%	21.2%	20.5%	18.9%	19.3%
b)	12.1%	11.4%	12.6%	11.5%	12.3%	12.6%	11.5%	10.4%	10.1%	11.0%

Actual debt ratio

The actual debt ratio represents the percentage of capital employed obtained by borrowings. We believe that this ratio indicates that the Company has hedged itself against inflation within sound financial limits.

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Total debt	$114,085	$114,356	$114,224	$108,528	$ 99,260	$ 85,484	$ 61,899	$ 78,152	$ 68,245	$ 47,042
Total capital employed	412,903	378,374	354,875	273,730	249,894	226,792	191,744	188,771	167,935	137,856
Ratio	27.7%	30.2%	32.2%	39.6%	39.7%	37.7%	32.3%	41.4%	40.6%	34.1%

Capital employed is defined as total assets less accounts payable and accrued interest, taxes other than income taxes, due to parent and other affiliates and income taxes.

Return on capital employed before taxes and after taxes

Return on capital employed, before income taxes, is the ratio of income before interest expense, exceptional gains and income taxes to the average capital employed. Return on capital employed after taxes is calculated in the same manner as the above defined ratio except that it takes into consideration the effective tax rate of any given year. These ratios are not an absolute and accurate measure but management believes that calculation of these ratios on a historic basis can still be meaningful provided that emphasis is placed on the overall trends rather than the ratios in any single year.

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Return—before taxes	15.7%	15.6%	15.8%	15.2%	16.9%	20.8%	21.7%	20.2%	16.7%	14.8%
Return—after taxes	9.8%	9.0%	10.1%	9.7%	11.0%	12.6%	11.8%	10.2%	9.0%	8.4%

All dollar amounts expressed above are in thousands of dollars.

Corporate Data

Directors

Jean Henri Delorme†
Chairman, President
and Chief Executive Officer,
L'Air Liquide S.A.

Peter F. Baumberger
President, Executive Committee
Carba Holding A.G.

Mike V. Breber
Executive Vice President and
Chief Operating Officer

Robert J. Buckley†
Chairman, President and
Chief Executive Officer
Allegheny International, Inc.

Emilio A. Dominianni*
Partner, Coudert Brothers,
Attorneys at Law

Raymond S. Fries
Executive Vice President and Group
President, Commercial Products and
Systems, Allegheny International, Inc.

Donald R. Gant*†
Partner, Goldman, Sachs & Co.
Investment Bankers

Graemer K. Hilton*
Executive Vice President
and Chief Financial Officer,
Allegheny International, Inc.

Wilburn Ray Hines
President, SCOBOCO, Inc.

Jacques G. Maisonrouge
Senior Vice President,
IBM Corporation and Chairman,
IBM World Trade Corporation

Jean P. Pineau*
Vice Chairman and Executive
Vice President,
L'Air Liquide S.A.

Pierre A. Salbaing
Vice Chairman and Executive
Vice President,
L'Air Liquide S.A.

Clayton A. Sweeney
Executive Vice President
and Chief Administrative Officer,
Allegheny International, Inc.

Colin W. Webster
Chairman of the Board,
St. Lawrence Warehousing Ltd.

*Audit Committee
†Compensation Committee

Officers

Jean Henri Delorme
Chairman of the Board

Jean P. Pineau
Vice Chairman

Pierre A. Salbaing
President and Chief Executive Officer

Mike V. Breber
Executive Vice President and
Chief Operating Officer

Thomas E. Slattery
Executive Vice President and President,
Industrial Gases Division

Richard A. Johnson
Senior Vice President and
Executive Vice President,
Industrial Gases Division

Thaddeus Pylko
Vice President

Claude Salama
Vice President

Ward J. Sheridan
Vice President

John N. Baird
Secretary

Emilio A. Dominianni
Assistant Secretary

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Canadian Liquid Air Ltd.
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Telephone (514) 842-5431

U.S.D. Corp
3323 West Warner Avenue
Santa Ana, California 92702
Telephone (714) 540-8010

Oxigenio do Brasil S.A.
Praca Nami Jafet, 44
Sao Paulo, Brazil
Telephone (011) 274-2033

Transfer Agents

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, New York 10015

First Jersey National Bank
One Exchange Place
Jersey City, New Jersey 07303

Registrar

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, New York 10015

Stock Listing

The Corporation's stock is traded in the over-the-counter market and is quoted by the National Association of Securities Dealers automated quotation system (NASDAQ).

Stock Symbol

LANA

Independent Accountants

Ernst & Whinney
555 California Street
Suite 3000
San Francisco, California 94104

Legal Counsel

Coudert Brothers
200 Park Avenue
New York, New York 10166

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

The Corporation's annual report to the Securities and Exchange Commission on form 10-K contains financial information and financial statements found in this report as well as additional information. The report to the SEC will be furnished without charge to shareholders upon written request to:

Secretary
Liquid Air Corporation
One Embarcadero Center
San Francisco, California 94111

Design by Corpcom/Torme

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