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# LIQUID AIR CORPORATION

## Annual Report 1983

# Contents

# Financial Highlights*

Liquid Air Corporation    Years ended December 31

| (Millions of dollars except per share amounts) | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | $220.0 | $240.8 | $265.6 | $284.5 | $304.3 | $369.1 | $408.2 | $428.0 | $449.0 | $459.4 |
| Net earnings | 14.1 | 17.6 | 21.2 | 19.8 | 18.3 | 24.3 | 29.4 | 31.5 | 27.5 | 23.9 |
| Per share:(1) | | | | | | | | | | |
| Net earnings | $1.89 | $2.35 | $2.73 | $2.73 | $2.48 | $2.45 | $2.76 | $2.86 | $2.13 | $1.80 |
| Dividends paid | 1.15 | 1.25 | 1.25 | 1.40 | 1.40 | 1.40 | 1.40 | 1.55 | 1.60 | 1.60 |
| Total assets | | | | | | | | | $537.2 | $535.6 |
| Shareholders' equity(2) | | | | | | | | | 281.9 | 279.8 |

*See Note A of notes to consolidated financial statements.
(1) Per common share and common equivalent share.
(2) Includes $24.0 million of redeemable preferred stock.

# Corporate Profile

Liquid Air—part of the world's largest industrial gas company—is a major producer of industrial gases. For some time we have committed ourselves to building teams of specialists, backed by applications technicians and R&D personnel to contribute powerfully and effectively to serve our markets. We will continue to contribute by investing in the research and development needed to innovate for the growing high-technology industries.

# To Our Shareholders and Employees

Industrial gases are looking good again. While the industry's earnings declined during the recent recession, its record of remaining profitable since the early 1900's was never threatened. Despite the uncertain future faced by many of its most important customers and despite the inability of the industry to pass on to its merchant customers power cost increases, the industry remained profitable. Ironically, customer hardships have in fact "created opportunities."

In 1983, the industrial structural changes to which we referred in last year's Annual Report and the continued softness of selling prices for atmospheric gases continued to test the skills of our management in every respect. While 1984 shows strong initial signs of economic recovery in our industry, 1983 was still affected by the decline in the atmospheric gases business, particularly in Canada. Sales for 1983 were $459 million, a 2% increase over 1982, and net earnings were $23.9 million compared with $27.5 million in 1982.

The many severe currency devaluations and higher taxes in Brazil, coupled with the greatly reduced activity in the western Canadian oil industry, accounted for a drop of $6.7 million in net earnings. This decrease in earnings was partially offset by the improved earnings of our domestic industrial gas operations. The domestic operations, which five years ago represented only 34% of the Company's operating profit, in 1983 accounted for 52%, an increase of 26% over 1982. This was accomplished by improving the profits of the Cardox division, increases in productivity and by the inclusion in 1983 results of a full year of operations of Cardox.

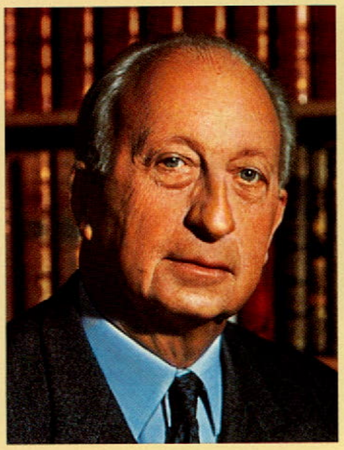
While the operating profit from our Canadian operations declined 16% in 1983, we are encouraged by both volume increases for industrial gases and an improvement in operating profit seen so far in 1984.

Recently, better news has been coming out of Brazil. Wholesale prices are still climbing, but at half the extraordinary rate of June through October, 1983. Government spending seems to have been finally brought under control. Perhaps the most hopeful sign of all is the sharp improvement in Brazil's export business. While Brazil received a great deal of adverse press last year, its economy may in fact be considerably healthier than many pessimists chose to believe.

We have announced the construction of two new air separation plants and a major expansion of another, all in the Sun Belt. Furthermore, to support the growth of our carbon dioxide product line, commitments for more than 900 tons per day of new capacity were made in 1983. We are also completing construction of a major new R&D center near Chicago adjacent to our expanded technical applications facility which will be fully integrated with the many other R&D facilities of our parent in Europe, Japan and around the world.

The economic downturn that characterized the early 1980's has not diminished our expectations for further growth in our dynamic industry. On the contrary, we used this difficult period to strengthen all of our operations, and now that the industrial gas industry is showing healthy volume increases in the United States, we expect that the efforts we made to improve productivity and market position will have a significant and positive impact on earnings.

Our main weapon is marketing our know-how. Consequently, our success will be derived from improved products and processes, by sustained investment in R&D, by supporting and strengthening our growing and vital network of independent dealers, and from the continued commitment of dedicated employees.



Jean H. Delorme
Chairman of the Board

Pierre A. Salbaing
President and
Chief Executive Officer

# Industrial Gases Division

Left to right: Manuel J. Bignolas, Vice President and General Manager; Richard A. Johnson, Executive Vice President; Thomas E. Slattery, President; Robert A. Miller, Vice President, Specialty Gases; Michael M. Strother, Vice President, Marketing; and William R. Arner, Vice President, Operations.

In response to the economic upturn, volumes increased in the second half of 1983 and continued to be strong during the first months of 1984. Excess capacities continued to have an effect on pricing throughout 1983, but concerted efforts at improving productivity allowed the Division to sustain the operating profit of 1982.

Throughout the uncertain economic conditions of the last three years, the Industrial Gases Division refrained from making major expansions. As volumes returned, we announced plant expansions in Tucson, Arizona; Orlando, Florida; and Oklahoma City, Oklahoma. These new plants are primarily directed towards the rapidly growing high technology industries, such as electronics. As a result of our increasing involvement with this type of industry, the Company is building a large research and development center near Chicago adjacent to its expanded technical applications facility.

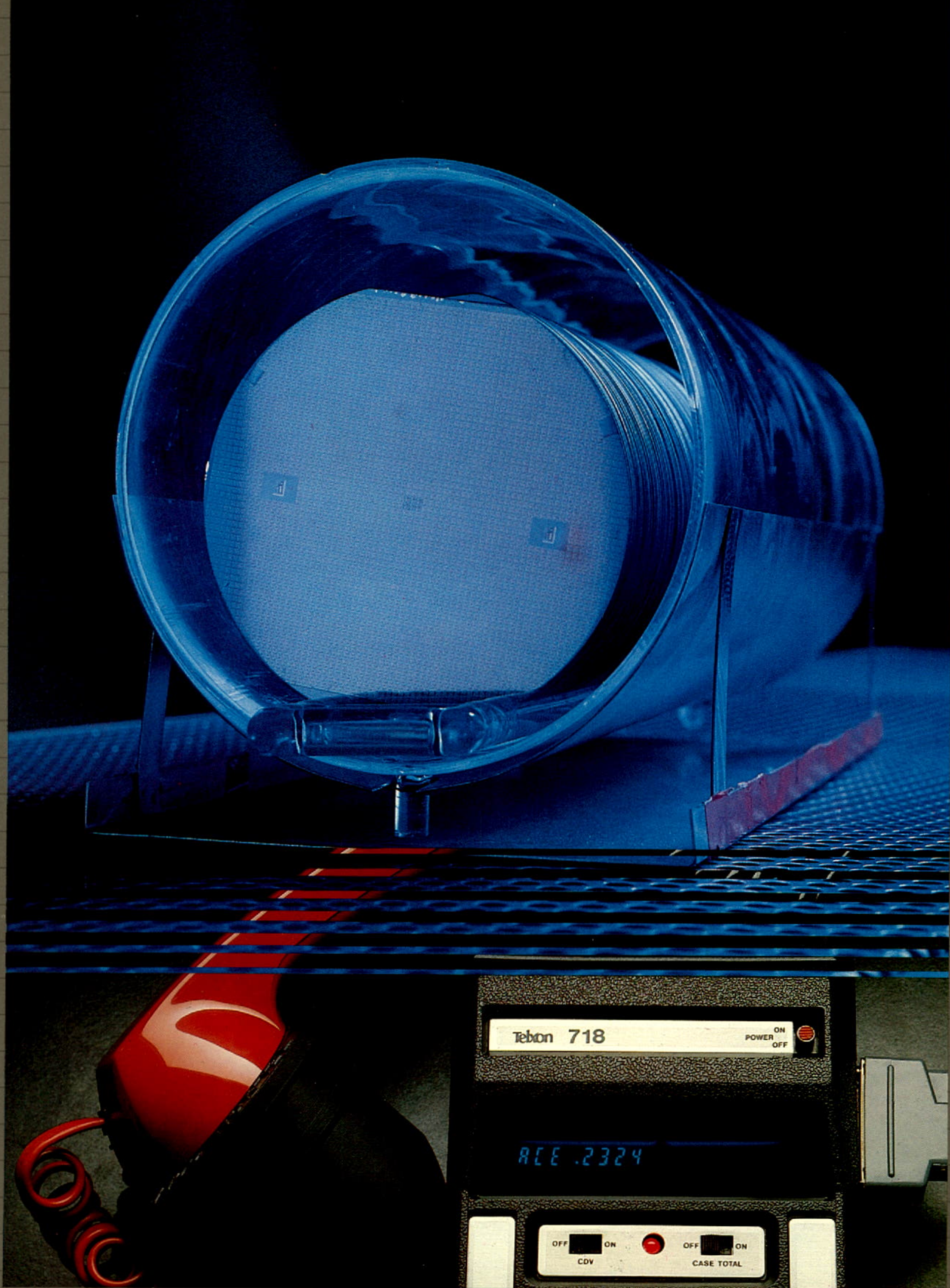
In addition, to position Liquid Air more favorably as a major supplier of industrial gases and to better participate in the expected growth in our market, we have made a substantial effort to enter the field of specialty gases, and we are now capable of supplying these gases to a wide range of customers.

Industrial gases have been staples of the economy since the original industrialization of the United States. Today the country is reindustrializing—developing new industries, based on high technology, that were in some cases unimagined as recently as one or two decades ago. These include the semiconductor and electronics industries, and the even more unusual activities of genetic engineering.

Some of our work in this and other areas include high purity gas generation, process control for the pulp and paper industry, new ways to heat-treat materials, improved methods of industrial cutting and welding, and advances for the food and pharmaceutical industries.

The Division succeeded in sustaining its operating performance in all its traditional markets over the last few years, despite the soft economy. In high technology, however, the Division has demonstrated exceptional presence. This leadership provides operational and cost advantages which can be passed on to customers, making possible higher performance and more reliable end products.

The semiconductor industry's ability to produce consistently and at high yields depends more and more on ultra-high-purity oxygen, hydrogen, nitrogen and argon. The gases must be produced, delivered and stored as pure or purer than the working environment, and this has led to the creation of new technology which we have developed with our affiliates in France and Japan.




Ultra-high-purity gases are used by the semiconductor industry to produce a wide range of high-technology communications equipment.

# Cardox

Left to right: Robert J. Eisele, Vice President, Marketing; Ralph L. Hawk, Vice President, Production & Engineering; Thayne L. Kraus, President; Gary K. Brison, Vice President, Distribution; and David R. Scheeff, Vice President, Resource Planning.

Cardox Corporation was acquired by Liquid Air less than two years ago and has consolidated its position as an important and growing part of the organization, contributing solidly to corporate profits.

Unlike the gases sold by the Industrial Gases Division which are extracted from the atmosphere, most carbon dioxide sold by the Company is purchased raw from by-product sources. Cardox carbon dioxide is used by over 5,000 customers for carbonated beverages, food chilling, freezing and packaging, secondary oil and gas recovery, certain welding processes, water treatment for both potable and waste water, various chemical applications, and rubber and plastic deflashing. Carbon dioxide is sold in gaseous, liquid, and solid 'dry ice' form. The Company also manufactures and sells equipment used in conjunction with carbon dioxide.

Cardox is successfully changing the old image of carbon dioxide as a mere commodity, with price the basic purchase criteria, to that of a specialty chemical in which quality, service and user support are equally important. Showing customers the value of carbon dioxide for emerging new applications in a changing world is one of our essential tasks. This burden is being shouldered by the continued expansion of our research and applications engineering staffs. Cardox has also made a long-term commitment to product quality. During the year Cardox completed the installation of on-line quality control instruments in all of its facilities.

In every area of operation, Cardox experienced sound growth in 1983 and has excellent prospects for 1984 and beyond. To support this growth, commitments for over 900 tons per day of new capacity were made in 1983. Its continuing growth and efforts to become a low cost producer have succeeded, even in the face of extended disruptions in the operations of several of its raw carbon dioxide suppliers.

In late 1983, Cardox moved its headquarters from Countryside, Illinois, a Chicago suburb, to San Ramon, California, 25 miles east of San Francisco.

Carbon dioxide has a wide range of uses in the food and beverage industry, including the production of carbonated beverages.

# Canadian Liquid Air

Left to right: John W. McGill, President and Chief Executive Officer, and Alf G. Dyke, Executive Vice President.

The recession in Canada, which started in the second half of 1981, had its maximum impact in 1982 with a 4.4% drop in real gross national product compared to 1981. Only by the end of the first quarter of 1983 did signs of an economic recovery begin to emerge. The pace of recovery strengthened by the third quarter, to the extent that Canada's real economic growth for the full year was approximately 3% higher than that of 1982. Double-digit inflation which persisted between 1980 and 1982 dropped sharply to a more acceptable 5.8% rate in 1983.

Canadian Liquid Air's results over the last two years have not been immune to the effects of the recession. Sales decreased by 8% in 1982 to $124.8 million, increasing slightly to $125.1 million in 1983. The slump in the steel and metal fabricating industries, combined with greatly reduced activity in the western Canada oil industry, adversely affected sales. However, success in developing new applications for other industries moderated the overall decline. With this broadened market base, the Company is now well positioned for future growth.

When the first signs of an economic slowdown became apparent in late 1981, several important preemptive decisions were taken by the Company's management to minimize the effects of the downturn, the most important of which were:

- a significant work force reduction early in 1982;
- a company-wide salary freeze in 1982, followed by a 6% and 5% salary increase guideline in 1983 and 1984;
- a reduction in capital investments;
- significant inventory reductions in 1982 and 1983; and
- a special program of tight controls on costs and expenses.

Evidence of the success of these measures is now apparent. Fourth quarter 1983 results show operating profit increases outpacing sales increases compared to the same period in 1982.

Looking ahead towards better economic times, Canadian Liquid Air has focused its efforts on positioning itself favorably in those key growth industries where its gas products are in strong demand. Enhanced oil recovery, electronics, food, pulp and paper, and cryogenics are some of the key industries within which Canadian Liquid Air has developed special applications over the last two years. We expect volumes to continue to increase within these industries, as the processes and applications become better known and more widely spread.

Heat treating increases the temper of metals under stress, producing parts used in the fabrication of airplanes.

# Oxigenio do Brasil

Left to right: Jaime Matsumoto, Financial Director; Giorgio Allodi, President; Bruno Fraeyman, Assistant General Manager; Brunello Besso, General Manager.

In the seven years since Oxigenio do Brasil became part of Liquid Air's operations, the organization has maintained and expanded its technological and market positions, and continually improved its responsiveness to customer needs. This is why the Company today holds an established position as one of Brazil's important industrial gas companies. But the many devaluations of the country's currency during 1983, and the softness of the Brazilian and world economies, had a serious effect on Oxigenio do Brasil's ability to grow in shipments and revenues. Sales in 1983 decreased 28% from $47.3 million to $34.2 million. Operating profit of $12.3 million in 1981 fell to $9.7 million in 1982 and to $6.5 million in 1983.

Although we see limited prospects for a rapid turnaround in this situation, we remain optimistic about Brazil's long-term role in the continuing industrialization of the South American continent. Brazil is South America's most highly industrialized nation. The country has a well established role in world trade that will be aided by the currency devaluation. Demand for industrial gases in the country, and for the byproducts that flow from use of these gases, will recover and will continue to grow through the end of this century, aided over the next few years by improvements in the world economy. On balance, despite recent disappointments, there is room for optimism tempered by the need for patience.

Oxigenio do Brasil remains a strong, viable contender in its diversified markets for industrial gases, based on technological and market strength built up over many years of commitment and investment, supported by a sound team that has demonstrated exceptional character and purpose. Economies necessary to the Company's health have been effective in reducing the effects of the devaluation and attendant drop in operating revenues.

Although the devaluations affected Liquid Air's results, the actions taken by the country's leaders were consistent with their intention to have Brazil play a powerful role in its continent and in world affairs. The country's exports have more than tripled in the last decade based on strong gains in the industrial sector. The country is addressing the structural shifts of a changing world. Hopefully, this will establish a sound basis for future growth by Oxigenio do Brasil.

Automated welding equipment using industrial gases is used in the manufacture and assembly of heavy construction and transportation equipment.

# U.S.D. Corp

Left to right: Franck Muller, Vice President and General Manager; Captain Jacques-Yves Cousteau, Chairman of the Board; Michael Chapman, Vice President; and John J. Cronin, President.

The extremely positive initial response to U.S.D.'s new line of equipment was negated by production and technical problems that caused U.S.D. to miss a significant portion of this highly seasonal industry. Looking forward, the new, revitalized U.S. Divers product line is well positioned to enable the Company to maintain its market share position in 1984.

U.S.D. is also active in the respiratory protection business with its Survivair® Division serving the industrial safety and fire-fighting markets. This is an area of increasing technological complexity amid the constant proliferation of hazardous working environments and workers demanding better protection. We believe that the business of providing workers with the best available protection against hazardous environments will result in a stable and growing market for our products.

Today, Survivair's® line of respiratory protection devices are recognized as being among the finest in the world. Sales of Survivair's® safety line were up 16% over 1982 and would have been even higher had this division not experienced a variety of production problems in early 1983 with its new state-of-the-art Mark 2® self-contained breathing apparatus.

In times of recession most organizations respond similarly. They employ every available management skill and working tool to sustain their position, minimize losses and retrench where needed. The recession of 1981 and 1982 has taken its toll on U.S.D., but corrective actions have been taken. The number of salaried employees was cut by 10% while at the same time needed engineering expertise was increased by 20%. Fixed expenses were reduced 14%. These actions, coupled with an improved flow of production, enabled U.S.D. to post a small but significant profit in the 4th quarter of 1983.

With economic conditions continuing to improve, and U.S.D.'s technical problems of 1983 now behind them, the Company can anticipate consolidation of its established positions in its chosen markets.


USD's new line of diving equipment, designed and manufactured to meet the needs of a growing consumer market.

# Management's Discussion and Analysis

**Results of Operations**

1983 sales were $459.4 million, an increase of $10.4 million, or 2% over 1982. This overall sales increase was due to the Cardox division which was acquired on March 31, 1982 and which had an excellent year (see Note B of notes to consolidated financial statements). Total sales of industrial gases were up 5% on an actual basis and were also higher than 1982 sales when adjusted to include Cardox for a full year. The 5% overall increase in industrial gas sales was due to increases of 10% in the United States and 3% in Canada. These increases resulted mainly from the Cardox division and from volume growth of the atmospheric gases business in the latter half of the year. Brazilian sales, however, were down 22%, chiefly because of devaluation of the Brazilian currency and minor volume decreases. Welding products sales declined 7% in Canada as a result of volume decreases, and 48% in Brazil due both to currency devaluations and volume decreases. Sales of underwater diving and life support equipment were down 3%.

Sales in 1982 totaled $449.0 million, an increase of $21.0 million, or 5% over 1981. This overall sales increase was due to the inclusion of the sales of Cardox. Excluding Cardox, industrial gas sales were lower in 1982 in both the United States and Brazil, mostly as a result of volume decreases. Canadian industrial gas sales showed a slight increase despite a lower value of the Canadian dollar. Sales of welding products in Canada declined, primarily due to a drop in volume, and declined modestly in Brazil. Sales of underwater diving and life support equipment fell substantially.

The increases in 1983 operating profits and net earnings of the United States operations were exceeded by decreases in Canada and Brazil with the result that operating profit and net earnings declined 2% and 13% respectively. Operating profit in the United States was up $5.1 million, or 26%, due to the improved profits of the Cardox division, increases in productivity and the inclusion of a full year's operations of Cardox in 1983. Brazilian operating profit was down $3.2 million because of major currency devaluations. The recovery of the Canadian economy, as it related to our industry, lagged behind that of the United States. This was the basic reason for the decrease of $3.1 million in operating profit of the Canadian operations. Increased borrowings which were repaid prior to the year-end, coupled with a reduction in capitalized interest expense, caused interest expense to increase. Larger gains on asset disposals, the presence of settlements on legal and other matters, and lower foreign exchange translation losses in the 1982 period explain the decline in other income in 1983 when compared to the 1982 year.

Higher effective income tax rates in Canada and Brazil, mostly offset by lower effective income tax rates in the United States, caused the one percentage point increase in the overall income tax rate.

The effect in 1982 upon operating profit and net earnings of the weak economic conditions in those countries in which the Company operates was mostly responsible for the decreases of 6% ($3.1 million) in operating profit and of 13% ($4.0 million) in net earnings. Net earnings were $27.5 million, compared with $31.5 million in 1981. Earnings per share, reflecting the increase in capital stock of 16%, were $2.13 in 1982 compared with $2.86 in the prior year. Excluding Cardox, lower operating profits were experienced in all of the Company's operations, particularly in the welding products and underwater diving and life support equipment businesses, where operating profits were nominal. Net interest expense was higher due to decreases in interest income and capitalized interest and to an increase in debt as a result of the Cardox acquisition, with some offset by a decrease in interest expense in the Brazilian operations. The small decline in other income was primarily due to a loss on translation of Brazilian currency (see Note M of notes to consolidated financial statements) mostly offset by increased gains on disposal of fixed assets and gain on settlement of a legal matter. Partially offsetting the decrease in net earnings was the inclusion of the Cardox operations.

**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 its potential to utilize the debt markets. This ratio was 31% at the end of 1983, compared with 33% at the end of 1982 and 28% at the end of 1981. However, since the Company had excess cash at the end of each year and certificates of deposit of $14.2 million at the end of 1981, this ratio can be viewed as 30%, 31% and 17% at the end of 1983, 1982 and 1981. This ratio is considered to be at a reasonable level.

In March, 1983, the Company increased its long-term revolving bank lines of credit by another $10 million, to $170 million. These lines are available through 1990 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. Commitment fees of approximately ¼ of 1% are paid on the overall unused lines of credit.

New long-term loans were also completed in 1983: in April, a $20 million loan with a major insurance company at 11⅞% and in July, a $10 million loan with a bank at 11.91%.

It is expected that the long-term credit lines, the excess cash of $5.6 million and the projected 1984 cash flow will be sufficient to enable the Company to finance all of the 1984 capital programs, cash dividend requirements and working capital requirements.

On June 21, 1983, the Company signed an agreement to acquire 1,563,750 shares of its stock, subject to certain conditions, from Chemetron Corporation, or its assignee, for an estimated price of $48,500,000 with a $3,128,000 down payment (see Note H of notes to consolidated financial statements). The down payment was made on July 1, 1983.

**Inflation**

Reference is made to Note N of notes to consolidated financial statements for information regarding the effects of inflation using current cost measurements.

# Ten Year Summary of Earnings*

Liquid Air Corporation — Years ended December 31

| (Millions of dollars except per share amounts) | 1983 | 1982 | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | **$459.4** | **$449.0** | **$428.0** | **$408.2** | **$369.1** | **$304.3** | **$284.5** | **$265.6** | **$240.8** | **$220.0** |
| Cost of products sold | 234.1 | 233.5 | 222.7 | 209.0 | 190.9 | 162.0 | 152.4 | 138.2 | 127.5 | 117.3 |
| Operating expenses | 141.3 | 134.6 | 126.8 | 121.3 | 109.9 | 87.7 | 81.7 | 75.9 | 64.4 | 58.4 |
| Depreciation and amortization | 37.1 | 32.8 | 27.3 | 26.6 | 23.7 | 16.6 | 14.2 | 13.0 | 10.9 | 10.0 |
| **Operating Profit** | **46.9** | **48.1** | **51.2** | **51.3** | **44.6** | **38.0** | **36.2** | **38.5** | **38.0** | **34.3** |
| Other income | .5 | 3.2 | 3.6 | 7.4 | 3.4 | .3 | 3.3 | 2.5 | 1.2 | .3 |
| Interest—net(2) | 8.8 | 7.5 | 4.3 | 7.8 | 9.9 | 9.6 | 9.2 | 5.9 | 6.7 | 6.8 |
| **Earnings Before Taxes** | **38.6** | **43.8** | **50.5** | **50.9** | **38.1** | **28.7** | **30.3** | **35.1** | **32.5** | **27.8** |
| Income taxes | 14.7 | 16.3 | 19.0 | 21.5 | 13.8 | 10.4 | 10.5 | 13.9 | 14.9 | 13.7 |
| **Net Earnings** | **$ 23.9** | **$ 27.5** | **$ 31.5** | **$ 29.4** | **$ 24.3** | **$ 18.3** | **$ 19.8** | **$ 21.2** | **$ 17.6** | **$ 14.1** |
| Per share:(1) | | | | | | | | | | |
| Net earnings | $ 1.80 | $ 2.13 | $ 2.86 | $ 2.76 | $ 2.45 | $ 2.48 | $ 2.73 | $ 2.73 | $ 2.35 | $ 1.89 |
| Dividends paid | 1.60 | 1.60 | 1.55 | 1.40 | 1.40 | 1.40 | 1.40 | 1.25 | 1.25 | 1.15 |

(1) Per common share and common equivalent share.
(2) Net of interest income.

# Summary by Geographic Location*

Liquid Air Corporation — Years ended December 31

| (Millions of dollars) | 1983** | 1982** | 1981** | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | **$459.4** | **$449.0** | **$428.0** | **$408.2** | **$369.1** | **$304.3** | **$284.5** | **$265.6** | **$240.8** | **$220.0** |
| United States | 300.1 | 276.9 | 240.7 | 235.2 | 214.5 | 165.5 | 157.3 | 140.5 | 122.0 | 118.3 |
| Foreign | 159.3 | 172.1 | 187.3 | 173.0 | 154.6 | 138.8 | 127.2 | 125.1 | 118.8 | 101.7 |
| Canada | 125.1 | 124.8 | 135.4 | 132.0 | 119.9 | 103.1 | 97.4 | 97.6 | 93.8 | 81.1 |
| Brazil | 34.2 | 47.3 | 51.9 | 41.0 | 34.7 | 35.7 | 29.8 | 27.5 | 25.0 | 20.6 |
| **Operating Profit** | **46.9** | **48.1** | **51.2** | **51.3** | **44.6** | **38.0** | **36.2** | **38.5** | **38.0** | **34.3** |
| United States | 24.4 | 19.3 | 17.6 | 20.0 | 18.1 | 13.0 | 14.0 | 16.1 | 15.6 | 13.9 |
| Foreign | 22.5 | 28.8 | 33.6 | 31.3 | 26.5 | 25.0 | 22.2 | 22.4 | 22.4 | 20.4 |
| Canada | 16.0 | 19.1 | 21.3 | 23.9 | 21.1 | 17.8 | 17.8 | 18.3 | 18.5 | 16.9 |
| Brazil | 6.5 | 9.7 | 12.3 | 7.4 | 5.4 | 7.2 | 4.4 | 4.1 | 3.9 | 3.5 |

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

# Summary by Operating Group*

Liquid Air Corporation — Years ended December 31

| (Millions of dollars) | 1983** | 1982** | 1981** | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | **$459.4** | **$449.0** | **$428.0** | **$408.2** | **$369.1** | **$304.3** | **$284.5** | **$265.6** | **$240.8** | **$220.0** |
| Industrial gases | 389.7 | 370.9 | 327.0 | 311.8 | 271.8 | 184.8 | 171.8 | 155.7 | 134.6 | 113.9 |
| Welding products | 41.0 | 48.5 | 61.6 | 59.7 | 61.3 | 88.4 | 87.1 | 86.2 | 87.8 | 87.8 |
| Underwater diving and life support | 28.7 | 29.6 | 39.4 | 36.7 | 36.0 | 31.1 | 25.6 | 23.7 | 18.4 | 18.3 |
| **Operating Profit**(1) | **46.9** | **48.1** | **51.2** | **51.3** | **44.6** | **38.0** | **36.2** | **38.5** | **38.0** | **34.3** |
| Industrial gases | 48.8 | 47.8 | 45.5 | 43.6 | 40.4 | 33.9 | 31.1 | 30.8 | 26.9 | 21.3 |
| Welding products | (1.8) | .1 | 2.3 | 3.2 | 1.0 | 1.4 | 2.9 | 5.3 | 9.3 | 11.8 |
| Underwater diving and life support | (.1) | .2 | 3.4 | 4.5 | 3.2 | 2.7 | 2.2 | 2.4 | 1.8 | 1.2 |
| **Depreciation and Amortization**(2) | **37.1** | **32.8** | **27.3** | **26.6** | **23.7** | **16.6** | **14.2** | **13.0** | **10.9** | **10.0** |
| Industrial gases | 35.8 | 31.7 | 26.0 | 25.3 | 22.7 | 15.8 | 13.4 | 12.3 | 10.3 | 9.5 |
| **Capital Expenditures**(2) | **41.6** | **58.7**(3) | **61.8** | **60.5** | **50.7** | **37.1** | **31.9** | **32.0** | **27.2** | **23.4** |
| Industrial gases | 40.8 | 57.2(3) | 59.9 | 58.4 | 48.9 | 35.5 | 31.0 | 30.6 | 26.3 | 22.6 |

(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 $47.0 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

Liquid Air Corporation — Years ended December 31

| (Millions of dollars) | 1983** | 1982** | 1981** | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|---|---|---|
| **By Geographic Location** | **$535.6** | **$537.2** | **$484.3** | **$444.9** | **$417.3** | **$317.6** | **$293.1** | **$260.3** | **$228.3** | **$222.8** |
| United States | 343.4 | 336.3 | 272.3 | 256.4 | 259.1 | 180.7 | 170.7 | 152.3 | 120.3 | 115.1 |
| Foreign | 192.2 | 200.9 | 212.0 | 188.5 | 158.2 | 136.9 | 122.4 | 108.0 | 108.0 | 107.7 |
| Canada | 141.4 | 148.5 | 160.8 | 145.2 | 120.4 | 101.3 | 90.5 | 78.6 | 76.9 | 77.6 |
| Brazil | 50.8 | 52.4 | 51.2 | 43.3 | 37.8 | 35.6 | 31.9 | 29.4 | 31.1 | 30.1 |
| **By Operating Group** | **$535.6** | **$537.2** | **$484.3** | **$444.9** | **$417.3** | **$317.6** | **$293.1** | **$260.3** | **$228.3** | **$222.8** |
| Industrial gases | 465.1 | 455.3 | 378.7 | 356.0 | 340.9 | 237.0 | 216.2 | 187.0 | 168.7 | 149.2 |
| Welding products | 14.5 | 20.5 | 33.0 | 29.0 | 28.5 | 47.3 | 46.6 | 47.0 | 41.0 | 42.8 |
| Underwater diving and life support | 22.9 | 21.3 | 25.5 | 26.2 | 26.8 | 20.3 | 17.0 | 16.9 | 11.9 | 11.4 |
| Corporate | 33.1 | 40.1 | 47.1 | 33.7 | 21.1 | 13.0 | 13.3 | 9.4 | 6.7 | 19.4 |

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

# Quarterly Data

Liquid Air Corporation

Years ended December 31

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

**Sales**

| | 1983 | | | | 1982 | | | |
|---|---|---|---|---|---|---|---|---|
| | Industrial gases | Welding products | U.S.D. Corp* | Total | Industrial gases | Welding products | U.S.D. Corp* | Total |
| First | $ 94.6 | $10.4 | $ 6.3 | $111.3 | $ 82.3 | $14.2 | $ 7.0 | $103.5 |
| Second | 97.6 | 10.8 | 8.3 | 116.7 | 97.7 | 13.3 | 9.3 | 120.3 |
| Third | 101.0 | 10.0 | 6.6 | 117.6 | 97.7 | 11.1 | 6.4 | 115.2 |
| Fourth | 96.5 | 9.8 | 7.5 | 113.8 | 93.2 | 9.9 | 6.9 | 110.0 |
| Total | **$389.7** | **$41.0** | **$28.7** | **$459.4** | **$370.9** | **$48.5** | **$29.6** | **$449.0** |

**Operating Profit**

| | 1983 | | | | 1982 | | | |
|---|---|---|---|---|---|---|---|---|
| | Industrial gases | Welding products | U.S.D. Corp* | Total | Industrial gases | Welding products | U.S.D. Corp* | Total |
| First | $ 12.3 | $ (.8) | $ (.2) | $ 11.3 | $ 10.6 | $ .9 | $ 0 | $ 11.5 |
| Second | 13.9 | (.6) | .4 | 13.7 | 13.6 | .2 | .5 | 14.3 |
| Third | 12.8 | (.6) | (.7) | 11.5 | 12.3 | (.6) | (.2) | 11.5 |
| Fourth | 9.8 | .2 | .4 | 10.4 | 11.3 | (.4) | (.1) | 10.8 |
| Total | **$ 48.8** | **$(1.8)** | **$ (.1)** | **$ 46.9** | **$ 47.8** | **$ .1** | **$ .2** | **$ 48.1** |

**Net Earnings, Earnings and Dividends Per Share**

| | 1983 | | | 1982 | | |
|---|---|---|---|---|---|---|
| | Net earnings | Earnings per share | Dividends paid | Net earnings | Earnings per share | Dividends paid |
| First | $6.0 | 46¢ | 40¢ | $7.8 | 64¢ | 40¢ |
| Second | 6.6 | 50¢ | 40¢ | 7.8 | 60¢ | 40¢ |
| Third | 5.4 | 40¢ | 40¢ | 6.0 | 46¢ | 40¢ |
| Fourth | 5.9 | 44¢ | 40¢ | 5.9 | 44¢ | 40¢ |

**Common Stock Price Range**

| | 1983 | | 1982 | |
|---|---|---|---|---|
| | High bid | Low bid | High bid | Low bid |
| First | 23 | 18½ | 19³⁄₁₆ | 16¼ |
| Second | 25 | 21½ | 19¾ | 17¾ |
| Third | 26¼ | 22½ | 20¾ | 14¾ |
| Fourth | 24½ | 21¾ | 20½ | 18¼ |

*Underwater diving and life support equipment.

# Ten Year Financial Summary*

Liquid Air Corporation — Years ended December 31

(Millions of dollars)

| Balance Sheet Data | 1983 | 1982 | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Cash and certificates of deposit | $ 10.8 | $ 20.3 | $ 36.8 | $ 23.5 | $ 15.6 | $ 8.9 | $ 13.0 | $ 5.9 | $ 7.4 | $ 17.7 |
| Other current assets | 111.3 | 107.3 | 111.4 | 116.8 | 116.8 | 105.2 | 97.6 | 86.0 | 74.3 | 74.0 |
| Other assets | 23.7 | 22.1 | 31.9 | 14.4 | 8.0 | 5.0 | 4.1 | 8.7 | 3.3 | 3.5 |
| Property, plant and equipment, net of accumulated depreciation | 354.8 | 353.4 | 285.0 | 270.8 | 259.0 | 180.3 | 160.3 | 142.6 | 126.9 | 111.1 |
| Goodwill | 35.0 | 34.1 | 19.2 | 19.4 | 17.9 | 18.2 | 18.1 | 17.1 | 16.4 | 16.5 |
| | **$535.6** | **$537.2** | **$484.3** | **$444.9** | **$417.3** | **$317.6** | **$293.1** | **$260.3** | **$228.3** | **$222.8** |
| **Liabilities and Equity** | | | | | | | | | | |
| Current liabilities | $ 78.0 | $ 67.8 | $ 88.9 | $ 83.9 | $ 77.3 | $ 63.6 | $ 63.6 | $ 54.9 | $ 50.8 | $ 56.4 |
| Long-term debt | 128.4 | 139.2 | 99.0 | 98.9 | 101.0 | 90.2 | 80.2 | 65.4 | 51.7 | 58.7 |
| Deferred taxes | 49.4 | 48.3 | 37.4 | 39.8 | 30.6 | 25.3 | 18.3 | 13.4 | 10.8 | 9.2 |
| Shareholders' equity(1) | 279.8 | 281.9 | 259.0 | 222.3 | 208.4 | 138.5 | 131.0 | 126.6 | 115.0 | 98.5 |
| | **$535.6** | **$537.2** | **$484.3** | **$444.9** | **$417.3** | **$317.6** | **$293.1** | **$260.3** | **$228.3** | **$222.8** |
| (1) Includes redeemable preferred stock | $24.0 | $24.0 | $24.0 | $24.0 | $24.0 | $24.0 | $24.0 | $16.9 | $16.9 | $19.0 |

*See Note A of notes to consolidated financial statements.

# Ten Year Financial Summary*

Liquid Air Corporation — Years ended December 31

| (Millions of dollars) | 1983 | 1982 | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Source and Application of Funds** | | | | | | | | | | |
| **Source of Funds** | | | | | | | | | | |
| From operations | $ 62.1 | $ 71.9 | $ 58.2 | $ 65.2 | $ 53.3 | $ 42.0 | $ 38.8 | $ 36.8 | $ 30.3 | $ 27.3 |
| Additional long-term debt | 57.2 | 64.4 | 23.1 | 8.0 | 18.1 | 20.8 | 46.7 | 33.6 | 9.5 | 22.6 |
| Shares issued for cash | | | | | | | | | | |
| Preferred | | | | | | | 24.0 | | | |
| Common | | 19.5 | 30.0 | | | | | | 7.9 | 2.1 |
| Shares issued to acquire companies | | | | | 60.0 | | | | | |
| Decrease in other assets | | | | | | | 5.3 | | .2 | 6.4 |
| Property, plant and equipment sold | 2.3 | 1.4 | 11.7 | 22.4 | 1.1 | .7 | .3 | .7 | .5 | .7 |
| Decrease in certificates of deposit | | 14.2 | | | | | | | | |
| Decrease in noncash working capital | 6.5 | | 9.8 | 5.9 | 2.2 | | | | | |
| | **$128.1** | **$171.4** | **$132.8** | **$101.5** | **$134.7** | **$ 63.5** | **$115.1** | **$ 71.1** | **$ 48.4** | **$ 59.1** |
| **Application of Funds** | | | | | | | | | | |
| Property, plant and equipment acquired | $ 41.6 | $ 58.7 | $ 61.8 | $ 60.5 | $ 50.7 | $ 37.1 | $ 31.9 | $ 21.7 | $ 27.2 | $ 23.4 |
| Property, plant and equipment of subsidiaries acquired | | 47.0 | | | 52.5 | | | 10.3 | | |
| Reduction of long-term debt | 68.3 | 30.7 | 22.5 | 9.3 | 10.2 | 10.7 | 32.9 | 19.4 | 18.2 | 9.5 |
| Cash dividends paid | 21.4 | 21.0 | 17.7 | 15.6 | 14.4 | 10.9 | 10.4 | 9.6 | 9.1 | 8.4 |
| Purchase of common shares | 3.1 | | | | | | 28.9 | | | |
| Increase in goodwill | 1.6 | 15.5 | | 1.7 | | .3 | 1.3 | .8 | .1 | .5 |
| Increase in other assets | 1.6 | 4.4 | 17.5 | 6.5 | 2.1 | .9 | .7 | 5.4 | | |
| Other | | (6.9) | | | (1.9) | | | 1.5 | | .1 |
| Increase in noncash working capital | | 17.5 | | | | 7.7 | 1.9 | 3.9 | 4.1 | 9.2 |
| Cash and certificates of deposit increase (decrease) | (9.5) | (16.5) | 13.3 | 7.9 | 6.7 | (4.1) | 7.1 | (1.5) | (10.3) | 8.0 |
| | **$128.1** | **$171.4** | **$132.8** | **$101.5** | **$134.7** | **$ 63.5** | **$115.1** | **$ 71.1** | **$ 48.4** | **$ 59.1** |

*See Note A of notes to consolidated financial statements.

# Consolidated Balance Sheet

Liquid Air Corporation

(Thousands of dollars)

| | December 31 1983 | December 31 1982 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 5,166 | $ 5,502 |
| Certificates of deposit | 5,600 | 14,788 |
| Receivables | | |
| Trade, less allowances ($2,374 in 1983 and $2,922 in 1982) | 67,131 | 64,127 |
| Other | 5,511 | 5,311 |
| Due from affiliates | 3,755 | 2,561 |
| Inventories | 32,741 | 31,495 |
| Prepaid expenses and deposits | 2,186 | 3,851 |
| | **122,090** | **127,635** |
| **Other Assets** | **23,687** | **22,079** |
| **Property, Plant and Equipment**—at cost | 586,931 | 552,565 |
| Less accumulated depreciation | (232,135) | (199,189) |
| | **354,796** | **353,376** |
| **Goodwill** | **34,988** | **34,092** |
| | **$535,561** | **$537,182** |

See notes to consolidated financial statements.

| | December 31 1983 | 1982 |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| **Current Liabilities** | | |
| Bank indebtedness | $ 8,827 | $ 6,769 |
| Accounts payable | 45,344 | 44,386 |
| Accrued interest | 1,971 | 1,839 |
| Accrued taxes, other than income taxes | 3,627 | 4,011 |
| Due to parent and other affiliates | 1,724 | 2,087 |
| Income taxes | 10,980 | 2,892 |
| Current maturities of long-term debt | 5,540 | 5,833 |
| | **78,013** | **67,817** |
| **Long-term Debt,** exclusive of current maturities | **128,360** | **139,135** |
| **Deferred Income Taxes** | **49,351** | **48,337** |
| **Redeemable Preferred Stock,** convertible, par value $100 | | |
| Authorized and issued 240,000 shares | **24,000** | **24,000** |
| **Common Stock,** no par value | | |
| Authorized 20,000,000 shares | | |
| Issued 12,562,796 shares at stated value | **40** | **40** |
| **Other Shareholders' Equity** | | |
| Capital surplus | **167,249** | **170,377** |
| Retained earnings | **100,089** | **97,607** |
| Cumulative translation adjustment | **(11,541)** | **(10,131)** |
| | **$535,561** | **$537,182** |

# Consolidated Statement of Earnings

Liquid Air Corporation

| (Thousands of dollars except per share amounts) | | Years ended December 31 1983 | 1982 | 1981 |
|---|---|---|---|---|
| **Sales** | | **$459,409** | **$448,996** | **$427,991** |
| **Costs and Expenses** | | | | |
| | Costs of products sold | 234,108 | 233,472 | 222,697 |
| | Selling, distribution, general and administrative expenses | 141,284 | 134,610 | 126,789 |
| | Depreciation and amortization (principally applicable to costs of products sold) | 37,148 | 32,847 | 27,346 |
| | | **412,540** | **400,929** | **376,832** |
| **Operating Profit** | | **46,869** | **48,067** | **51,159** |
| **Other Expenses (Income)** | | | | |
| | Interest (net of interest income of $4,396 in 1983, $3,977 in 1982 and $8,008 in 1981) | 8,795 | 7,452 | 4,310 |
| | Gain on sale of assets | | | (1,000) |
| | Other income | (558) | (3,150) | (2,617) |
| | | **8,237** | **4,302** | **693** |
| **Earnings Before Income Taxes** | | **38,632** | **43,765** | **50,466** |
| **Income Taxes** | | | | |
| | Current | 13,716 | 4,717 | 19,595 |
| | Deferred | 1,014 | 11,536 | (655) |
| | | **14,730** | **16,253** | **18,940** |
| **Net Earnings** | | **$ 23,902** | **$ 27,512** | **$ 31,526** |
| **Net Earnings per Common Share** | | **$1.80** | **$2.13** | **$2.86** |

See notes to consolidated financial statements.

# Consolidated Statement of Common Stock and Other Shareholders' Equity

Liquid Air Corporation

Years ended December 31

| (Thousands of dollars except per share amounts) | Common Stock Shares | Common Stock Amount | Capital Surplus | Retained Earnings | Cumulative Translation Adjustment | Treasury Shares |
|---|---|---|---|---|---|---|
| **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 | |
| Stocks issued | 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)** | **—** |
| Current year's translation adjustment | | | | | (3,066) | |
| Net earnings | | | | 27,512 | | |
| Stocks issued | 935,620 | 3 | 19,495 | | | |
| Cash dividends | | | | | | |
| Common ($1.60 per share) | | | | (19,686) | | |
| Preferred ($5.50 per share) | | | | (1,320) | | |
| **Balance December 31, 1982** | **12,562,796** | **40** | **170,377** | **97,607** | **(10,131)** | **—** |
| Current year's translation adjustment | | | | | (1,410) | |
| Net earnings | | | | 23,902 | | |
| Cash dividends | | | | | | |
| Common ($1.60 per share) | | | | (20,100) | | |
| Preferred ($5.50 per share) | | | | (1,320) | | |
| Downpayment for purchase of common stock | | | (3,128) | | | |
| **Balance December 31, 1983** | **12,562,796** | **$40** | **$167,249** | **$100,089** | **$(11,541)** | **$ —** |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Funds

Liquid Air Corporation — Years ended December 31

| (Thousands of dollars) | 1983 | 1982 | 1981 |
|---|---|---|---|
| **Source of Funds** | | | |
| From operations | | | |
| Net earnings | $ 23,902 | $ 27,512 | $ 31,526 |
| Expenses not affecting working capital | | | |
| Depreciation and amortization | 37,148 | 32,847 | 27,346 |
| Deferred income taxes | 1,014 | 11,536 | (655) |
| Total from operations | **62,064** | **71,895** | **58,217** |
| Common stock issued | | 19,498 | 29,961 |
| Additional long-term debt | 57,238 | 64,410 | 23,123 |
| Sales of property, plant and equipment | 2,288 | 1,331 | 11,752 |
| Decrease in certificates of deposit | | 14,228 | |
| Decrease in noncash working capital | 6,510 | | 9,786 |
| Total source of funds | **128,100** | **171,362** | **132,839** |
| **Disposition of Funds** | | | |
| Additions to property, plant and equipment | 41,620 | 58,657 | 61,818 |
| Noncurrent assets and liabilities of business acquired: | | | |
| Property, plant and equipment | | 47,000 | |
| Long-term debt | | (6,850) | |
| Increase in certificates of deposit | | | 14,228 |
| Repayment of long-term debt | 68,248 | 30,745 | 22,469 |
| Cash dividends | 21,420 | 21,006 | 17,701 |
| Increase in goodwill | 1,600 | 15,500 | 72 |
| Increase in other assets | 1,608 | 4,375 | 3,276 |
| Downpayment for purchase of common stock | 3,128 | | |
| Increase in noncash working capital, including working capital acquired of $4,737 | | 17,458 | |
| Total disposition of funds | **137,624** | **187,891** | **119,564** |
| Increase (decrease) in cash and certificates of deposit | (9,524) | (16,529) | 13,275 |
| Cash and certificates of deposit at beginning of year | 20,290 | 36,819 | 23,544 |
| Cash and certificates of deposit at end of year | **$ 10,766** | **$ 20,290** | **$ 36,819** |
| **Changes in Components of Noncash Working Capital** | | | |
| Increase (decrease) in current assets | | | |
| Receivables | $ 3,204 | $ 547 | $ (9,617) |
| Due from affiliates | 1,194 | 547 | 1,754 |
| Inventories | 1,246 | (5,530) | 2,984 |
| Prepaid expenses and deposits | (1,665) | 430 | (522) |
| | **3,979** | **(4,006)** | **(5,401)** |
| Increase (decrease) in current liabilities | | | |
| Bank indebtedness | 2,058 | (2,863) | (925) |
| Accounts payable and accrued expenses | 706 | (4,240) | (3,000) |
| Due to parent and other affiliates | (363) | (400) | 478 |
| Income taxes | 8,088 | (13,961) | 7,832 |
| | **10,489** | **(21,464)** | **4,385** |
| Increase (decrease) in noncash working capital | **$ (6,510)** | **$ 17,458** | **$ (9,786)** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements



### 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, Société Anonyme pour l'Etude et l'Exploitation des Procédés Georges Claude (L'Air Liquide) owns directly or through other affiliates approximately 78% and 57% of the Company's common stock outstanding and all of its preferred stock outstanding as of December 31, 1983 and 1982.

**Depreciation and Amortization:** The Company follows the policy of providing for depreciation principally on the straight-line method for financial reporting purposes and by accelerated methods 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.

**Income Taxes:** Deferred income taxes have been provided as a result of timing differences in reporting income for financial statements and income tax purposes.

Consolidated retained earnings include $161,608,000 and $146,534,000 of retained earnings of foreign subsidiaries at December 31, 1983 and 1982, 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.

**Research Expenses:** Research expenditures amounted to $8,187,000, $6,948,000 and $7,229,000 in 1983, 1982 and 1981. These amounts include royalties of $3,654,000, $3,690,000 and $4,149,000 in 1983, 1982 and 1981 paid to L'Air Liquide and its affiliates to secure rights to their research and development.

**Interest Expense:** The Company capitalizes interest as part of the costs of newly constructed manufacturing facilities. Accordingly, interest expense amounting to $1,709,000 in 1983, $2,314,000 in 1982 and $4,805,000 in 1981 has been included in the costs of newly constructed manufacturing facilities.

**Foreign Currency Translation:** The financial statements of foreign entities for the years ended December 31, 1983, 1982 and 1981 have been translated to U.S. dollars. For a certain foreign operation, 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. For all other foreign operations, 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.

### Note B—Acquisitions and Divestitures

On March 31, 1982, pursuant to a Contract for the Purchase of the Issued and Outstanding Capital Stock of Cardox Corporation ("Cardox") dated January 29, 1982, LAI Properties, Inc. a wholly owned subsidiary of Liquid Air Corporation, acquired all of the outstanding shares of capital stock of Cardox from Allegheny International, Inc. (which owned 28.7% of the common shares of the Company) for approximately $61,600,000. Cardox, which was formerly the Cardox Division of Chemetron Corporation, a wholly owned subsidiary of Allegheny, is engaged in the processing and marketing of carbon dioxide, which is sold primarily to industrial and commercial users in liquid, solid and gaseous form. Substantially all of the assets acquired as a result of the acquisition constituted plant, equipment and other property used in the production and distribution of carbon dioxide, and Liquid Air Corporation intends to continue such use of the assets. The acquisition has been accounted for by the purchase method of accounting. The accounts of Cardox have been consolidated from April 1, 1982. The allocation of the purchase price to the individual assets acquired less the liabilities assumed resulted in goodwill of $17,100,000 being recognized.

Following is an unaudited pro forma summary of the results of operations as if the acquisition had been consummated on January 1, 1981:

| | Years ended December 31 | |
|---|---|---|
| | 1982 | 1981 |
| Sales | $466,341,000 | $502,534,000 |
| Net earnings | 27,786,000 | 34,942,000 |
| Net earnings per common share | $2.12 | $2.70 |

### 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 $7,446,000 at December 31, 1983 and $8,003,000 at December 31, 1982.

| | 1983 | 1982 |
|---|---|---|
| Finished goods | $18,058,000 | $17,797,000 |
| Work in progress | 2,588,000 | 1,904,000 |
| Materials and supplies | 12,095,000 | 11,794,000 |
| | $32,741,000 | $31,495,000 |

### Note D–Property, Plant and Equipment

Property, plant and equipment (including assets purchased from affiliates of approximately $94,713,000 and $86,208,000 at December 31, 1983 and 1982) are summarized as follows:

| | 1983 | 1982 |
|---|---|---|
| Land | $ 13,392,000 | $ 12,556,000 |
| Buildings | 51,850,000 | 50,236,000 |
| Cylinders | 107,450,000 | 104,758,000 |
| Machinery and equipment | 384,762,000 | 350,632,000 |
| Construction in progress | 29,477,000 | 34,383,000 |
| | $586,931,000 | $552,565,000 |

Cost to complete construction in progress at December 31, 1983 is estimated at $29,351,000.

### Note E–Credit Arrangements

The Company has both short-term and long-term lines of credit as follows at December 31, 1983:

| | Short-Term | Long-Term |
|---|---|---|
| Total available | $30,645,000 | $170,000,000 |
| Amount unused | 21,818,000 | 124,449,000 |
| Amount used | $ 8,827,000 | $ 45,551,000 |

Short-term lines of credit have no termination dates but are reviewed annually for renewal. Commitment fees of approximately ¼% are paid on the overall unused long-term lines of credit which are available to the Company through 1990 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

| | 1983 | 1982 |
|---|---|---|
| 11.91% note payable to a bank, due 1990, payable in varying annual installments | $ 10,000,000 | |
| 11⅞% note payable to an insurance company due April 1, 1990 | 20,000,000 | |
| 9% note payable to an insurance company, due April 1, 1993, payable in annual installments of $1,000,000 | 10,000,000 | $ 11,000,000 |
| 8¾% note payable to an insurance company, due February 1, 1996, payable in annual installments of $2,000,000 | 26,000,000 | 28,000,000 |
| Prime rate or less revolving loans to a maximum of $155,000,000, due in 1988 | 35,551,000 | 42,292,000 |
| Prime rate or less revolving loans to a maximum of $15,000,000, due in 1990 | 10,000,000 | 15,000,000 |
| Industrial Revenue Bonds at rates from 6½% to 8%, payable in varying maturities through 2004 | 12,950,000 | 13,050,000 |
| Notes payable to affiliates at rates from 9.3% to 12%, payable in 1985 | 2,790,000 | 25,665,000 |
| Various long-term indebtedness at rates from 6% to 13%, payable in varying maturities through 1994 | 6,609,000 | 9,961,000 |
| | 133,900,000 | 144,968,000 |
| Less current maturities | 5,540,000 | 5,833,000 |
| | $128,360,000 | $139,135,000 |

Long-term debt includes the U.S. dollar equivalent (approximately $4,100,000 and $5,031,000 at December 31, 1983 and 1982) of loans repayable in foreign currencies.

The principal payments required on long-term debt at December 31, 1983, during the succeeding five years, are as follows:

| | |
|---|---|
| 1984 | $ 5,540,000 |
| 1985 | 8,391,000 |
| 1986 | 7,206,000 |
| 1987 | 9,249,000 |
| 1988 | 25,451,000 |

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, 1983. Approximately $58,077,000 and $58,584,000 of consolidated retained earnings were unrestricted under these agreements as to the payment of dividends at December 31, 1983 and 1982.

### 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 468,750 common shares are reserved for conversion of the preferred shares and exercise of an option to purchase 93,750 common shares at $21 per share.

### 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 were exercisable at a price of $21 per share, with the subscription period to remain open until September 8, 1982. At December 31, 1981, the Company had issued 1,426,731 shares (which includes the 904,125 shares previously held in Treasury) for proceeds of $29,961,000. During 1982, additional subscription rights were exercised and 935,620 shares were issued for $19,498,000, resulting in aggregate proceeds of $49,459,000.

On June 21, 1983, the Company signed an agreement to acquire 1,563,750 shares of its common stock from Chemetron Corporation or its Assignee, Allegheny International, Inc. ("Allegheny") for an estimated price of $48,500,000 with a $3,128,000 down payment made on July 1, 1983 which was charged to Capital Surplus. If, by September 28, 1988, the Company has not completed the payment of the purchase price, Allegheny shall retain the initial down payment and shall keep the shares not paid for. However, Allegheny has the right, prior to September 28, 1984, to cause the Company to pay the balance of the agreed purchase price, which will be redetermined based on the net per share price which the Company would receive in a public offering.

On February 23, 1983, the Incentive Stock Option Plan (1983) was adopted. This Plan provides for the grant of options to purchase up to 250,000 shares of the Company's common stock to officers and other key employees of the Company and its subsidiaries upon terms and conditions determined by a committee of the Board of Directors which administers the Plan. The Plan expires in 1988 but may be extended by the Board of Directors through grant of options to purchase an additional 250,000 shares.

In 1983, the Company granted options under the Plan for the purchase of 50,200 shares at an exercise price of $23 per share.

### Note I—Pensions

The Company and its significant subsidiaries have pension plans for eligible employees, including eligible 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 15 to 40 years. Total pension expense amounted to $1,781,000, $1,775,000 and $1,564,000 in 1983, 1982 and 1981, and were determined by licensed actuaries on a going concern basis.

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

| | DOMESTIC PLANS January 1 | |
|---|---|---|
| | 1983 | 1982 |
| Actuarial present value of accumulated benefits on a termination basis: | | |
| Vested | $17,722,000 | $16,560,000 |
| Nonvested | 1,786,000 | 1,840,000 |
| | $19,508,000 | $18,400,000 |
| Net assets available for pension benefits | $24,191,000 | $20,284,000 |

The assumed rate of return used in determining the actuarial value of accumulated plan benefits approximates 7%. The Company's foreign pension plan is not required to report to domestic governmental agencies pursuant to ERISA. 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 $13,866,000, $13,774,000 and $11,738,000 for 1983, 1982 and 1981.

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

| | |
|---|---|
| 1984 | $ 8,079,000 |
| 1985 | 5,944,000 |
| 1986 | 4,066,000 |
| 1987 | 2,612,000 |
| 1988 | 1,800,000 |
| Thereafter | 2,717,000 |
| | $25,218,000 |

## Note K—Income Taxes

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

| | 1983 | 1982 | 1981 |
|---|---|---|---|
| Domestic | $12,594,000 | $11,139,000 | $ 6,926,000 |
| Foreign | 26,038,000 | 32,626,000 | 43,540,000 |
| | $38,632,000 | $43,765,000 | $50,466,000 |

The provision for income taxes consists of:

| | Federal and State | | Foreign | |
|---|---|---|---|---|
| | Current | Deferred | Current | Deferred |
| 1981 | $ 704,000 | $ 317,000 | $18,891,000 | $ (972,000) |
| 1982 | 1,909,000 | 3,505,000 | 2,808,000 | 8,031,000 |
| 1983 | 1,660,000 | 2,106,000 | 12,056,000 | (1,092,000) |

| | Total | |
|---|---|---|
| | Current | Deferred |
| 1981 | $19,595,000 | $ (655,000) |
| 1982 | 4,717,000 | 11,536,000 |
| 1983 | 13,716,000 | 1,014,000 |

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:

| | 1983 | 1982 | 1981 |
|---|---|---|---|
| Statutory federal rate | 46.0% | 46.0% | 46.0% |
| Investment tax credit | (7.2) | (6.3) | (8.8) |
| Effective foreign rates | 2.2 | (2.8) | (1.0) |
| Other | (2.9) | .2 | 1.3 |
| Effective tax rate | 38.1% | 37.1% | 37.5% |

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

| | 1983 | 1982 | 1981 |
|---|---|---|---|
| Accelerated depreciation for tax purposes | $4,311,000 | $10,533,000 | $ (842,000) |
| Capitalization of interest costs | 57,000 | 839,000 | 2,253,000 |
| Vacation pay accrual | | 578,000 | 85,000 |
| Sale of assets | (664,000) | (825,000) | |
| Acquisition costs | 423,000 | 834,000 | 576,000 |
| Investment tax credits | (2,530,000) | (675,000) | (2,007,000) |
| Other | (583,000) | 252,000 | (720,000) |
| | $1,014,000 | $11,536,000 | $ (655,000) |

## Note L—Earnings Per Share

Earnings per share are computed by dividing net earnings, less preferred stock dividends, by the weighted average number of outstanding common shares (12,562,796, 12,289,114 and 10,560,059 in 1983, 1982 and 1981). 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 1983, 1982 and 1981 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 1983, 1982 and 1981 of $16,500,000, $15,900,000 and $16,700,000 to industrial gases and $8,700,000, $9,000,000 and $11,000,000 to welding products. Included in these expenses are $1,600,000, $1,500,000 and $2,100,000 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 $15,074,000, $21,787,000 and $25,621,000 for 1983, 1982 and 1981. The consolidated balance sheet includes total assets of the foreign subsidiaries of $192,200,000 and $201,000,000 and net assets of $101,200,000 and $123,700,000 for 1983 and 1982, respectively.

Included in other income are gains (losses) on foreign currency translations of $(1,668,000), $(1,150,000) and $646,000 in 1983, 1982 and 1981.

**Note N—Supplemental Information on the Effects of Changing Prices** (Unaudited)

Current reporting requirements under generally accepted accounting principles have been extended to require that the Company provide historical financial information converted to current cost. 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.

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 ratably throughout the year in such a way that these amounts are already stated in average 1983 dollars. As prescribed by generally accepted accounting principles, no adjustments have been made to income tax expense.

In accordance with FASB Statement No. 70, "Financial Reporting and Changing Prices: Foreign Currency Translation," the Company has incorporated the translation requirements of FASB Statement No. 52 "Foreign Currency Translation" in reporting the effects of changing prices for the years ended December 31, 1983, 1982 and 1981. Adjustments to the current cost information to reflect the effects of general inflation on operations with a foreign functional currency were determined utilizing a general price level index appropriate to that functional currency and then translated into U.S. dollars.

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 in the current cost information. 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 was $45,414,000 at December 31, 1983.

Depreciation expense recomputed under the current cost method 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, 1983
(In millions of dollars)

| | As Reported | Current Costs |
|---|---|---|
| Sales | $459.4 | $459.4 |
| Costs of products sold | 234.1 | 234.1 |
| Operating expenses | 141.3 | 141.3 |
| Depreciation and amortization | 37.1 | 50.4 |
| Other income | (.5) | (.5) |
| Interest expense—net | 8.8 | 8.8 |
| Earnings before income taxes | 38.6 | 25.3 |
| Income taxes | 14.7 | 14.7 |
| Net earnings | $ 23.9 | $ 10.6 |
| Purchasing power gain from holding net monetary liabilities during the year | | $ 3.0 |
| Increase in current costs of inventory and property, plant and equipment held during the year | | $ 10.6 |
| Effect of increase in general price level | | 18.4 |
| Excess of increase in the general price level over increase in current costs | | $ 7.8 |

## 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 1983 Dollars) | | | | |
|---|---|---|---|---|---|
| | 1983 | 1982 | 1981 | 1980 | 1979 |
| Sales | $459.4 | $463.4 | $468.7 | $493.7 | $506.7 |
| Historical cost information adjusted for current costs: | | | | | |
| Operating costs and expenses | 375.4 | 380.1 | 383.1 | 399.9 | 414.7 |
| Operating profit* | 84.0 | 83.3 | 85.6 | 93.8 | 92.0 |
| Depreciation and amortization | 50.4 | 48.0 | 45.3 | 47.7 | 46.0 |
| Other income | (.5) | (3.3) | (3.9) | (8.9) | (4.7) |
| Interest expense | 8.8 | 7.7 | 4.7 | 9.4 | 13.6 |
| Earnings before income taxes | 25.3 | 30.9 | 39.5 | 45.6 | 37.1 |
| Income taxes | 14.7 | 16.8 | 20.8 | 25.9 | 19.0 |
| Net earnings | 10.6 | 14.1 | 18.7 | 19.7 | 18.1 |
| Net earnings per common share | .74 | 1.04 | 1.64 | 1.77 | 1.74 |
| Excess of increase in general price level over increase in current costs in 1983, 1982 and 1981 and excess of increase in current costs over increase in the general price level in 1980 and 1979 | 7.8 | 2.1 | 2.3 | (2.3) | (20.9) |
| Translation adjustment | .7 | 1.4 | 2.7 | | |
| Net assets at year end | 414.9 | 431.0 | 426.4 | 422.2 | 415.1 |
| Other information: | | | | | |
| Purchasing power gain from holding net monetary liabilities during the year | 3.0 | 1.1 | 3.6 | 10.4 | 12.0 |
| Cash dividends declared per common share | 1.60 | 1.65 | 1.70 | 1.70 | 1.92 |
| Market price per common share at year end | 21.63 | 19.13 | 18.55 | 34.34 | 30.84 |
| Average Consumer Price Index | 298.4 | 289.1 | 272.4 | 246.8 | 217.4 |

*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, 1983 and 1982, 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, 1983. 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, 1983 and 1982, 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, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

San Francisco, California
March 1, 1984

# Directors and Officers

**Directors**
Jean Henri Delorme†
Chairman of the Company and Chairman and Chief Executive Officer, L'Air Liquide S.A.

Edouard de Royère†
Deputy Chairman and Chief Operating 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 of the Company and Vice President, L'Air Liquide S.A.

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

Raymond S. Fries
Executive Vice President and Group President, Electronics and Defense Systems Group, 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 of the Company and Deputy Chairman, L'Air Liquide S.A.

Pierre A. Salbaing
President and Chief Executive Officer of the Company and Deputy Chairman, 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

# Corporate Data

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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
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**Legal Counsel**
Coudert Brothers
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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