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As filed with the Securities and Exchange Commission on January 26, 1976

Registration No. 2-55365

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

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FORM S-14

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

Cerro-Marmon Corporation

(Exact name of Registrant as specified in Charter)

Delaware	Applied For
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

39 South LaSalle Street
Chicago, Illinois 60603

(Address of principal executive offices)

(312) 372-3090

(Registrant's telephone number, including area code)

KENNETH D. ARCHER
Vice President, Secretary and General Counsel
CERRO-MARMON CORPORATION
39 South LaSalle Street
Chicago, Illinois 60603

(Name and address of agent for service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit*	Proposed Maximum Aggregate Offering Price**	Amount of Registration Fee
$2.25 Cumulative Series A Preferred Stock, par value $1 per share ...	4,370,154 shs.	$18.25	$79,755,310	$15,951.06

* Based on the closing price on the New York Stock Exchange on January 21, 1976 of the Common Stock of Cerro Corporation which is equivalent to one share of $2.25 Cumulative Series A Preferred Stock, par value $1 per share, of Registrant.

** Estimated, in accordance with Rule 457(e) under the Securities Act of 1933, solely for the purpose of calculating the registration fee on the basis of the closing price on the New York Stock Exchange on January 21, 1976 of the common stock of Cerro Corporation and the number of shares of such common stock then outstanding (other than shares held by Cerro Corporation and The Marmon Group, Inc. (Michigan)) or subject to outstanding options under the 1970 Stock Option Plan of Cerro Corporation.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

CERRO-MARMON CORPORATION

CROSS REFERENCE SHEET

(Pursuant to Rule 404(c))

Item No.		Caption in Prospectus
1.	Information Required by Proxy or Information Rules	
1.	Revocability of Proxy	Introductory Statement—Voting on the Business Combination
2.	Dissenters' Rights of Appraisal	Introductory Statement — Appraisal Rights; Rights of Dissenting Stockholders of Cerro
3.	Persons Making the Solicitation	Introductory Statement—General
4.	Interest of Certain Persons in Matters to be Acted Upon	Summary Information about the Proposed Business Combination—Conflicts of Interest; Public Share Vote Determinative; Management of Cerro—Transactions with Pritzker Family Affiliates; Management of Marmon—Certain Transactions
5.	Voting Securities and Principal Holders Thereof	Introductory Statement—Voting on the Business Combination
6.	Nominees and Directors	Management of Cerro; Management of Marmon
7.	Remuneration and Other Transactions with Management and Others	Management of Cerro; Management of Marmon
8.	Selection of Auditors	*
9.	Bonus, Profit Sharing and Other Remuneration Plans	*
10.	Pension and Retirement Plans	*
11.	Options, Warrants, or Rights	*
12.	Authorization or Issuance of Securities Otherwise than for Exchange	*
13.	Modification or Exchange of Securities	The Business Combination—Exchange of Shares in Connection with the Business Combination
14.	Mergers, Consolidations, Acquisitions and Similar Matters	Summary Information About the Proposed Business Combination; The Business Combination; Pro Forma Combined Condensed Balance Sheet; Pro Forma Combined Condensed Statements of Operations; Capitalization; Effect of Reincorporation in Delaware
15.	Financial Statements	Index to Financial Statements
16.	Acquisition or Disposition of Property	*
17.	Restatement of Accounts	Pro Forma Combined Condensed Balance Sheet; Pro Forma Combined Condensed Statements of Operations
18.	Action with Respect to Reports	*
19.	Matters Not Required to be Submitted	*
20.	Amendment of Charter, By-Laws or Other Documents	Effect of Reincorporation in Delaware; Description of Capital Stock of Cerro-Marmon
21.	Other Proposed Action	*
22.	Vote Required for Approval	Summary Information About the Proposed Business Combination—Conflicts of Interest; Public Share Vote Determinative: Introductory Statement—Voting on the Business Combination
2.	Additional Information Required for Reoffering by Persons and Parties Deemed to be Underwriters	*

* Not Applicable.

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CERRO CORPORATION

39 South LaSalle Street
Chicago, Illinois 60603
(312) 372-3090

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of CERRO CORPORATION, a New York corporation ("Cerro"), will be held at the New York Hilton Hotel, 1335 Avenue of the Americas, New York, New York on February 24, 1976, at 10:30 a.m., local time, for the following purposes:

1. To consider and take action upon a proposal to approve the Agreement and Plan of Merger and the Exchange Agreement, each dated as of January 15, 1976, copies of which are attached to the accompanying Proxy Statement as Exhibits A and B, respectively and under the terms of which (i) GL Corporation, a Delaware corporation ("GL"), will exchange all the outstanding shares of the capital stock of The Marmon Group, Inc. (Michigan), a Delaware corporation ("Marmon") for 5,000,000 newly issued shares of the Common Stock of Cerro-Marmon Corporation, a Delaware corporation ("Cerro-Marmon"), entitled to four votes per share, and (ii) then Cerro would merge into Cerro-Marmon, with the outstanding shares of common stock of Cerro held by persons other than Marmon being exchanged for an equal number of shares of Preferred Stock of Cerro-Marmon entitled to one vote per share.

   As a result of the consummation of the business combination contemplated by the Agreement and Plan of Merger and the Exchange Agreement, GL would acquire all the outstanding shares of Common Stock of Cerro-Marmon (representing a minimum of approximately 82% of the voting interest in Cerro-Marmon), the outstanding shares of common stock of Cerro held by persons other than Marmon (presently 4,324,970 shares) would be changed into an equal number of shares of Preferred Stock of Cerro-Marmon (representing a maximum of approximately 18% of the voting interest in Cerro-Marmon), Marmon would become a wholly owned subsidiary of Cerro-Marmon, and Cerro would, in effect, be reincorporated in Delaware under the name Cerro-Marmon Corporation.

2. To transact such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The Transfer Books of Cerro will not be closed. Only stockholders of record at the close of business on January 22, 1976 will be entitled to notice of, and to vote at, the meeting. A stockholder who elects to dissent from the adoption of the Agreement and Plan of Merger and the Exchange Agreement will be entitled to exercise appraisal rights. A statement with respect to the rights of dissenting stockholders is set forth in the Proxy Statement under the caption "Rights of Dissenting Stockholders of Cerro."

By Order of the Board of Directors

Chicago, Illinois
January 26, 1976

KENNETH D. ARCHER
Vice President and Secretary

The Proxy Statement accompanying this Notice also constitutes the Prospectus of Cerro-Marmon Corporation relating to the proposed distribution of its shares of $2.25 Cumulative Series A Preferred Stock pursuant to the proposed business combination.

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD FOR THE SHARES HELD BY YOU. AN ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

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CERRO CORPORATION

Prospectus and
Proxy Statement for Special Meeting of Stockholders
to be held February 24, 1976

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS AND PROXY STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SUMMARY INFORMATION ABOUT THE PROPOSED BUSINESS COMBINATION

The following paragraphs summarize certain major features of the proposed business combination. The summary should be read in conjunction with, and is qualified in its entirety by reference to, the remainder of this Prospectus and Proxy Statement, including all of the Exhibits hereto.

Parties

The parties to the proposed business combination are GL Corporation, The Marmon Group, Inc. (Michigan), Cerro Corporation and Cerro-Marmon Corporation, referred to as GL, Marmon, Cerro, and Cerro-Marmon, respectively. GL is a private holding corporation. Marmon is a diversified manufacturer. See "Business and Properties of Marmon", p. 81. Cerro is a diversified manufacturer also engaged in coal mining and other mining operations, trucking and real estate activities. See "Business and Properties of Cerro", p. 47. Cerro-Marmon is a Delaware corporation newly organized to acquire the businesses of Cerro.

The Basic Transaction and the Preferred Stock

The basic transaction involves (1) the conversion of the publicly held common stock (55% of the total shares outstanding) of Cerro into Preferred Stock, of Cerro-Marmon upon the merger of Cerro into Cerro-Marmon, and (2) an acquisition of all the common stock of Cerro-Marmon by GL (which presently, indirectly, owns 45% of the outstanding common stock of Cerro).

The Preferred Stock, having a par value of $1.00 per share, will be designated $2.25 Cumulative Series A Preferred Stock and will have an annual dividend preference of $2.25 per share and a redemption price and a liquidation preference of $22 per share.

The Preferred Stock may be called for redemption, in whole or in part, beginning April 1, 1981, and will be entitled, beginning the first business day in January 1982, and annually thereafter, to sinking fund payments sufficient to retire annually 6⅔% of the issued Preferred Stock and the entire issue by the end of the 20th year after the business combination. Dividend and sinking fund payments are subject to restrictive

No person is authorized to give any information or to make any representations other than those contained in this Prospectus and Proxy Statement, and, if given or made, such information must not be relied upon as having been authorized. Neither the delivery of this Prospectus nor any distribution of securities registered hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Cerro or Marmon since the date hereof.

The date of this Prospectus and Proxy Statement is January 26, 1976.

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provisions in any agreement or instrument to which Cerro-Marmon may be subject from time to time. See "Description of Capital Stock of Cerro-Marmon", p. 92.

Conflicts of Interest; Public Share Vote Determinative

Conflicts of interest exist among the parties. GL is the holder of all the capital stock of Marmon. The Pritzker family (including Jay A. Pritzker and Robert A. Pritzker who are Chairman of the Board and President, respectively, of Cerro, Marmon and GL) owns beneficially all the capital stock of GL. Marmon owns approximately 45% of the stock of Cerro. Accordingly, all the parties to the business combination are controlled directly or indirectly by the Pritzker family. All but three of Cerro's nine directors are employed by either Cerro or Marmon. One of such three directors is a Senior Vice President and Director of Smith, Barney & Co. Incorporated which was retained by the Business Combination Committee to render its opinion as to the fairness of the business combination from a financial viewpoint. See "Conflicts of Interests", p. 5.

Marmon will not vote in favor of the business combination unless a majority of the other shares voted at the meeting are voted in favor. Therefore, the stockholders of Cerro other than Marmon can determine whether or not the business combination can take place. See "Voting on the Business Combination", p. 3.

Business Combination Negotiations

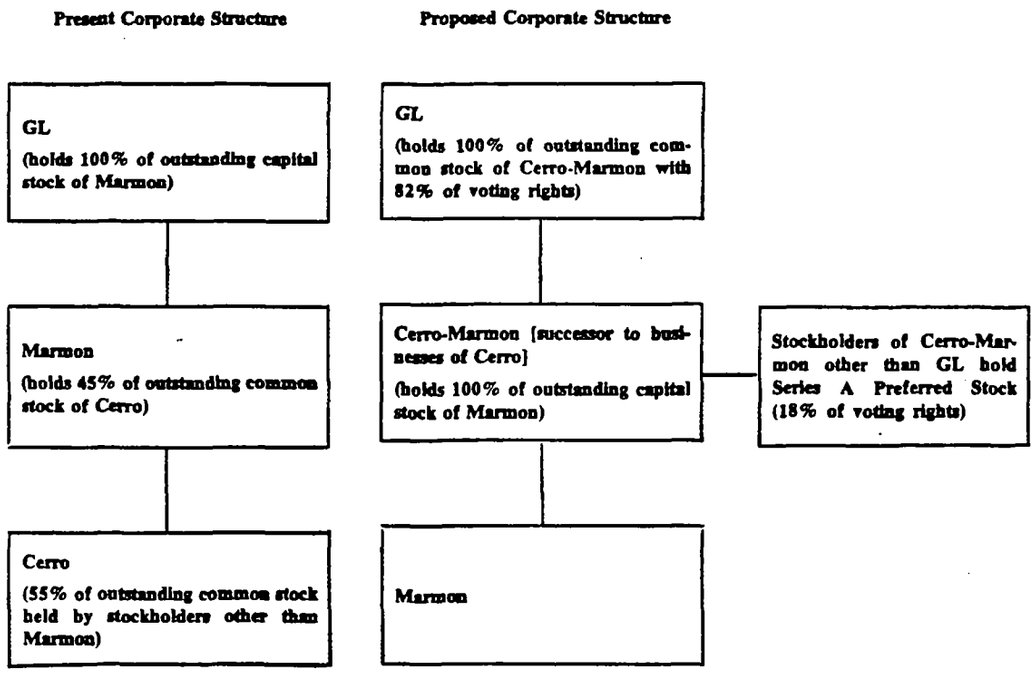
The Board of Directors of Cerro appointed a Committee to represent Cerro stockholders in negotiations with GL and Marmon since Marmon controls Cerro. This Committee consists of two outside directors of Cerro and two stockholders who were formerly officers and directors of Cerro. The Committee requested Smith, Barney & Co., Incorporated, an investment banking firm, to render an opinion as to the fairness of the proposed business combination from a financial viewpoint. A description of the opinion can be found on pp. 6-7. The opinion is included as Exhibit C to this Prospectus and Proxy Statement. Smith, Barney, in rendering its opinion, considered various factors relating to the business and properties of Cerro and the terms of the Series A Preferred Stock. In arriving at its opinion, Smith, Barney, did not make or obtain independent evaluations of the physical assets, mineral reserves or rights or real properties of Cerro. It has assumed the accuracy and completeness of the financial and other information furnished to or otherwise used by it, including that contained in this Prospectus and Proxy Statement. The opinion of Smith, Barney is based on the circumstances existing at the date of the opinion and no further opinion will be rendered prior to consummation of the business combination. Such firm has rendered investment banking services for Cerro in the past and received substantial fees and also acted as co-dealer manager of the tender offer by GL for Cerro's common stock. See "The Business Combination Committee", pp. 5 through 8 for further information about the Committee, its report and the opinion of Smith, Barney. Mr. Jay A. Pritzker, who is Chairman of the Boards of GL, Marmon and Cerro, conducted negotiations on behalf of GL and Marmon.

Structure of the Business Combination

The proposed business combination would be accomplished by GL exchanging all the capital stock of Marmon for 5,000,000 newly issued shares of Common Stock of Cerro-Marmon Corporation, a newly formed Delaware corporation, with Cerro thereafter merging into Cerro-Marmon. As a result, GL would acquire all the outstanding Common Stock of Cerro-Marmon (representing a minimum of approximately 82% of the voting interest in Cerro-Marmon) and stockholders of Cerro other than Marmon would receive one share of Preferred Stock for each share of common stock of Cerro held (representing in the aggregate a maximum of approximately 18% of the voting interest in Cerro-Marmon). See "Introductory Statement", p. 1.

CORPORATE STRUCTURE

(before and after business combination)



Trading

Cerro-Marmon intends to apply, upon receipt of an opinion of eligibility, for listing of the Preferred Stock on the American Stock Exchange. The business combination is not conditioned on such listing. If the Preferred Stock is not listed, it is anticipated that it will trade in the over the counter market. The most significant factor in determining the market price of the Preferred Stock is likely to be the dividend rate, and therefore the Preferred Stock is unlikely to trade at the liquidation preference or the redemption price. See."Trading Market for the Preferred Stock", pp. 2-3. For trading price information on the Cerro common stock see "Market Prices", pp. iv-v in this Summary.

Results of and Reasons for the Business Combination

For GL, the business combination will result in its owning all the Common Stock of Cerro-Marmon, thereby permitting it to hold the residual equity interest in Cerro-Marmon and to benefit from the current residual equity and any growth therein. In addition, it will permit GL (a) to further combine the management and other resources of Cerro and Marmon, thereby allowing inter-company transactions between Cerro and Marmon that could be beneficial to both but which are presently restricted because of possible conflicts of interests and (b) to consolidate Cerro-Marmon and Marmon for financial reporting purposes and consolidate Cerro-Marmon with GL for tax purposes. Marmon will receive from Cerro-Marmon a capital contribution of $25 million to allow it to reduce indebtedness incurred in connection with the acquisition of Cerro common stock. For GL and Marmon such results are the principal reasons for the business combination. For the Cerro stockholders, the business combination will result in the exchange of common stock of Cerro for Preferred Stock of Cerro-Marmon having a cumulative dividend, a sinking fund and a liquidation preference over the Common Stock of Cerro-

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Marmon. For further information as to the results of and reasons for the business combination, see "Results of and Reasons for the Business Combination", p. 4.

Appraisal Rights

Stockholders of Cerro who dissent from adoption of the proposed business combination are entitled to appraisal rights and to receive payment for their shares in cash, provided they act in strict compliance with provisions of Section 623 of the Business Corporation Law of New York. A negative vote does not constitute a sufficient written objection. A stockholder voting "for" the merger may not assert appraisal rights. The holders of shares represented by proxies will not be qualified to exercise appraisal rights with respect to such shares unless proxies in favor of the business combination (or not expressing any contrary direction) are revoked prior to the voting thereof. See "Rights of Dissenting Stockholders of Cerro", pp. 96-97.

Dividend on Consummation of the Business Combination

Cerro-Marmon has agreed to pay to all stockholders of record of Cerro on the date of consummation of the business combination or their assigns an amount per share equal to a quarterly dividend of $.30 per share pro rated from January 1, 1976 to the date of consummation on the basis of the actual number of days elapsed in the quarter ended March 31, 1976. Payment will be made, in the event of consummation of the business combination, by Cerro-Marmon upon surrender and exchange by the stockholder of common stock of Cerro for certificates of Preferred Stock of Cerro-Marmon or upon submission, by dissenters, of Cerro common stock certificates to the Transfer Agent. Payment will be made to the stockholder receiving the Preferred Stock, and to the dissenter submitting certificates to the transfer agent, but in each case without interest. Payment will be made to Marmon in respect of Cerro common stock held by it upon consummation.

Tax Consequences

A ruling has been requested from the Internal Revenue Service to the effect that (1) the business combination will not be a taxable transaction for Cerro, Cerro-Marmon, or GL, and (2) the exchange of common stock of Cerro for Preferred Stock of Cerro-Marmon will not be a taxable transaction to Cerro stockholders participating therein. The business combination will not be consummated unless rulings substantially to such effect are received from the Internal Revenue Service. However, constructive dividends (in addition to cash dividends) subject to Federal income taxation may, to the extent the trading price of Cerro common stock on the date of the business combination is less than $20 per share, be deemed distributed to Preferred Stockholders, although Cerro believes that such treatment should not result under the terms of the business combination. See "Federal Income Tax Consequences—Constructive Dividend", p. 11.

Market Prices

All of the shares of common stock of Marmon are owned by GL and there is no public market therefor.

The following table sets forth for the periods indicated the range of reported high and low selling prices of Cerro common stock on the New York Stock Exchange:

	High	Low
1972:		
First Quarter	17¾	13⅞
Second Quarter	16⅛	12⅞
Third Quarter	15⅛	12⅜
Fourth Quarter	17¼	13⅛

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	High	Low
1973:		
First Quarter	16⅞	[illegible]
Second Quarter	16⅛	13½
Third Quarter	15½	12⅝
Fourth Quarter	17½	13
1974:		
First Quarter	19⅜	13⅝
Second Quarter	19½	14
Third Quarter	19½	11½
Fourth Quarter	13¼	11⅛
1975:		
First Quarter	15	11⅜
Second Quarter	17¼	12⅛
Third Quarter	17½	13⅜
Fourth Quarter	17¼	14⅛
1976:		
First Quarter (through January 23, 1976)	18½	17

On November 18, 1975, the last trading date before the announcement of the terms of the Preferred Stock, and on January .., 1976, the day before mailing this Proxy Statement, the closing prices on the New York Stock Exchange of Cerro common stock were $15.75 and $.... per share, respectively. The tender offer of GL for common stock of Cerro initiated on June 26, 1974 was at a price of $19.00 per share.

Comparative Per Share Data

The tabulation below, per Cerro common share, sets forth on a per share basis for the periods indicated the historical Cerro earnings and dividends and the Cerro pro forma earnings (giving effect to the various acquisitions of Cerro during 1974 and 1975, as if Cerro had acquired such businesses at the beginning of 1974). Also included is the per share book value, per share net tangible book value and per share net current asset value of Cerro at September 30, 1975. The tabulation, per Marmon common share, sets forth on a per share basis for the periods indicated, the historical Marmon earnings and the Marmon pro forma earnings (giving effect to Marmon's interest in Cerro, as if Cerro had made its various acquisitions of businesses during 1974 and 1975 at the beginning of 1974 and as if Marmon had acquired its interest in Cerro at the beginning of 1974). Also included is the per share book value of Marmon at September 30, 1975. The tabulation, per Cerro-Marmon Preferred Share, sets forth on a per share basis the dividend and liquidation preference and redemption price of the Preferred Stock to be issued by Cerro-Marmon in connection with the business combination. The tabulation per Cerro-Marmon Common Share, of which GL will be the sole holder, sets forth on a per share basis for the periods indicated, the pro forma combined earnings of Cerro-Marmon. Also included is the pro forma per share book value of Cerro-Marmon at September 30, 1975.

The effect of the pro forma combining adjustments (giving effect to the business combination as a purchase of net assets of Cerro at a price substantially less than the carrying value of the net assets on the books of Cerro) is to increase significantly the amounts shown for pro forma combined net income of Cerro-Marmon (such adjustment will not result in any increase in cash provided by operations) and to decrease significantly the pro forma book value of Cerro-Marmon from amounts which would be obtained by combining the financial statements of Cerro and Marmon without giving effect to the purchase accounting adjustments. Reference is made to Notes 2 and 5 to the pro forma condensed combined financial statements for the basis of such adjustments. For further information on the purchase cost of the net assets

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of Cerro and the significant effects on the pro forma consolidated financial statements of Cerro-Marmon, see "The Business Combination—Accounting Treatment."

The Marmon per share amounts have been presented to provide a basis for comparing GL's interest in Cerro and Marmon before the business combination (such interest is represented by GL's ownership of all the stock of Marmon and, through Marmon, of 45% of the stock of Cerro) and after giving effect to the business combination. Accordingly, the common stock per share data with respect to Marmon is based on 5,000,000 shares of common stock, the number of shares that GL will hold in Cerro-Marmon after the business combination.

The amounts shown in the tabulations are based on the historical financial statements of Cerro and Marmon, and the pro forma condensed financial statements of Cerro, Marmon and Cerro-Marmon appearing elsewhere herein and should be read in conjunction with such statements and the notes thereto.

	Year Ended December 31,					Nine Months Ended September 30, 1975
	1970	1971	1972	1973	1974	
Per Cerro common share						
Earnings:						
Historical —						
Earnings (loss) from continuing operations	$ .56	$.27	$1.07	$1.86	$2.01	$(.31)
Earnings (loss) before extraordinary items	1.99	.31	2.33	5.94	2.01	(.31)
Net earnings (loss)	1.65	.19	2.10	.44	2.01	(.31)
Pro forma net earnings (loss)					3.12	(.31)
Dividends:						
Cash	1.60	.80	.60	.75	1.05	.90
Stock	5%	5%	—	—	—	—
Book value at September 30, 1975						43.42
Net tangible book value at September 30, 1975						41.11
Net current asset value at September 30, 1975*						21.78
Per Marmon common share						
Earnings:						
Historical net earnings	.93	1.16	1.29	1.90	3.55	3.68
Pro forma net earnings					5.67	3.68
Book value at September 30, 1975						19.01
Per Proposed Cerro-Marmon preferred share						
Dividends—$2.25 annual rate					2.25	
Extent of liquidation preference and redemption price						22.00
Per Proposed Cerro-Marmon common share						
Pro forma net earnings (after deducting net earnings applicable to preferred stock)					7.98	4.32
Pro forma book value at September 30, 1975 (after deducting preferred liquidation preference)						17.94

* Excludes realty assets and liabilities which are not included in current assets or current liabilities in Cerro's consolidated financial statements. See Note 15 to Cerro's financial statements.

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INTRODUCTORY STATEMENT

General

This Prospectus and Proxy Statement (hereinafter referred to as this "Proxy Statement") is furnished in connection with the solicitation of proxies by the management of Cerro Corporation, a New York corporation ("Cerro"), for use at the Special Meeting of Stockholders to be held on February 24, 1976, and at any adjournment thereof, and was first mailed on January . ., 1976. The purpose of the meeting is to take action upon a business combination involving the proposed issuance by Cerro-Marmon Corporation, a newly organized Delaware corporation ("Cerro-Marmon"), of its common stock (the "Common Stock") to GL Corporation, a Delaware Corporation ("GL"), in exchange for all of the outstanding capital stock of The Marmon Group, Inc. (Michigan), a Delaware corporation ("Marmon"), and the proposed merger of Cerro into Cerro-Marmon pursuant to which stockholders of Cerro (other than Marmon) will receive preferred stock of Cerro-Marmon. The issuance of Cerro-Marmon Common Stock to GL in exchange for the capital stock of Marmon and such merger are referred to herein as the "business combination." All of the parties to the business combination are controlled directly or indirectly by the Pritzker family. See "Voting on the Business Combination."

In accordance with the Agreement and Plan of Merger dated as of January 15, 1976 between Cerro and Cerro-Marmon (the "Merger Agreement"), and the Exchange Agreement dated as of January 15, 1976 among Cerro, Cerro-Marmon, GL and Marmon (the "Exchange Agreement"), copies of which are attached hereto as Exhibits A and B, respectively, each stockholder of Cerro other than Marmon (whose shares of Cerro common stock along with such stock held in Cerro's treasury will be cancelled) will receive in exchange for his shares of Cerro common stock an equal number of shares of preferred stock (the "Preferred Stock") of Cerro-Marmon. In the event that no additional shares of Cerro common stock are issued pursuant to the exercise of Cerro stock options prior to the business combination and assuming no stockholder of Cerro exercises his appraisal rights, an aggregate of 4,324,970 shares of Preferred Stock (representing approximately 18% of the voting interest in Cerro-Marmon) will be issued for all the outstanding Cerro common stock held by persons other than Marmon.

Also upon the consummation of the business combination, GL, a private corporation wholly owned beneficially by members of the Pritzker family (see "Voting on the Business Combination") and the holder of all the capital stock of Marmon, will have received an aggregate of 5,000,000 shares of Common Stock of Cerro-Marmon (representing all the outstanding Common Stock of, and a minimum of approximately 82% of the voting interest in, Cerro-Marmon) in exchange for the capital stock of Marmon, Marmon will have become a wholly owned subsidiary of Cerro-Marmon and Cerro, in effect, will have reincorporated in Delaware. (See "Effect of Reincorporation in Delaware.")

Certain Information About The Preferred Stock

The Preferred Stock will be entitled to cumulative dividends, when declared by the Board of Directors, at the annual rate of $2.25 per share, payable quarterly, will be non-callable prior to April 1, 1981, and redeemable thereafter, in whole or in part, at the election of Cerro-Marmon at a redemption price of $22 per share, plus accrued dividends, and will be entitled to a preference to the extent of $22 per share on liquidation or dissolution of Cerro-Marmon, plus accrued dividends. The Preferred Stock will be entitled, beginning the first business day in January 1982 and annually thereafter to sinking fund purchases, at the redemption price, sufficient to retire annually 6⅔% of the Preferred Stock issued and the entire issue of Preferred Stock by the end of the 20th year after the business combination. Shares of Preferred Stock acquired or redeemed by Cerro-Marmon otherwise than through sinking fund purchases may, at the option of Cerro-Marmon, be credited against sinking fund requirements.

Dividend payments and sinking fund payments can be made only out of assets of Cerro-Marmon legally available therefor and are subject to the limitations contained in any loan instrument or agreement to which Cerro-Marmon will be subject at the effective date of the business combination or may become subject from time to time thereafter. At September 30, 1975 Cerro-Marmon would have had unrestricted retained earnings of approximately $35.9 million for the payment of dividends and sinking funds in respect of the Preferred Stock under the provisions of Cerro's note agreement, as amended, to which Cerro-Marmon will be subject after the business combination. However, under such amended note agreement, dividend and sinking fund payments will not be permitted if working capital of Cerro-

Marmon as defined, falls below $125,000,000. At September 30, 1975, after giving effect to the business combination, Cerro-Marmon would have had available approximately $22,000,000 for the payment of dividends and sinking funds under this more restrictive limitation. Available dividend capacities will vary under this latter limitation from time to time in accordance with changes in current assets and current liabilities of Cerro-Marmon. Marmon is subject to a loan agreement relating to Marmon indebtedness in the principal amount of $68 million (to be reduced to $43 million as a result of the capital contribution by Cerro-Marmon to Marmon after the business combination) which limits annual dividend payments and requires substantial payments of principal beginning November 1976, which payments will reduce its available cash and thereby further restrict, during the term of the loan, its ability to pay dividends to Cerro-Marmon. For further information on such principal payment requirements of Marmon and the dividend and sinking fund payment restrictions to which both Cerro-Marmon and Marmon will be subject after the business combination, see "Description of Capital Stock of Cerro-Marmon—Certain Restrictions Imposed by Long-Term Debt." The Preferred Stock of Cerro-Marmon will have one vote per share and the Common Stock will have four votes per share. They will vote together as a single class on all matters, except that the Preferred Stock will be entitled to a class vote on certain matters affecting the Preferred Stock.

The terms of the Preferred Stock were negotiated on behalf of the stockholders of Cerro other than Marmon by the Business Combination Committee appointed by the Board of Directors for such purpose. See "The Business Combination—The Business Combination Committee." The Preferred Stock, which will be designated $2.25 Cumulative Series A Preferred Stock, will be the first series of the authorized preferred stock of Cerro-Marmon to be issued. The Board of Directors of Cerro-Marmon will have the right to issue additional series of preferred stock without the vote of holders of the Series A Preferred Stock for corporate purposes including acquiring the minority interests in current subsidiaries of Cerro, such as Golconda Corporation, and under certain circumstances, for any corporate purposes. No restrictions are placed on the issuance by the Board of Directors, for corporate purposes, of additional series of preferred stock ranking junior to the Preferred Stock. For further information about the terms and rights of the Preferred Stock, see "Description of Capital Stock of Cerro-Marmon."

In certain circumstances, constructive dividends (in addition to cash dividends) subject to Federal income taxation may, to the extent the trading price of Cerro common stock on the date of the business combination is less than $20 per share, be deemed distributed to Preferred Stockholders, although Cerro believes that such treatment should not result under the terms of the business combination. See "Federal Income Tax Consequences—Constructive Dividend."

GL and Marmon have in the past operated as private companies, and in the past after acquisition of controlling interests in other companies, have acquired the remaining interest held by the stockholders in those companies. See "Business and Properties of Marmon—Litigation." Five years after the date of issue, the Preferred Stock becomes callable at the redemption price, plus accrued dividends. Cerro-Marmon has the right at any time thereafter to redeem the Preferred Stock, in whole or in part, and may do so.

Change of Voting Interests

After the business combination, GL will have a minimum of approximately 82% of the voting interest in Cerro-Marmon and the present public stockholders of Cerro will have a maximum of approximately 18% of the voting interest. GL's percentage of the voting interest will increase to the extent that appraisal rights are exercised by the public stockholders of Cerro. The Preferred Stock and the Common Stock will have non-cumulative voting rights, which means that GL, as the holder of the Common Stock, will be able to elect all the directors. For information about the right of holders of the Preferred Stock, under certain circumstances, to elect directors, see "Description of Capital Stock of Cerro-Marmon." Marmon, which is wholly owned by GL, presently has approximately 45% of the voting interest in Cerro and exercises control of Cerro. See "Management of Cerro" and "Management of Marmon." The public stockholders of Cerro now have approximately 55% of the voting interest in Cerro. If the business combination is approved and takes place, GL will control Cerro-Marmon.

Trading Market for the Preferred Stock

The common stock of Cerro is presently listed on the New York Stock Exchange. The New York Stock Exchange will not permit the listing of a preferred stock of a corporation unless the common

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stock of such corporation is also listed on that exchange. Since the Common Stock of Cerro-Marmon will be held by GL after the business combination, Cerro intends to apply to the American Stock Exchange for the listing of the Preferred Stock of Cerro-Marmon upon receipt of an opinion of eligibility for listing. The business combination, however, is not conditioned upon such listing. If the Preferred Stock is not so listed, it is anticipated that it will be traded in the over-the-counter market. It is anticipated that the market prices of the Preferred Stock will fluctuate and will be determined principally by available returns from comparable investments, Cerro-Marmon's results of operations and its ability to meet dividend and sinking fund requirements, general business and market conditions, the volume of trading which develops in the Preferred Stock, and other factors. The most significant factor in determining the market price of the Preferred Stock is likely to be the dividend rate, and therefore the Preferred Stock is unlikely to trade at the liquidation preference or redemption price.

Following the business combination, Cerro-Marmon will be required to file periodic reports with the Securities and Exchange Commission and to submit annual reports to its Preferred Stockholders. So long as any Preferred Stock remains outstanding Cerro-Marmon will file such reports with the Securities and Exchange Commission and submit such annual reports to the holders of Preferred Stock.

Voting on the Business Combination

The only outstanding voting security of Cerro is its common stock. As of the close of business on January 22, 1976, the record date for determining stockholders entitled to notice of, and to vote at the meeting, there were 7,911,267 shares of Cerro common stock issued and outstanding, each of which entitles the holder to one vote. Adoption of the Merger Agreement and the Exchange Agreement will require the affirmative vote of the holders of at least two-thirds of the issued and outstanding shares of Cerro common stock entitled to vote thereon, or not less than 5,274,178 shares.

As of the record date, the only person which held of record or, to the knowledge of Cerro, beneficially more than 10% of the outstanding shares of Cerro common stock was Marmon, which owned 3,586,297 shares (approximately 45% of the outstanding shares). GL is the holder of all of the outstanding capital stock of Marmon. The Pritzker family which consists of the descendants, and certain of their spouses, of the late Nicholas J. Pritzker (including Jay A. Pritzker and Robert A. Pritzker, who are the Chairman of the Board and President, respectively, of Cerro, Marmon and GL) is the beneficial owner of 100% of the stock of GL. See "Management of Cerro" and "Management of Marmon" as well as "Transactions with Pritzker Family Affiliates" and "Certain Transactions" under the respective caption.

Marmon has agreed (i) to be present at the meeting for quorum purposes and (ii) to vote its shares of Cerro common stock in favor of the business combination by adopting the Merger Agreement and the Exchange Agreement only if a majority of the other shares of Cerro common stock voted at the meeting are voted in favor of the adoption of the Merger Agreement and the Exchange Agreement.

Shares represented by properly completed and executed proxies, unless previously revoked, will be voted in accordance with the directions on the proxies. In the absence of any contrary direction, proxies will be voted in favor of the adoption of the Merger Agreement and the Exchange Agreement. A stockholder may revoke his proxy at any time before it is voted by filing with Cerro a written revocation or a duly executed proxy bearing a later date. A stockholder attending the meeting in person may revoke his proxy and vote in person if he desires to do so, but attendance at the meeting will not itself revoke his proxy.

Appraisal Rights

Stockholders of Cerro who dissent from adoption of the Merger Agreement and the Exchange Agreement are entitled to appraisal rights and to receive payment for their shares in cash provided they act in strict compliance with the provisions of Section 623 of the Business Corporation Law of the State of New York. Such dissent must be filed in writing with Cerro before the vote is taken at the meeting if the stockholder intends to demand payment for his shares in the event the business combination is consummated. A negative vote does not constitute a sufficient written objection which complies with the statute. In addition, the holders of shares represented by proxies will not be qualified to exercise appraisal rights with respect to such shares unless proxies in favor of the business combination (or not expressing any contrary direction) are revoked prior to the voting thereof. See "Rights of Dissenting Stockholders of Cerro."

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THE BUSINESS COMBINATION

General

On June 26, 1974, GL, which then owned 813,100 shares of Cerro common stock acquired from January through May 1974 in private and open market purchases, made a tender offer (the "Offer") for 1,500,000 shares of Cerro common stock at $19 per share. In excess of 3,250,000 shares of Cerro common stock were tendered in response to the Offer. For business and tax considerations existing at the time, only 2,773,197 shares, or 85% of the shares tendered, were accepted. The 813,100 shares of Cerro common stock owned by GL prior to the Offer and the shares acquired by GL pursuant to the Offer (representing together approximately 45% of the outstanding shares of Cerro) were transferred by GL to Marmon. Merger discussions were initiated to determine whether a merger of Cerro and Marmon would be appropriate. On September 26, 1974, GL formally terminated the merger negotiations. For further information with respect to the termination of such negotiations, see "Management of Cerro—Change of Management-Litigation," and for information as to a subsequent proposal to purchase Cerro common stock held by Marmon see "Management of Cerro—Stock Purchase Proposal".

In the spring of 1975 Marmon advised Cerro and Cerro reported to its stockholders that Marmon was again considering a possible merger or other aquisition transaction with Cerro and that it intended to make a proposal, which could involve the issuance to the stockholders of Cerro of a security other than common stock. The proposed business combination is the result of such proposal by Marmon and the evaluation and negotiation thereof by the Business Combination Committee. See "The Business Combination Committee."

Reasons for the Structure of the Business Combination

GL and Marmon desired to effect the business combination through the direct merger of Cerro and Marmon. However, debt and other restrictions in a note agreement between Cerro and certain institutional lenders, under which there is presently outstanding approximately $24 million of indebtedness, prohibit a direct merger. See "Capitalization." The institutional lenders, have consented to the proposed structure whereby Marmon, after the business combination, will become a wholly owned subsidiary of Cerro-Marmon. Certain proposed amendments to the note agreement of Cerro and the loan agreement of Marmon will become effective after consummation of the business combination. See "Description of Capital Stock of Cerro-Marmon—Certain Restrictions Imposed by Long-Term Debt".

Results of and Reasons for the Business Combination

For GL, the business combination will result in its owning all the Common Stock of Cerro-Marmon, thereby permitting it to hold the residual equity interest in Cerro-Marmon and to benefit from the current residual equity and any growth therein. In addition, it will permit GL (a) to further combine the management and other resources of Cerro and Marmon, thereby allowing inter-company transactions between Cerro and Marmon that could be beneficial to both but which are presently restricted because of possible conflicts of interests and (b) to consolidate Cerro-Marmon and Marmon for financial reporting purposes and consolidate Cerro-Marmon with GL for tax purposes. Marmon will receive from Cerro-Marmon a capital contribution of $25 million to allow it to reduce indebtedness incurred in connection with the acquisition of Cerro stock. For GL and Marmon such results are the principal reasons for the business combination.

It is presently contemplated that subsequent to the business combination, certain of the copper fabricating operations of Cerro and Marmon will be integrated. Other combinations may be considered if economies and operating efficiencies can be achieved thereby. It is also contemplated that certain management personnel of Cerro will function in similar capacities for Marmon. For further information as to intentions of management, see also "Organization and Operation After the Business Combination".

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No party to the business combination will receive any immediate tax benefit upon consummation of the business combination and the inclusion of Cerro and its subsidiaries in the GL tax affiliated group. Over a period of time, GL, by having an additional member in the GL tax affiliated group, such as Cerro-Marmon, will benefit because it will have another tax entity in which it will hold the entire residual equity interest to offset either earnings or losses, as the case may be, from time to time. Moreover, gains or losses on certain intercompany transactions (between Cerro-Marmon and Marmon) will be postponed until transactions outside the GL tax affiliated group occur.

Cerro-Marmon and its subsidiaries will be contingently liable for the Federal income tax liability attributable to GL and its subsidiaries for each year in which they are included in the consolidated Federal income tax return filed by GL. Marmon and its subsidiaries are similarly liable for each year in which they were included in said consolidated return. GL has agreed to indemnify Cerro-Marmon and Marmon and their respective subsidiaries against any such contingent liability that may arise and, as described under the caption "Tax Sharing Agreement and Related Contingent Liabilities", to permit Cerro-Marmon to retain certain tax sharing payments that otherwise would be payable to GL. For further information describing such income tax liabilities, the indemnity with respect thereto and such tax sharing arrangements, see "Tax Sharing Agreement and Related Contingent Liabilities".

For the Cerro stockholders the business combination will result in the exchange of common stock of Cerro for Preferred Stock having a cumulative dividend, a sinking fund beginning on the first business day in January 1982 and a liquidation preference over the Common Stock of Cerro-Marmon. The Preferred Stock will not be redeemable until April 1, 1981. The combined enterprise will have greater diversity and a broader earning base than Cerro presently has. See "Description of Capital Stock of Cerro-Marmon."

Conflicts of Interest

Conflicts of interest exist among the parties. All but three of Cerro's nine directors and certain of its officers are employed by either Cerro or Marmon. One of the three directors of Cerro is a Senior Vice President and Director of Smith, Barney & Co. Incorporated, which has been retained by the Business Combination Committee to render its opinion as to the fairness of the business combination from a financial viewpoint. Mr. Jay A. Pritzker is Chairman of the Board of Cerro, Marmon and GL, and Mr. Robert A. Pritzker is President and a director of each of such companies. As a result thereof and of the ownership by Marmon of approximately 45% of the outstanding common stock of Cerro, Marmon controls Cerro. See "Management of Cerro" and "Management of Marmon".

The Business Combination Committee

Formation and Membership

The Board of Directors of Cerro on September 19, 1975 appointed a Committee to represent Cerro stockholders (other than Marmon) in connection with the business combination since Marmon controls Cerro. The Committee, whose members served without compensation, consists of Lewis B. Harder and G. Willing Pepper (both of whom are directors, but not employees, of Cerro) and two stockholders, Robert P. Koenig and Richard H. Lewin. None of the members of the Committee are affiliated with Marmon, GL, or any other enterprises affiliated with the Pritzker family, except as stated herein. The Committee was empowered to negotiate the terms of a proposed combination that would be fair to the Cerro stockholders other than Marmon and to report its recommendation to the Cerro Board. It was also empowered to add one additional member from among the Cerro stockholders, to retain independent legal counsel and to choose an investment banking firm to analyze the terms of the business combination and to advise the Committee on their fairness. Mr. Harder is Chairman and Chief Executive Officer of International Mining Corporation and Mr. Pepper is Chairman of the Board of The Institute for Cancer Research (see "Management of Cerro"). Mr. Koenig is a former Director and President and Chief Executive Officer of Cerro. He served as President and Chief Executive Officer from 1951 to

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June 1970. He served as Chairman of the Board of Cerro from June 1970 to May 1972. Since June 15, 1975, he has been a consultant to Cerro on its mining businesses. In such latter capacity Mr. Koenig has been paid $14,384 through October 31, 1975. Mr. Lewin was a Director and a Vice President of Cerro from 1957 until May 1972. Messrs. Lewin and Koenig own 44,324 and 106,459 shares of Cerro common stock, respectively (members of Mr. Koenig's family own 3,337 shares of Cerro common stock, as to which Mr. Koenig disclaims beneficial ownership). The Committee decided not to choose a fifth member. Cerro and Marmon have agreed to indemnify the members of the Committee against liabilities resulting from their service on the Committee and Cerro has agreed to pay the fees of the independent legal counsel which the Committee has retained.

Jay A. Pritzker, Chairman of the Board of GL, Marmon and Cerro, acted as the principal negotiator on behalf of GL and Marmon.

Smith, Barney & Co. Incorporated

The Committee requested Smith, Barney & Co. Incorporated ("Smith, Barney") to render an opinion as to the fairness of the terms of the business combination from a financial viewpoint to the stockholders of Cerro other than Marmon. Smith, Barney has delivered to the Committee and the Board of Directors of Cerro its opinion, a copy of which is attached hereto as Exhibit C, to the effect that the terms of the proposed business combination are, from a financial viewpoint, fair to such stockholders.

Smith, Barney has advised the Committee and the Board of Directors that in analyzing the proposed business combination in order to form its opinion, it studied financial information with respect to Cerro and Marmon and, to a limited extent, GL, furnished to it by such companies, respectively; reviewed the Registration Statement filed with the Securities and Exchange Commission of which this Proxy Statement forms a part and other information provided to it by Cerro and Marmon relating to their operations and investments described in the Registration Statement; discussed the businesses, operations and prospects of Cerro and Marmon with certain of the respective officers and representatives of, and counsel and auditors for, such companies; discussed with others certain of the operations and investments of Cerro; visited certain of the facilities of Cerro and Marmon; analyzed published information (including financial information) relating to the businesses of a number of other companies which appeared to it in certain respects comparable to certain of the operations conducted by Cerro; reviewed the historical price ranges of the Cerro common stock on the New York Stock Exchange from 1968 to the date of the opinion; and reviewed such other information as it deemed relevant. Smith, Barney also noted that it had reviewed appraisals of certain assets of Cerro which, with the exception of appraisals relating to certain real estate assets held by Leadership Housing, Inc., were prepared primarily upon a replacement cost basis (as indicated by Cerro, in many cases for insurance purposes) and that the valuations contained in such appraisals were in the aggregate substantially higher than the depreciated cost of such assets as they appear on Cerro's books. Smith, Barney has also stated that it reviewed the terms of the Preferred Stock as set forth herein, the terms of, and yields available on, certain other industrial preferred stock issues, yields available on certain recently issued non-industrial preferred stock issues, reviewed such other financial considerations relating to Cerro-Marmon as it deemed relevant, and made such other analyses and examinations as it deemed necessary in arriving at its opinion.

As part of its analysis of the terms of the business combination, Smith, Barney stated that it considered possible net values which might be realized in a hypothetical liquidation of each of the operating businesses of Cerro and of the other, non-operating, assets of Cerro over an assumed time period not exceeding two years. The analysis of the liquidation of the operating businesses was considered both in terms of possible sales as ongoing businesses and in terms of an orderly disposition of individual assets. This analysis, which was stated to be intended only as a reasonable estimate of the net proceeds which might be derived from such a liquidation if informed prospective buyers were available, resulted in a hypothetical liquidation value in the range of approximately $23.70 to $24.50 per Cerro common share. The Smith, Barney opinion stated, however, that such value might differ substantially from the

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net proceeds per Cerro common share which would be derived from an actual liquidation because of market conditions existing at the time of sale, the underlying motivations and assumptions of a given buyer, and the uncertainties of national and international economic and political conditions and that such factors could result in net proceeds from any actual liquidation which would be significantly higher or lower than such estimate.

In connection with its opinion, Smith, Barney stated that it considered the Preferred Stock to have a per share value in the range of $20.50 to $21.25, but that such range is not necessarily the range within which the Preferred Stock will initially or ultimately trade.

Smith, Barney stated that its opinion is a summary of oral and written presentations to the Committee including a detailed Report previously submitted to the Committee and to the Board of Directors of Cerro, and, further, that such Report, although not containing all the information reviewed, nor describing all the factors which have influenced its opinion, set forth in detail the framework of Smith, Barney's analysis.

In arriving at its opinion, Smith, Barney noted that it considered as significant the uncertainties and time involved in an asset liquidation. Smith, Barney also noted that, in arriving at its opinion, it did not make or obtain independent evaluations of the physical assets, mineral reserves or rights, or real properties of Cerro, and furthermore, because of the nature of many of the assets and investments of Cerro, data with respect to recent sales of similar properties was generally not available. Smith, Barney noted that it has not undertaken physical inspection of properties outside the United States and that its inspection of other properties was limited by time and other factors. Smith, Barney also stated that although it has engaged in the above-described discussions and other activities with respect to the business, operations and prospects of Cerro and Marmon, and made certain analyses, it has assumed the accuracy and completeness of the financial and other information furnished to it, including that contained in the Registration Statement, and of the other information used by it which it obtained from published and other sources.

The opinion of Smith, Barney, described above, is based on the circumstances existing at the date of the opinion and no further opinion will be rendered prior to consummation of the business combination.

Smith, Barney made, on behalf of Cerro, preliminary evaluations from a financial point of view of the merger proposals discussed by Cerro and Marmon in 1974. Two proposals were so evaluated at that time. One involved an exchange of preferred stock for common stock of stockholders other than Marmon, and the other involved an exchange of a new class of common stock for the common stock of such stockholders. For a description of such proposals and the preliminary evaluations of Smith, Barney as to their fairness, see "Management of Cerro—Change of Management-Litigation". Smith, Barney has for a number of years acted as the investment banker for Cerro. Thomas F. Githens, a Director of Cerro, is a Senior Vice President and Director of Smith, Barney. Smith, Barney also acted as Co-Dealer Manager of the Offer by GL for Cerro common stock referred to above for which it received fees of approximately $87,000 including approximately $27,000 as a soliciting dealer. In addition, since January 1, 1973, Cerro has paid Smith, Barney approximately $575,000 for various investment banking services. Included in such amount was $150,000 paid in connection with the merger negotiations terminated by GL in September 1974. Cerro and Smith, Barney agreed that such amount would be applied to any work done by Smith, Barney on any subsequent merger proposal between Cerro and Marmon and that the maximum additional fee payable in that connection would be $150,000. As compensation for its services in rendering its opinion, Smith, Barney will be paid a fee of $150,000 (plus disbursements and up to $60,000 for fees and disbursements of its legal counsel) by Cerro-Marmon if the business combination is consummated or by Cerro if the business combination is not consummated. Both Cerro and Marmon have each severally agreed to indemnify Smith, Barney against certain liabilities in connection with the business combination.

Opinion of the Business Combination Committee

The Committee has reviewed this Proxy Statement and its related exhibits from a financial viewpoint, including the opinion of Smith, Barney relating to the fairness of the terms from a financial viewpoint of the proposed business combination described herein. Based on this review, and assuming the

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accuracy and completeness of the documents reviewed, the Committee has advised the Board of Directors of Cerro that in its judgment from a financial viewpoint the terms of the proposed business combination are fair to the Cerro stockholders other than Marmon under the circumstances existing on the date hereof.

Approval of Cerro Board

The Board of Directors of Cerro has approved the terms of the business combination as being fair to Cerro and to such stockholders. All but three of Cerro's nine directors are employed by either Cerro or Marmon. See "Conflicts of Interest", "Management of Cerro" and "Management of Marmon".

Exchange of Shares in Connection with the Business Combination

On the effective date of the merger of Cerro into Cerro-Marmon, each share of outstanding common stock of Cerro held by persons other than Marmon will be converted, by reason of such merger, into one share of Preferred Stock of Cerro-Marmon.

Promptly after the effective date of the business combination, transmittal forms will be sent to the holders of Cerro common stock, other than Marmon, to be used in forwarding their stock certificates to Irving Trust Company, the Exchange Agent for such stockholders, for surrender and exchange for certificates representing Preferred Stock of Cerro-Marmon. Until such surrender, each certificate representing shares of Cerro common stock will be deemed for all corporate purposes after the business combination to evidence ownership of a like number of shares of Preferred Stock of Cerro-Marmon, except that until such surrender the holder of the certificate will not receive dividends on the Preferred Stock of Cerro-Marmon paid subsequent to the business combination. Cerro-Marmon has agreed to pay a dividend to stockholders of record of Cerro, or their assigns, on the date of consummation of the business combination. See "Summary Information About the Proposed Business Combination—Dividend on Consummation of the Business Combination". No service charges, brokerage commissions or transfer taxes will be payable by such holders of Cerro common stock in connection with the exchange of their shares of Cerro common stock for shares of Preferred Stock of Cerro-Marmon. Adoption of the business combination by the stockholders of Cerro will be deemed to constitute approval of the appointment of Irving Trust Company as Exchange Agent.

Employee stock options to purchase shares of Cerro common stock outstanding at the effective time of the business combination will be converted into options to purchase an equivalent number of shares of Preferred Stock of Cerro-Marmon. As of the date hereof the total number of shares of Cerro common stock that could be purchased pursuant to the outstanding options is 45,184 shares, and such number of shares are included in those reserved for issuance pursuant to options which may be required to be granted pursuant to the existing agreements of Cerro. See note 10 to Cerro's financial statements.

Accounting Treatment

Management of Cerro and Marmon have been advised by their respective independent accountants that, in their opinions, Accounting Principles Board Opinion No. 16 on Business Combinations requires that the proposed business combination be accounted for as a purchase of the net assets of Cerro. Accordingly, the consolidated balance sheet of Cerro-Marmon will reflect Marmon's assets (excluding its investment in Cerro) and liabilities at the amounts in Marmon's historical financial statements and Cerro's assets and liabilities at adjusted amounts determined by allocating the purchase cost to these assets and liabilities. Opinion No. 16 provides that the purchase cost should be allocated on the basis of the fair values of Cerro's net assets at dates of purchase. Management believes that fair values of certain of Cerro's noncurrent assets, including realty assets, are not presently determinable and, accordingly, it is not possible to fully allocate the purchase cost on such basis. Management believes that the allocation of the purchase cost to Cerro's net assets as set forth in the notes to the pro forma combined condensed financial statements included elsewhere herein is reasonable and appropriate under present circumstances.

At September 30, 1975, the aggregate of (1) Marmon's investment in Cerro's common stock of $77.2 million, (2) the estimated value of the Cerro-Marmon Preferred Stock to be issued of $89.7 million (determined on the basis of an estimated value of $20.75 per share, which value was determined by the Board of Directors of Cerro based on various considerations including the range of values specified in the Report of Smith, Barney described under "The Business Combination Committee—Smith, Barney

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& Co. Incorporated"), and (3) estimated acquisition costs of $1.5 million, is approximately $175 million less than the amounts at which the net assets of Cerro are included in its historical balance sheet at September 30, 1975. The per share value of the Preferred Stock is an estimate made solely for purposes of preparing the pro forma financial statements. No assurance can be given that such amount will be the trading price of the Preferred Stock. See "Trading Market for the Preferred Stock".

The pro forma adjustments to reflect the $175 million reduction in Cerro's net assets have been applied principally to Cerro's non-current assets, including realty assets, resulting in a substantial reduction in the amounts at which such assets are included in the pro forma combined balance sheet from the amounts in Cerro's historical balance sheet at September 30, 1975. Further, the effect of such adjustments of Cerro's net assets is to increase significantly the amount of Cerro-Marmon's pro forma combined net income, owing principally to the substantial reductions in depreciation and amortization expense and the elimination of the net losses incurred in the realty operations. Such adjustments will not result in any increase in the cash provided by operations.

The proposed combination is to be a non-taxable transaction for Cerro and Cerro-Marmon; therefore, no change will occur in the income tax basis of Cerro's net assets, and the increase in net income described above resulting from adjustments giving effect to the business combination will not be subject to income tax.

For further information concerning the allocation of purchase cost and the significant effects of such allocation on the consolidated financial statements of Cerro-Marmon, see the "Pro Forma Combined Condensed Balance Sheet", the "Pro Forma Combined Condensed Statements of Operations" and the notes thereto included elsewhere herein.

Business of Cerro

Cerro and its subsidiaries are engaged in the manufacture and sale of refined copper, copper and brass mill products, electric wire and cable and valves, fittings, regulators and other control equipment for pressurized gases; coal mining and other mining operations; common carrier motor freight operations; and real estate operations. A wholly owned subsidiary, Cerro Sales Corporation, conducts world-wide trading activities in nonferrous refined metals, concentrates and other raw materials including copper, lead, zinc, silver and bismuth. Cerro also has a 22.25% interest in Southern Peru Copper Corporation, a company which operates a large copper mine in Peru; a 12% interest in an iron ore mining venture in Australia; and various interests in several relatively small mining and manufacturing companies in Peru. See "Business and Properties of Cerro" and "Cerro Management's Discussion and Analysis of the Consolidated Statement of Earnings (Loss)" for a detailed description of the business of Cerro and an explanation of its operating results.

Business of Marmon

As stated above, Marmon is a wholly owned subsidiary of GL. Marmon directly and through subsidiaries is engaged in five basic lines of business: the distribution of steel pipe and tubing and the manufacture and fabrication of copper and aluminum tubing; the manufacture of products for use principally in the automotive industry; the design and manufacture of equipment used in the mining industry; the manufacture of building products and equipment; and the manufacture of specialized equipment for use principally in the agricultural industry. See "Business and Properties of Marmon" and "Marmon Management's Discussion and Analysis of Earnings" for a detailed description of the business of Marmon and an explanation of its operating results.

Organization and Operations After the Business Combination

It is presently contemplated that after the business combination Cerro-Marmon will be operated as a separate subsidiary of GL and that the present directors and officers of Cerro (see "Management of Cerro"), will be directors and officers of Cerro-Marmon and that the present directors and officers of Marmon will continue as such. It is the policy of the present managements of Cerro and Marmon to review periodically their assets and businesses to determine whether such assets and businesses are

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achieving an acceptable earned return on invested capital (including borrowings) and on sales. Accordingly, after the business combination, Cerro-Marmon may sell certain assets or businesses of either Cerro or Marmon and acquire other assets or businesses if in the judgment of the management of Cerro-Marmon improved returns can be realized. While no such sales are presently under negotiation, Cerro's management presently believes that Cerro's resources would be best employed in domestic manufacturing and coal mining operations and may act accordingly.

Certain Long-Term Debt of Cerro-Marmon and Marmon

Cerro-Marmon will continue to be bound by the covenants of the Cerro note agreement with its institutional lenders which include financial restrictions upon the payment of dividends on any class of its stock, including the Preferred Stock. Marmon incurred approximately $68 million of short-term indebtedness to finance its acquisition of Cerro common stock. Such indebtedness was refinanced by a seven-year term loan (see "Capitalization"). Such indebtedness will, upon consummation of the business combination, continue to be the obligation of Marmon. The instrument under which such indebtedness was issued includes covenants which require substantial payments of principal beginning November 1976 and includes restrictions on the payment of dividends by Marmon. See "Description of Capital Stock of Cerro-Marmon—Certain Restrictions Imposed by Long-Term Debt."

Capital Contribution to Marmon

After the business combination has been consummated, it is intended that Cerro-Marmon will contribute $25 million to the capital of Marmon in order to permit Marmon to prepay $25 million of Marmon's long term indebtedness described in the preceding paragraph. Further capital contributions are not presently contemplated. As a result of such capital contribution, such funds will not be available for other corporate purposes of Cerro-Marmon.

Federal Income Tax Consequences

The Exchange

Application has been made to the Internal Revenue Service for a ruling to the effect that the issuance by Cerro-Marmon of its Common Stock to GL, in exchange for all of the outstanding capital stock of Marmon, will constitute a tax-free exchange within the meaning of Section 351(a) of the Internal Revenue Code of 1954, as amended (the "Code") and, accordingly: (1) no gain or loss will be recognized by GL on the transfer of the capital stock of Marmon to Cerro-Marmon in exchange for the Common Stock of Cerro-Marmon; (2) the basis of the capital stock of Marmon in the hands of Cerro-Marmon will be the same as the basis of said stock in the hands of GL immediately before the exchange as described below; (3) the holding period of the Marmon stock received by Cerro-Marmon pursuant to the exchange will include the period during which said stock was held by GL; (4) the basis of the Common Stock of Cerro-Marmon received by GL will be the same as the basis of the Marmon stock transferred in exchange therefor; and (5) the holding period of the Cerro-Marmon Common Stock received by GL will include the period during which the Marmon stock transferred in exchange therefor was held by GL. Although Cerro is awaiting the response of the Internal Revenue Service with respect to said ruling application, Cerro has been advised by the Internal Revenue Service that the common stock of Cerro held by Marmon will be treated, for Federal income tax purposes, as if it had been distributed to GL immediately prior to the exchange. As a consequence, the basis of the capital stock of Marmon in the hands of GL will be reduced in an amount equal to the adjusted basis of the Cerro common stock in the hands of Marmon, but this reduction should not affect the aggregate basis to GL of its Cerro-Marmon stock referred to above.

The Merger

The application further requests a ruling to the effect that the merger of Cerro into Cerro-Marmon and the exchange of Cerro common stock for the Preferred Stock of Cerro-Marmon by the stockholders of Cerro other than Marmon (whose shares of Cerro common stock will be cancelled in connection with the merger) will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a)(1)(A) of the Code and accordingly: (1) neither gain nor loss will be recognized by Cerro or Cerro-Marmon upon the merger of Cerro into Cerro-Marmon; (2) the basis of the Cerro assets

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received by Cerro-Marmon will be the same as the basis of such assets in the hands of Cerro immediately prior to the merger; (3) the holding period of the Cerro assets acquired by Cerro-Marmon will include the holding period of those assets in the hands of Cerro; (4) no gain or loss will be recognized by any stockholder of Cerro, except those stockholders who avail themselves of the appraisal rights described under "Rights of Dissenting Stockholders of Cerro" whose gain or loss will be treated as long-term capital gain or loss if their Cerro common stock was a capital asset in their hands and was held for more than six months and except as discussed below under "Constructive Dividend"; (5) the basis of the Preferred Stock received by the stockholders of Cerro will be the same as the basis of the Cerro common stock surrendered in exchange therefor; and (6) the holding period of the Preferred Stock received by the shareholders of Cerro will include the period during which the Cerro common stock surrendered in exchange therefore was held. Rulings are also requested that: (7) the Preferred Stock received by the stockholders of Cerro will not be "Section 306" stock within the meaning of Section 306(c) of the Code; and (8) neither gain nor loss will be recognized by Cerro-Marmon upon issuance of the Preferred Stock to the stockholders of Cerro. The merger of Cerro into Cerro-Marmon under Section 368(a)(1)(A) of the Code will also terminate Cerro's year for tax reporting purposes and will therefore have the effect of reducing by one year the period in which any existing net operating loss-carry-overs or similar tax attributes may be utilized by Cerro-Marmon. See Notes E and F ("Income Taxes" and "Discontinued Operations—Cerro de Pasco Corporation") to "Consolidated Statement of Earnings (Loss)—Cerro."

Constructive Dividend

The Internal Revenue Service has been requested in such ruling application to rule that the exchange of Cerro common stock for Cerro-Marmon Preferred Stock will not result in a constructive dividend distribution under Section 305 of the Code if the fair market value of the Cerro common stock is equal to or greater than $20.00 on the date of the exchange. (The date of the exchange will occur as soon as practicable after the date of the special meeting of the stockholders of Cerro.) However, if the fair market value of the Cerro common stock at said date is less than $20.00 per share, such ruling will not be binding and the Internal Revenue Service may possibly take the position that the difference between the redemption price of $22.00 and 110% of such fair market value constitutes a dividend distribution taxable as ordinary income in equal annual increments over the five year period during which the Cerro-Marmon Preferred Stock may not be redeemed. Cerro believes that a taxable Section 305 dividend should not result from the proposed exchange since the terms of the Preferred Stock (including the dividend and redemption terms) are appropriate for the exchange involved. Cerro has been advised by Messrs. Levenfeld, Kanter, Baskes & Lippitz, its tax counsel, that if the market price of the Cerro common stock is not substantially below $20.00 at the date of the exchange, it is not expected the Internal Revenue Service would affirmatively assert that the Cerro-Marmon Preferred Stockholders should be treated as having received a taxable Section 305 dividend, and further, that if such an assertion were made, there is a sound basis for it to be judicially reversed. For information on the closing price of Cerro common stock on the New York Stock Exchange on the day prior to mailing this Proxy Statement, see "Summary Information About the Proposed Business Combination—Market Prices."

Consolidated Income Tax Returns

At present, both Cerro and its subsidiaries (the "Cerro Affiliated Group") and GL and its subsidiaries (the "GL Affiliated Group") constitute separate "affiliated groups" within the meaning of Section 1504(a) of the Code, of which Cerro and GL, respectively, are the common parents. Both groups file consolidated Federal income tax returns on a calendar year basis. On the effective date of the business combination, the existence of the Cerro Affiliated Group as a separate affiliated group will be terminated for Federal income tax purposes. Upon the business combination, the former members of the Cerro Affiliated Group will become members of the GL Affiliated Group of which GL will remain the common parent, and the subsequent operating results of the former members of the Cerro Affiliated Group will be combined with the GL Affiliated Group for Federal income tax purposes. The former

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members of the Cerro Affiliated Group will retain their respective corporate tax attributes, including net operating loss carryovers, which will be available to reduce the post-merger income of the former member of the Cerro Affiliated Group which generated such carryover, but not the post-merger income of any other former member of the Cerro Affiliated Group or any other member of the GL Affiliated Group.

Ruling Requirement

The business combination will not be consummated unless rulings substantially to the effect described under the captions "The Exchange" and "The Merger" above are obtained, and the conditions of fact necessary to binding effect of such rulings are satisfied. Specifically, the binding effect of such rulings is conditioned upon the fact that holders of no more than approximately five percent of the outstanding Cerro common stock assert and perfect rights of appraisal to receive payment for their shares in cash. Consummation of the business combination is not conditioned on obtaining the ruling described under the caption "Constructive Dividend".

Tax Sharing Agreement and Related Contingent Liabilities

Marmon is a party to a Federal income tax sharing agreement with GL and its subsidiaries pursuant to which Marmon pays GL an amount equal to the Federal income taxes which Marmon would have been required to pay if it and its subsidiaries filed a consolidated Federal income tax return separate from GL and its other subsidiaries. Notwithstanding the tax sharing payments made to GL by Marmon, as a member of the GL Affiliated Group, Marmon is and will remain contingently liable for Federal income taxes of said group (including taxes attributable to income of other members) for each year in which a consolidated return has been filed during which Marmon and its subsidiaries (the "Marmon Affiliated Group") were members of the GL Affiliated Group and included in the GL consolidated Federal income tax return.

On the effective date of the business combination, GL will own approximately 82% of the voting stock of Cerro-Marmon which percentage will satisfy the control requirement necessary for the filing of a consolidated Federal income tax return. Cerro-Marmon, therefore, will be included in the GL consolidated Federal income tax return. Cerro-Marmon and its subsidiaries will be contingently liable for the Federal income tax liability attributable to GL and its subsidiaries for each year in which they are included in the consolidated Federal income tax return filed by GL. As indicated below, GL has agreed to indemnify Cerro-Marmon, Marmon and their subsidiaries against any such liabilities and to permit Cerro-Marmon to retain certain tax sharing payments otherwise payable.

Cerro-Marmon and its subsidiaries will adopt a tax sharing agreement (the "Agreement") which provides for tax sharing payments to those members of the GL Affiliated Group (including Cerro-Marmon) whose income tax attributes are utilized to reduce the consolidated Federal income tax liability of the GL Affiliated Group as a whole. The Agreement provides, however, that (1) the current losses of Cerro-Marmon and its current subsidiaries other than the Marmon Affiliated Group (the "Cerro Affiliated Group") and thereafter the current losses of the Marmon Affiliated Group, will be utilized in any current taxable period (and tax sharing payments relating thereto shall be allocated to the Cerro Affiliated Group and thereafter to the Marmon Affiliated Group) before the losses of any other members of the GL Affiliated Group are utilized in allocating the tax sharing payments to be made by members of the GL Affiliated Group; (2) the benefit derived from a consolidated net operating loss carry-back shall be allocated first to the Cerro Affiliated Group and then to the Marmon Affiliated Group, to the extent that the tax attributes of any member of either of said groups contributed to the available consolidated net operating loss carry-back; (3) the benefit derived from the application of a net operating loss carryover shall be allocated first to the Cerro Affiliated Group and then to the Marmon Affiliated Group, to the extent that a net operating loss carryover of any member of either of said groups would have been absorbed by the current income of such group if such group filed a separate consolidated Federal income tax return; (4) the members of the Cerro Affiliated Group will not be required to make any tax sharing payments to GL during any current period unless the Cerro Affiliated Group would have been required to pay Federal income taxes if its Federal income tax liability were computed as a separate

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affiliated group, and (5) all payments that are required from members of the Cerro Affiliated Group during the period commencing with the effectiveness of the Agreement shall not in the aggregate exceed the aggregate liability which such group would have incurred had its Federal income tax liability been separately computed during such period. The Agreement further provides that the members of the Cerro Affiliated Group shall not be required to make any tax sharing payments during any taxable period in which Cerro-Marmon has not currently paid all prescribed dividends or made sinking fund payments on its Preferred Stock, and during all other taxable periods the members of the Cerro Affiliated Group shall retain, without restriction, 50% of any tax sharing payments that would be due to any member of the GL Affiliated Group. In addition, the Agreement provides that the Cerro Affiliated Group and the Marmon Affiliated Group will be indemnified by GL for any direct or indirect liability that may arise from the fact that each member of said groups will be contingently liable for the Federal income tax liability attributable to GL and its other subsidiaries for each year in which the Marmon Affiliated Group or the Cerro Affiliated Group or both were included in the consolidated Federal income tax return filed by GL.

Cerro has heretofore entered into tax sharing agreements with certain of its subsidiaries (including Leadership Housing, Inc.), and the Agreement provides that, if under such agreements with subsidiaries, Cerro would be entitled to retain or recover any tax sharing payments, Cerro-Marmon shall retain the same rights with respect to the former Cerro subsidiaries, notwithstanding any other provision of the Agreement to the contrary. In the Agreement, GL also agrees that all tax sharing payments to or from a member of the Cerro Affiliated Group shall be paid to Cerro-Marmon, as agent, for allocation by Cerro-Marmon in a manner which will preserve these retained rights of Cerro-Marmon with respect to former Cerro subsidiaries.

Other Tax Matters

On January 1, 1974, Cerro sustained a loss of approximately $135,000,000 (the "Expropriation Loss") arising out of an expropriation by the Peruvian Government with respect to Cerro de Pasco Corporation (hereinafter referred to as "Cerro de Pasco"). On January 22, 1974, the Internal Revenue Service advised Cerro by a private ruling letter that it considered the Expropriation Loss to have resulted in a loss sustained directly by Cerro as a result of a compulsory or involuntary conversion of the stock of Cerro de Pasco and, further, that the Expropriation Loss qualified as an ordinary loss which could be carried over and applied against the Cerro Affiliated Group's income for as long as ten years, to the extent not so consumed during the taxable year in which it arose. Cerro succeeded to all rights and liabilities of Cerro de Pasco by merger of Cerro de Pasco into Cerro in February, 1974. In November 1975 the Internal Revenue Service issued a public ruling on facts substantially identical to the Cerro de Pasco expropriation holding that such expropriations will be treated as involuntary conversions of assets. In light of this position, the Internal Revenue Service has effectively reversed the substance of its earlier private ruling to Cerro. While Cerro was aware for some time that the Internal Revenue Service was reconsidering its position, it was not until the November 1975 ruling that Cerro was notified of the change of policy. Since Cerro relied on the ruling of January 22, 1974, requests have been filed, which are now under active consideration, seeking to have any change in position of the Internal Revenue Service applied without retroactive effect, pursuant to Section 7805(b) of the Code. If the revocation of the January 22, 1974 private ruling is retroactively applied, Cerro may be required to establish the adjusted basis of the Cerro de Pasco assets expropriated. Although Cerro believes that such adjusted basis can be established, the problems of proof of basis in assets (as compared to basis in stock) may be more difficult than required if the ruling were not reversed.

Reversal, retroactively, of the January 22, 1974 private ruling could also affect the technical elements for Cerro's substantiation of continued availability of its net operating loss carryover derived from the Expropriation Loss. Such availability may be determined under Section 382(a) of the Code. Cerro believes and has been advised by Messrs. Levenfeld, Kanter, Baskes & Lippitz, its tax counsel, that the net operating loss carryover of Cerro should not be subject to disallowance under Section 382(a). Section 382(a) of the Code and Section 1.1502-21(e) of the Treasury Regulations thereunder provide, in general, if: (i) at the end of any taxable year of a corporation the ten largest shareholders of the corpora-

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tion own a percentage of the total value of its outstanding stock which is at least 50 percentage points more than they owned at either the beginning of such taxable year or the beginning of the corporation's immediately prior year, and the increase is due to (a) purchases from unrelated parties or (b) redemptions or other acquisitions of stock by the corporation (a condition hereinafter described as a "Change of Ownership"), and (ii) subsequent to the first stock ownership change considered in determining existence of a Change of Ownership, any member of the affiliated group has not continued to carry on a trade or business substantially the same as that conducted before any such change (a condition hereinafter described as a "Change of Business"), then the member's net operating losses may not be carried over and deducted in that, or any subsequent, taxable year.

Since January 4, 1974, GL either directly or through Marmon has purchased approximately 45% of the total outstanding stock of Cerro. If these purchases, when combined with any increases in percentage ownership of the next nine largest shareholders within the periods specified in Section 382(a) mentioned above, should result in a Change of Ownership—which Cerro believes has not occurred—Section 382(a) could still not be applied unless there were also a Change of Business. Regardless of whether the Expropriation Loss, viewed as a taking of assets of Cerro de Pasco because of the reversal of the January 22, 1974 private ruling, could be deemed to have resulted in a Change of Business in the absence of other circumstances, Cerro and its subsidiaries have continued to be active in the mining business (see "Business and Properties of Cerro—Business— Mining Group"). As previously stated above, the net operating loss carryover of Cerro should therefore not be subject to disallowance under Section 382(a). For further information on Cerro's net operating loss carryover, see Note E ("Income Taxes") to "Consolidated Statement of Earnings (Loss)—Cerro".

Effective Time, Conditions and Termination

It is expected that the business combination will become effective as soon as practicable after the Special Meeting, if the stockholders of Cerro adopt the business combination. The discussion herein is qualified in its entirety by reference to the Merger Agreement and the Exchange Agreement.

The Exchange Agreement contains, among other things, certain representations, warranties and covenants by each of Cerro, Cerro-Marmon, GL and Marmon in connection with the business combination. The representation of GL that the representations and warranties of Marmon are in all material respects true and correct will survive the effectiveness of the business combination for one year.

The Exchange Agreement also sets forth certain conditions to the consummation of the business combination. Among such conditions are the requirement that the necessary approval by the respective stockholders of the parties be obtained, that the business combination be consummated not later than March 31, 1976 or such later date (not later than April 30, 1976) as shall have been agreed upon in writing by the parties and that certain opinions be obtained from counsel for Cerro and Cerro-Marmon, in form and substance satisfactory to GL and Marmon, and from counsel for GL and special counsel for Marmon, in form and substance satisfactory to Cerro, each relating to specified matters, receipt by the parties of letters from certain independent accountants relating to certain specified information and the receipt from the Internal Revenue Service of certain of the tax rulings referred to under the heading "Federal Income Tax Consequences—Ruling Requirement."

The Exchange Agreement further provides that the business combination may be abandoned, notwithstanding shareholder authorization, by mutual consent of the boards of directors of the parties, or by the board of directors of any party if any of the conditions specified in the Exchange Agreement shall not have been satisfied, or by the board of directors of Cerro, Cerro-Marmon, Marmon or GL if the holders of more than four percent of the outstanding shares of Cerro common stock shall have asserted rights to appraisal in order to receive payment for their shares. The Exchange Agreement also provides that the business combination may be abandoned, notwithstanding shareholder authorization, by the board of directors of any party if (i) there shall have been any litigation or proceedings involving or threatening Cerro or Marmon or any of their subsidiaries, in which an unfavorable decision is, in the opinion of Cerro or

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Marmon, likely to (a) materially and adversely affect business, the operations or prospects of any party, or (b) result in an unfavorable judicial determination with respect to the validity of the business combination; (ii) the assets, business, results of operations or financial condition of any party shall have been materially and adversely affected by any cause or for any reason; (iii) there shall have been proposed or adopted any legislation or rule, regulation or order which materially and adversely affects, or may so affect, the business or assets of Cerro or Marmon or which may hinder or prevent the business combination; (iv) the Merger Agreement shall be terminated; or (v) the transactions contemplated by the Exchange Agreement shall not be consummated prior to the time (the "Filing Time") when the certificate of merger shall be filed by the New York Department of State or the Merger Agreement shall be filed with the Delaware Secretary of State, whichever shall first occur.

The Exchange Agreement also provides that the parties may change any of the provisions thereof, which change could include modifications in such manner as may be required in order to obtain the ruling of the Internal Revenue Service referred to therein.

The Merger Agreement provides that it may be terminated by the board of directors of either Cerro-Marmon or Cerro at any time prior to the Filing Time if the Exchange Agreement shall be abandoned or the merger shall not have become effective by March 31, 1976 or by such later date (not later than April 30, 1976) as shall have been approved by the boards of directors of both companies. The Merger Agreement also provides that it may be terminated at any time prior to the Filing Time by the board of directors of Cerro-Marmon if Cerro shall fail to comply in any material respect with any of its agreements contained in either the Merger Agreement or the Exchange Agreement, any representations or warranties of Cerro contained in the Exchange Agreement shall be false in any material respect, or any condition, for the benefit of Cerro-Marmon, in the Exchange Agreement shall not have been satisfied. It further provides that it may be terminated at any time prior to the Filing Time by the board of directors of Cerro if Cerro-Marmon shall fail to comply in any material respect with any of its agreements contained in the Merger Agreement, or Cerro-Marmon, Marmon or GL shall fail to comply in any material respect with any of their respective agreements contained in the Exchange Agreement, any of the representations or warranties of Cerro-Marmon, Marmon or GL contained in the Exchange Agreement shall be false in any material respect, or any condition, for the benefit of Cerro, in the Exchange Agreement shall not have been satisfied. Finally, it is provided that the Merger Agreement may be terminated at any time prior to the Filing Time by mutual consent of Cerro-Marmon and Cerro expressed by action of their respective boards of directors.

The Merger Agreement provides that Cerro and Cerro-Marmon, by written agreement, may (a) extend the time for the performance of the obligations or acts of the parties thereto, (b) waive any inaccuracies in the representations and warranties contained in the Merger Agreement and the Exchange Agreement or in any document delivered pursuant thereto, (c) waive compliance with any of the covenants or agreements contained in the Merger Agreement or the Exchange Agreement and (d) change any of the provisions of the Merger Agreement in order to obtain the tax ruling from the Internal Revenue Service referred to above.

In connection with the foregoing, it should be noted that GL controls Cerro and Marmon and, accordingly, could be in a position to determine any corporate action by either.

Restrictions Prior to the Business Combination

The Exchange Agreement provides that until the business combination shall have been consummated or terminated, unless the prior written consent of the other is first obtained, neither Cerro nor Marmon or any of their subsidiaries will (i) make any change in its authorized capital stock, (ii) issue any stock, warrants or similar rights, (iii) declare or pay any stock dividend or effect any recapitalization, split-up, combination, exchange of shares or other reclassification in respect of its outstanding shares of capital stock, (iv) issue or transfer any shares of its capital stock (or securities convertible into or exchangeable for such capital stock) except upon the exercise of stock options previously granted or required to be granted, (v) purchase or otherwise acquire for consideration any outstanding shares of its capital stock, or (vi) declare, pay or set apart in respect of its capital stock any dividends or other distributions or payments except cash dividends by Cerro on its common stock at a rate not greater than $.30 per share per quarter.

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CAPITALIZATION

The following table sets forth the consolidated capitalization of Cerro and Marmon as of September 30, 1975 and the pro forma combined capitalization of Cerro-Marmon after giving effect to (1) the proposed terms of the combination of Cerro and Marmon (Note 1) and (2) the planned prepayment of $25 million of Marmon's long-term debt with funds obtained from Cerro-Marmon.

	Cerro	Marmon	Pro forma Adjustments	Pro forma Cerro-Marmon
		($ in thousands)		
Short-term debt:				
Bank notes (3)	$ 4,800	$ 11,000		$ 15,800
Current maturities of long-term debt	7,039	855		7,894
Total short-term debt	$ 11,839	$ 11,855		$ 23,694
Realty debt (includes current maturities)(4):				
Mortgage notes	$ 69,229			$ 69,229
Bank notes	44,375			44,375
Unsecured—6% to 10%, due to 1982	3,022			3,022
Total realty debt	$116,626			$116,626
Long-term debt due after one year (5):				
Secured—				
Promissory notes to corporations —9.5%, due to 1987	$ 35,000			$ 35,000
Lease-purchase obligations—3.5% to 9.5%, due to 1994		$ 15,305		15,305
Other	8,846	341		9,187
Total	43,846	15,646		59,492
Unsecured—				
Banks—½% and 1% above prime, due 1976 to 1981		68,000	$ (25,000)(1b)	43,000
Other institutions—6% to 6½%, due to 1987	31,810		(2,200)(1c)	29,610
Subordinated—12%, due to 1984	7,123			7,123
Other	12,024	694		12,718
Total	50,957	68,694	(27,200)	92,451
Total long-term debt due after one year	$ 94,803	$ 84,340	$ (27,200)	$151,943
Stockholders' equity:				
Capital stock (1a, 6, 7 and 10):				
Cerro Common Stock, par value $3.33⅓ per share; 15,000,000 shares authorized, 8,779,654 shares issued	$ 29,265		$ (29,265)(1a)	—
Marmon Common Stock, par value $1 per share; 1,000 shares authorized, issued and outstanding		$ 1	(1)(1a)	—
Cerro-Marmon Preferred Stock, par value $1 per share; 10,000,000 shares to be authorized, 4,324,970 shares to be issued, (liquidation preference and redemption value of $95,150,000)			89,743 (1a)	$ 89,743
Cerro-Marmon Common Stock, par value $1 per share; 10,000,000 shares to be authorized, 5,000,000 shares to be issued			5,000 (1a)	5,000
Other paid-in capital	178,186	12,027	(183,185)(1a)	7,028
Retained earnings (2)	152,385	83,001	(152,385)(1a)	83,001
Treasury stock (868,387 common shares), at cost	(16,319)		16,319 (1a)	—
Total stockholders' equity	$343,517	$ 95,029	$(253,774)	$184,772

See accompanying notes.

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NOTES:

(1) Pro forma adjustments:

(a) The proposed combination of Cerro and Marmon is to be accounted for as a purchase of Cerro by Marmon. Accordingly, the historical stockholders' equity of Cerro will be eliminated and the historical stockholder's equity of Marmon, adjusted to reflect the estimated fair value of the Cerro-Marmon preferred stock proposed to be issued ($89.7 million), will become the stockholders' equity of Cerro-Marmon (see Cerro-Marmon pro forma financial statements included elsewhere herein).

(b) Reflects the proposed prepayment of $25 million of Marmon's long-term debt ($68 million of which was incurred to finance Marmon's acquisition of Cerro common stock) with funds to be obtained from Cerro-Marmon in the form of a capital contribution to Marmon.

(c) Reflects the pro forma adjustment of Cerro's long-term debt to estimated present value made pursuant to the pro forma allocation of Marmon's purchase cost to Cerro's assets and liabilities (see Cerro-Marmon pro forma financial statements included elsewhere herein).

(2) Terms of the loan agreements between Cerro and institutions to which long-term debt of $24 million (including $2 million of current maturities) is due, impose various restrictions on Cerro (see Note 9 to the Cerro financial statements elsewhere herein), which restrictions will apply to Cerro-Marmon. Among these restrictions, are restrictions on incurrence of indebtedness, dividend payments and purchases of capital stock. See Note 7 to the Marmon consolidated financial statements elsewhere herein for information as to restrictions, including restrictions on dividend payments and purchases of capital stock, under credit agreements relating to Marmon's long-term bank borrowings. Certain of the covenants to which Cerro is subject under its note agreement and certain of the covenants to which Marmon is subject under its bank loan agreement have been amended in contemplation of the business combination and such amendments will become effective upon its consummation. The principal restrictive covenants are described under the caption "Capital Stock of Cerro-Marmon—Certain Restrictions Imposed By Long-Term Debt" included elsewhere herein. See also Note 8 to Pro Forma Combined Condensed Financial Statements.

(3) Cerro's short-term debt at September 30, 1975 is outstanding under short-term lines of credit of a subsidiary. See Note 9 to Cerro financial statements elsewhere herein for further information including weighted average interest rates.

Marmon's short-term debt is outstanding under a line of credit of $12.5 million, informally extended to April 30, 1976, with interest at ½% above the bank's prime rate. Marmon, GL and certain other companies under common control (other than Cerro) have agreed to maintain compensating balances equal to 10% of the current bank line of credit, 10% of certain long-term borrowings ($43 million at September 30, 1975) and 20% of certain other long-term borrowings ($25 million at September 30, 1975). See Note 2 to the Marmon consolidated financial statements.

(4) For additional information concerning realty debt including information as to the existence of Events of Default see Notes 14 and 15 (and in particular Note 6 to said Note 15) to the consolidated financial statements of Cerro.

(5) For additional information concerning long-term debt see notes to consolidated financial statements of Cerro (Note 9) and Marmon (Note 7).

(6) A total of 422,856 shares of Cerro common stock was reserved at September 30, 1975 under Cerro's stock option plans of which only 72,790 could be purchased at that date. See Note 10 to the Cerro financial statements elsewhere herein for terms of the plans and information on outstanding options.

(7) Shares of Cerro-Marmon Preferred Stock, equal to the shares of Cerro common stock reserved under Cerro's stock option plans at the date of the business combination, will be reserved (see Note 6 above).

(8) For information concerning long-term lease and other commitments, see notes to consolidated financial statements of Cerro (Notes 4, 9 and 15) and Marmon (Notes 6 and 7).

(9) For information concerning unfunded pension liabilities, see notes to consolidated financial statements of Cerro (Note 12) and Marmon (Note 8).

(10) Cerro has 1 million shares of authorized preferred stock, without par value, which is unissued.

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

The following Consolidated Statement of Earnings (Loss) of Cerro Corporation insofar as it relates to the years 1974 and 1973 has been examined by Price Waterhouse & Co., independent accountants, and as it relates to the year 1972 by Coopers & Lybrand, independent certified public accountants, whose reports thereon appear elsewhere in this Proxy Statement and are qualified in certain respects as set forth therein. The report of Coopers & Lybrand is based in part upon the report of other accountants, appearing elsewhere in this Proxy Statement. The statements for the nine month periods ended September 30, 1975 and 1974 are unaudited, but include all adjustments which Cerro considers necessary for a fair presentation of the results for these periods, consisting of normal recurring accruals and the write-off of unamortized goodwill attributed to realty operations in the nine months ended September 30, 1975 (Note D). See Note A to the Consolidated Statement of Earnings (Loss) for the effects of the restatement of the results previously reported for the nine months ended September 30, 1974. The statements should be read in conjunction with the related financial statements and notes thereto included elsewhere in this Proxy Statement. The results of operations for the nine months ended September 30, 1975 are not necessarily indicative of the results to be expected for the full year.

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974(A)	1974	1973	1972(A)	1971(A)	1970(A)
	(Unaudited)		($ in Thousands)			(Not covered by auditors' report)	
Net sales	$436,011	$597,688	$758,330	$636,607	$428,021	$326,089	$322,149
Other revenue, net (Note C)	16,338	17,635	23,571	21,268	14,817	16,786	14,776
	452,349	615,323	781,901	657,875	442,838	342,875	336,925
Cost of products sold	377,957	525,260	661,886	549,832	373,277	300,713	303,996
Selling and administrative expenses	41,077	40,090	57,206	58,933	38,364	32,477	20,887
Write-off of unamortized goodwill attributed to realty operations (Note D)	8,040	—	—	—	—	—	—
Interest cost accrued	17,769	16,698	23,301	17,596	13,336	8,427	5,329
Less: Interest capitalized (Note K)	(5,509)	(6,376)	(8,461)	(5,962)	(3,558)	(2,490)	(1,086)
Depreciation, depletion and amortization	8,945	5,399	8,692	6,722	4,845	3,679	3,810
	448,279	581,071	742,624	627,121	426,264	342,806	332,936
Earnings from continuing operations before taxes	4,070	34,252	39,277	30,754	16,574	69	3,989
Federal and state income tax (expense) benefit (Note E)	(6,500)	(20,227)	(23,350)	(15,376)	(7,512)	2,210	756
Earnings (loss) from continuing operations	(2,430)	14,025	15,927	15,378	9,062	2,279	4,745
Earnings from discontinued operations, net of taxes (Notes E & F)	—	—	—	33,783	10,626	353	12,221
Earnings (loss) before extraordinary items	(2,430)	14,025	15,927	49,161	19,688	2,632	16,966
Extraordinary items (Notes E, F & G)	—	—	—	(45,550)	(1,924)	(988)	(2,886)
Net earnings (loss)	$(2,430)	$14,025	$ 15,927	$ 3,611	$ 17,764	$ 1,644	$ 14,080
Net earnings (loss) per Common Share*:							
Continuing operations	$(.31)	$1.77	$2.01	$1.86	$1.07	$ .27	$ .56
Discontinued operations, net of taxes	—	—	—	4.08	1.26	.04	1.43
Earnings (loss) before extraordinary items	(.31)	1.77	2.01	5.94	2.33	.31	1.99
Extraordinary items	—	—	—	(5.50)	(.23)	(.12)	(.34)
Net earnings (loss)	$(.31)	$1.77	$2.01	$ .44	$2.10	$ .19	$1.65
Dividends (represent historical dividends paid):							
Cash	$ .90	$ .75	$1.05	$ .75	$ .60	$ .80	$1.60
Stock	—	—	—	—	—	5%	5%
* Based on the weighted average number of shares outstanding during each period as adjusted for stock dividends (Thousands of shares) (Note L)	7,911	7,930	7,925	8,273	8,464	8,463	8,511

See Notes to Financial Statements (numeric references) and Notes to Consolidated Statement of Earnings (Loss) (alphabetic references)

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

(Information with respect to nine month periods ended September 30, 1975 and 1974 is unaudited)

A. Restatement of Prior Financial Statements

The information presented for 1972 and prior years has been restated to reflect the operations of Cerro's former subsidiary in Peru (Cerro de Pasco Corporation), which was expropriated on January 1, 1974, and Cerro's interest in Atlantic Cement Company, Inc., which was sold during 1973, as discontinued operations (Note F). It has also been restated to reflect the operations of Cerro de Pasco Corporation and Industrias de Cobre, S.A. (Indeco) on the equity basis of accounting and for the change in method of accounting for certain metal inventories from the last-in, first-out to the first-in, first-out. The effects of these restatements are as follows:

	Sales and Other Revenue, Net		
	Year Ended December 31,		
	1972	1971	1970
		($ in Thousands)	
As previously reported	$633,443	$487,395	$511,688
Add (Deduct):			
Cerro de Pasco and Indeco	(189,136)	(143,085)	(174,211)
Atlantic Cement Company, Inc.	(1,469)	(1,435)	(552)
As restated	$442,838	$342,875	$336,925

	Earnings from Continuing Operations		
	Year Ended December 31,		
	1972	1971	1970
		($ in Thousands)	
As previously reported	$ 24,178	$ 4,443	$ 21,502
Add (Deduct):			
Cerro de Pasco and Indeco	(13,740)	429	(11,669)
Atlantic Cement Company, Inc.	(1,469)	(1,435)	(552)
Inventory accounting change	93	(1,158)	(4,536)
As restated	$ 9,062	$ 2,279	$ 4,745

	Net Earnings Per Share		
	Year Ended December 31,		
	1972	1971	1970
		($ in Thousands)	
As previously reported	$2.09	$ .33	$2.19
Inventory accounting change	.01	(.14)	(.54)
As restated	$2.10	$ .19	$1.65

Unaudited information for the nine months ended September 30, 1974 has been restated as shown below to reflect adjustments (principally to interest income accruals, cost of sales and related inventories (primarily real estate operations), and tax expense) arising from a review made by the company in connection with the preparation of this Proxy Statement. The review also disclosed that net earnings per share, as previously reported in the quarterly report of Cerro on Form 10-Q for the period ended September 30, 1974, was overstated an additional $.06 as a result of an error in calculation.

	As Previously Reported	As Restated
	($ in Thousands, except Per Share)	
Other revenue, net	$ 16,845	$ 17,635
Costs of products sold	522,943	525,260
Selling and administrative expenses	38,354	40,090
Earnings from continuing operations before taxes	37,515	34,252
Federal and state income tax expense	19,178	20,227
Net earnings	18,337	14,025
Net earnings per Common Share	2.37	1.77

The adjustments requiring such restatement do not require a change of Cerro's reported earnings for the full year 1974 but relate solely to the results of operations reported for interim periods.

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B. Consistency of Accounting

Extraordinary items for the years 1970-1972 include items which under the provisions of Accounting Principles Board Opinion No. 30, effective in October 1973, would have been included in the determination of earnings (loss) from continuing operations or from discontinued operations. Opinion No. 30, however, prohibits restating prior years' financial statements for consistency with 1973 and subsequent periods. Restatement of the Consolidated Statement of Earnings (Loss), however, would have shown the following:

	Year ended December 31,		
	1972	1971	1970
	($ in Thousands)		
Earnings (loss) from continuing operations	$ 7,412	$ (519)	$ 3,183
Earnings from discontinued operations	7,550	353	10,897
Extraordinary items	2,802	1,810	—
Net Earnings	$17,764	$1,644	$14,080

Net earnings as reported in the Consolidated Statement of Earnings (Loss) is unchanged.

C. Other Revenue, Net

In addition to other items, other revenue, net, includes dividends from Southern Peru Copper Corporation, a 22¼%-owned affiliate accounted for on the cost basis, and the following:

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
			($ in Thousands)				
Southern Peru Copper Corp.	$ —	$ —	$ —	$ —	$3,482	$6,615	$7,834
Interest on marketable securities	$ 1,869	$4,513	$ 6,154	$4,244	$1,249	$1,366	$ 939
Other interest income	$10,967(1)	$7,803(1)	$10,662(1)	$5,863	$4,030	$1,807	$ 211
Joint venture income (loss) —principally real estate	$ (395)	$2,056	$ 1,883	$4,252	$ —	$ —	$ —

(1) Includes for the year 1974 and for the nine months ended September 30, 1975 and 1974, $2,878,000, $2,012,000 and $2,050,000, respectively, applicable to the Chilean Notes and, for the year 1974 and for the nine months ended September 30, 1974, $526,000 and $390,000, respectively, relating to the receivable from the U.S. Government.

D. Subsequent Events

On August 13, 1975, management stated its intention to reduce substantially the business, operations and debt levels of Leadership Housing, Inc. ("Leadership"), a real estate subsidiary, through an orderly liquidation of inventories designed to minimize losses. (See Note 15 of Notes to Financial Statements for Condensed Real Estate Financial Statements.) It is expected that, after this reduction is completed, the total assets of Leadership would be less than half of its total assets at December 31, 1974. As a result of the depressed condition of the real estate market existing in the United States generally, and in Florida in particular, an orderly liquidation of inventories designed to preserve corporate assets is likely to take several years. Based upon the information available, it is believed that this liquidation will take place while adverse market conditions prevail.

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Because of the inventory liquidation program described above, it was determined that goodwill in the amount of $8,040,000, representing the unamortized excess of purchase price over the net assets of Leadership, had no continuing benefit to the company, and it was therefore written off as of June 30, 1975.

Cerro financially supported the operations of Leadership during 1975; however, no decision has been reached as to how long Cerro will continue its support if Leadership's current operating losses continue and the June 1975 financing plan (described in Note 6 to Note 15—Condensed Real Estate Financial Statements) does not provide adequate support during the orderly liquidation period described above, or the principal lenders withdraw their support. Cerro also has legally binding commitments in connection with surety bonds ($36,200,000 at September 30, 1975) guaranteeing Leadership's performance under certain construction contracts. A substantial amount of work has been performed under such contracts, but it is not possible to predict the cost to Cerro, if any, under the surety bonds.

The decision to reduce substantially the activities of Leadership creates uncertainties relating to the timing of and the amount ultimately to be realized from the orderly liquidation of the real estate inventories ($125,958,000 at September 30, 1975). Further, because of the potential for losses resulting from this liquidation, an uncertainty exists as to the realizable value of Cerro's asset, "Future income tax benefit" ($35,654,000 at September 30, 1975). Since the amount of losses, if any, to be incurred upon realization of these assets is uncertain, no provision for loss has been made in the accompanying financial statements.

Events of Default exist under certain of the covenants in the Amended and Restated Loan Agreement of Leadership (see Note 6 to Note 15—Condensed Real Estate Financial Statements). However, Leadership has been notified by a letter dated January 20, 1976 from the agent bank that an agreement has been reached in principle, which has been approved in principle by several of the Participating Banks, to effect certain modifications in the provisions of the Loan Agreement which would have the result of eliminating all such existing Events of Default. Such agreement in principle is subject to receipt by the agent bank of satisfactory documentation and to its receiving formal approval of such documentation from the Participating Banks. So long as the Loan Agreement is not so amended, such Events of Default may continue to exist and upon notification from the principal lenders, the debt covered thereby would become due and payable.

E. Income Taxes

Income tax expense (benefit) consists of the following:

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
			($ in Thousands)				
Current:							
United States	$ (600)	$ —	$ 2,312*	$ 4,618	$ (236)	$(3,255)	$ (356)
Foreign	430	211	607	36,788	6,591	389	8,746
State	4,027	3,300	4,201	842	1,475	846	1,429
Deferred:							
United States	—	—	(10,273)	10,020	(844)	(351)	(3,111)
Foreign	—	—	—	—	1,372	820	2,229
Future tax benefit	2,643	16,716	26,503	(64,800)	—	—	—
	$6,500	$20,227	$23,350	$(12,532)	$8,358	$(1,551)	$8,937

* Adjustment in 1974 to conform to 1973 tax return as filed.

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Income tax expense (benefit) has been allocated to:

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
			($ in Thousands)				
Earnings from continuing operations:							
United States	$2,043	$16,716	$18,542	$ 14,534	$6,037	$(3,056)	$(2,185)
State and Foreign	4,457	3,511	4,808	842	1,475	846	1,429
	6,500	20,227	23,350	15,376	7,512	(2,210)	(756)
Earnings from discontinued operations	—	—	—	36,892	3,709	474	10,975
Extraordinary items	—	—	—	(64,800)	(2,863)	185	(1,282)
	$6,500	$20,227	$23,350	$(12,532)	$8,358	$(1,551)	$8,937

For financial statement purposes, the full tax benefit of $64,800,000, applicable to the Cerro de Pasco expropriation loss (Note F), was recognized in 1973 because of the non-recurring nature of the loss and Cerro's virtual certainty at that time of utilizing such benefit over the carry-forward period allowed by the tax statutes. As a result, although Cerro will reduce its future tax liability by the expropriation loss, no further financial statement benefit will be recognized. During the year 1974 and the nine months ended September 30, 1975 and 1974, $26,503,000, $2,643,000 and $16,716,000, respectively, were credited to the "Future income tax benefit" account on the Consolidated Balance Sheet. See "Other Tax Matters" on pages 13-14 for further details with respect to the expropriation loss, and Note D for a subsequent event which creates an uncertainty as to the ultimate realization of the tax benefit.

As reflected in its 1974 consolidated Federal income tax return, Cerro reported a loss of $4,214,000, which included the unused portion of the Cerro de Pasco expropriation loss. The income reported for tax purposes for 1974 included $65,000,000 from advance payments received on copper sales. (Cerro and its subsidiaries have previously engaged in such advance payment transactions.) For tax purposes, such payments have been reported as sales in the year of receipt. The related cost of sales is reported at the time of delivery, which occurred during 1975. Generally, to the extent that the cost of copper sales reported at time of delivery is not offset by taxable income in the same year, a new net operating loss will result which may (within certain limitations) be carried back and then, to the extent unused by carryback, carried over against income of future years. Advance payment transactions, like other business transactions, are subject to examination by the Internal Revenue Service. Cerro has entered into advance payment sales during 1975. These transactions and any future advance sales transactions could influence the possibilities of ultimate realization of the future tax benefit related to the Cerro de Pasco expropriation loss recognized by Cerro in 1973 for financial statement purposes, as well as the timing of such realization.

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of timing differences in 1973 and the tax effect of each were as follows (in thousands):

Real estate operations—principally use of installment sales method for tax purposes and deduction of interest costs which are capitalized for financial statement purposes	$ 8,922
Financial statement expenses—principally reserves for investments and expenses not currently deductible for income tax purposes	(5,393)
Income taxed in prior years and recognized currently for financial statement purposes	4,903
Other, net	1,588
	$10,020

The deferred tax credit at December 31, 1973 was eliminated in 1974 as a result of the expropriation loss.

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The tax provisions of $6,500,000 and $20,227,000 for the nine month periods ended September 30, 1975 and 1974 and $23,350,000 for the year ended December 31, 1974 represent effective rates as follows, excluding the write-off of unamortized goodwill in 1975 which was related to realty operations (Note D) and is not deductible for federal income tax purposes:

	Nine Months Ended September 30,		Year Ended December 31,
	1975	1974	1974
Federal income tax at statutory rate	48.0%	48.0%	48.0%
State and local income taxes net of Federal income tax benefit	17.3%	5.0%	5.6%
Investment tax credit	(5.0%)	(.5%)	(.8%)
Percentage depletion allowance	(7.3%)	—	(1.5%)
Capital losses without tax benefit	.6%	3.8%	3.3%
Goodwill amortization not deductible for tax purposes	1.3%	1.6%	1.8%
Other, net	(1.2%)	1.2%	3.0%
Effective tax rate	53.7%	59.1%	59.4%

The 1973 tax provision of $15,376,000 represents an effective tax rate of 50.0% of pre-tax earnings from continuing operations.

F. Discontinued Operations

The table below shows the earnings (loss) that were recorded from operations that have been expropriated, sold or liquidated:

	Year Ended December 31,			
	1973	1972	1971	1970
		($ in Thousands)		
Earnings (loss) from operations of discontinued businesses, net of applicable income taxes:				
Cerro de Pasco	$30,111	$13,740	$ (429)	$11,669
Atlantic Cement	1,556	1,469	1,435	552
Stereo Tape Club	—	(4,583)	(653)	—
Gain on sale of investment in Atlantic Cement	2,116	—	—	—
Total	$33,783	$10,626	$ 353	$12,221

CERRO DE PASCO CORPORATION

The Government of Peru expropriated Cerro's wholly owned subsidiary, Cerro de Pasco Corporation, which resulted in a financial statement loss in 1973, after compensation but before tax benefit, of $110,350,000. The tax loss on the expropriation, after adjusting the financial statement loss primarily for non-tax deductible pensions and severance reserves, was approximately $135,000,000. On February 19, 1974, based on an agreement between the Governments of Peru and the United States, Cerro received $58,000,000, including repatriation of 1973's net earnings, from Peru. The net after-tax loss from expropriation, reflected as an extraordinary item in the 1973 financial statements, is $45,550,000, or $5.50 a share (Note G). In December, 1974, Cerro received a final payment of $10,000,000 with interest of $526,000, from funds paid by Peru to the U. S. Government as part of a lump sum settlement agreed to by the U. S. and Peru.

ATLANTIC CEMENT COMPANY, INC. (ATLANTIC)

In June 1973, Cerro sold its 50% interest in Atlantic for $38,500,000, resulting in a gain or $2,116,000. Cerro's equity in net earnings through the date of the sale was $1,556,000.

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STEREO TAPE CLUB OF AMERICA (STEREO)

The operations of Stereo had been unprofitable since its acquisition, and in December 1972 Cerro ordered termination of the business and liquidation of its assets.

G. Extraordinary Items

The following table shows the extraordinary items reflected in the Consolidated Statement of Earnings (Loss):

	Year Ended December 31,			
	1973	1972	1971	1970
	($ in Thousands)			
Expropriation of Cerro de Pasco*	$(45,550)	$ —	$ —	$ —
Write-off of:				
Stereo Tape Club of America*	—	(3,076)	—	—
Goodwill at Cleveland, Ohio copper plant	—	—	(3,267)	—
Undeveloped mining concessions in Peru*	—	—	—	(1,324)
Write-down of investment in Texas International Petroleum Corporation	—	—	—	(882)
Net loss on disposal of machinery and equipment at Stamford, Connecticut plant*	—	—	—	(680)
Reserve for investments	—	(1,650)	(1,159)	—
Gain on insured casualty loss and sale of distribution station by Atlantic Cement	—	—	526	—
Gain on sale of mining concessions and oil leaseholds*	—	—	1,102	—
Utilization of net operating loss carry-forwards	—	2,802	1,810	—
	$(45,550)	$(1,924)	$ (988)	$(2,886)
Per share	$(5.50)	$(.23)	$(.12)	$(.34)

* Net of taxes

H. Business Combinations

During 1972, Cerro acquired approximately 80% of the outstanding stock of Behring Corporation which, through a subsequent merger into a wholly-owned subsidiary, became Leadership Housing, Inc. In 1973, Cerro acquired all of the remaining outstanding shares of Leadership. The total cost of these transactions was approximately $27,700,000, principally cash. The excess of the purchase price over the book value of the shares acquired was allocated equally to land and goodwill. The goodwill portion was being amortized over forty years, but as of June 30, 1975, as described in Note D, the unamortized balance was charged to operations.

On October 6, 1972, Cerro acquired all of the outstanding common stock of ICX for $21,501,000 paid in cash. The cost in excess of net assets acquired ($11,859,000) has been assigned to operating rights and is being amortized over a forty year period.

On March 29, 1974, Cerro acquired 1,043,566 shares of common stock of Golconda Corporation (Golconda) for cash of $9,753,000. An additional 22,100 shares of common stock were acquired on April 19, 1974 for cash of $180,000. On May 3, 1974, Cerro commenced a tender offer to purchase

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all the remaining outstanding common stock of Golconda at $8.375 per share net to the seller and all of the preferred stock at $16.25 per share net to the seller. As a result of the tender offer, which expired on May 29, 1974, Cerro acquired 1,345,759 shares of common stock and 281,635 shares of the cumulative preferred stock at a cost of $16,600,000. In the aggregate, Cerro owns 86.6% of the common stock, 73.5% of the cumulative preferred, which is entitled to one vote per share, or 84.98% of the total outstanding voting shares. The total cost of $26,600,000 has been allocated to the net assets of Golconda.

On September 25, 1974, Cerro, through its newly established wholly owned subsidiary, Fetterolf Coal and Construction, Inc., acquired the outstanding stock of M. F. Land Company, Inc., M. F. Fetterolf Coal Company, Inc. and the partnership interests of D&F Trucking Company, collectively referred to as the Fetterolf Coal Group. The purchase price, which amounted to $33,995,000 in cash, has been allocated to the net assets of the acquired companies, principally coal mining properties.

On May 30, 1975, Cerro, through its newly established wholly owned subsidiary, Jenner Mining Company, acquired all the outstanding stock of GM&W Coal Company and Delta Mining, Inc., for $7,650,000, of which $2,150,000 was paid in cash at closing with the timing of the payment of the balance due based on cash flow. The $5,500,000 balance due has been discounted at a current interest rate to its estimated present value of $5,155,000 for financial statement purposes.

On August 28, 1975, Cerro, through its newly established wholly owned subsidiary, J. M. S. Mining Co., acquired all the outstanding stock of Stott Coal Company and James M. Stott Coal Company for approximately $5,000,000, of which $1,400,000 was paid in cash at closing with the timing of the payment of the balance due based on cash flow. At the time of the acquisition Stott owed Fetterolf approximately $1,000,000 net.

These transactions were accounted for as purchases and the operating results of the acquired companies were combined with those of Cerro from the respective dates of acquisition.

Had the acquisitions of Behring (Leadership) and ICX been consummated on January 1, 1971, Golconda and Fetterolf on January 1, 1973, and GM&W, Delta and Stott on January 1, 1974, the proforma combined operating results of Cerro and these companies for the periods indicated would have been as follows:

	Nine Months Ended September 30,				Year Ended December 31,	
	1975		1974		1974	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
	($ in Thousands except per share)					
Sales and other revenue	$456,987		$651,947		$842,678	
Earnings (loss) from continuing operations	$ (2,412)	$(.31)	$ 20,923	$2.64	$ 24,702	$ 3.12
Earnings (loss) from discontinued operations	—	—	—	—	—	—
Extraordinary items	—	—	—	—	—	—
Net earnings (loss)	$ (2,412)	$(.31)	$ 20,923	$2.64	$ 24,702	$ 3.12

	Year Ended December 31,					
	1973		1972		1971	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
	($ in Thousands except per share)					
Sales and other revenue	$724,095		$482,477		$419,303	
Earnings from continuing operations	$ 18,010	$2.17	$ 10,593	$1.25	$ 3,151	$ .37
Earnings (loss) from discontinued operations	33,783	4.08	10,626	1.26	(6,005)	(.71)
Extraordinary items	(45,550)	(5.50)	(1,750)	(.21)	(7,098)	(.84)
Net earnings (loss)	$ 6,243	$ .75	$ 19,469	$2.30	$ (9,952)	$(1.18)

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I. Pension Expense

Pension expense charged to earnings from continuing operations was as follows:

Nine months ended September 30:	
1975	$5,033,000
1974	3,081,000
Year ended December 31:	
1974	4,522,000
1973	3,162,000
1972	1,970,000
1971	1,553,000
1970	1,338,000

J. Supplementary Earnings Statement Information

Supplementary earnings statement information is as follows:

	Nine Months Ended September 30, 1975	Year Ended December 31, 1974	1973	1972
		($ in Thousands)		
Maintenance and repairs	$9,783	$12,448	$12,209	$8,332
Depreciation, depletion and amortization of property, plant and equipment	8,945	8,692	6,722	4,845
Taxes, other than income taxes	9,263	12,569	10,049	5,959
Rents	6,848	8,987	5,716	2,892
Amortization of goodwill and operating rights	532	1,749	1,033	2,713

NOTE:

Royalties, advertising, exploration, research and product development costs were not significant in amounts.

K. Interest Capitalization

It has been the practice of Cerro's real estate group to capitalize interest relating to obligations incurred in connection with land, construction and land improvements. Management believes this policy results in the most appropriate matching of costs and revenues. Had Cerro followed the policy of expensing all interest as incurred, its consolidated net earnings (loss) would have been as follows:

	Net Earnings (Loss)	Per Share
	($ in Thousands)	
Nine months ended September 30:		
1975	$(4,686)	$(.59)
1974	12,365	1.56
Year ended December 31:		
1974	13,717	1.73
1973	2,052	.25
1972	17,372	2.05
1971	1,129	.13
1970	13,522	1.59

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L. Earnings Per Share

Outstanding stock options have not been considered in the computation of earnings per share. Consideration of options would have resulted in immaterial dilution or would have had an anti-dilutive effect on earnings per share.

CERRO MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF EARNINGS (LOSS)*

1971 vs. 1970

Cerro's metal manufacturing sales and profit margins in 1971 were affected by sharp declines in free world copper prices from 82¢ per pound in 1970 to a low of 45¢ in 1971. Pre-tax earnings were $9,793,000 compared to $6,175,000 in 1970. Brass mill profits were also depressed by declining demand and facilities operating below capacity in the early part of 1971.

Dividends from Southern Peru Copper Corporation (22¼% owned by Cerro) were $6,615,000 in 1971 compared to $7,834,000 in 1970. These dividends were subject to a relatively low rate of United States income tax.

In June 1971, Cerro acquired Stereo Tape Club of America ("Stereo"). A net loss of $653,000 was sustained by this operation during the period June 1, 1971 to December 31, 1971.

In 1971, Cerro's wholly owned subsidiary, Leadership Housing Systems, Inc., which had completed its first full year of operations, incurred a pre-tax loss of $2,879,000. Sales in 1971 were $52,634,000 versus $21,388,000 in the last quarter of 1970.

For the year 1971, a tax benefit of $3,056,000 was recognized for U.S. income tax purposes through the carry-back of losses to a prior year. Such losses relate principally to deductions from book income and percentage depletion and intercorporate dividend received deduction.

During 1971, a number of extraordinary gains and losses were incurred with the net result that losses exceeded gains by $988,000 or 12 cents per share. See Note G to the Consolidated Statement of Earnings (Loss) for details.

1972 vs. 1971

Sales and earnings from continuing operations in 1972 increased over those of 1971 owing primarily to strong demand for copper products and productivity gains. Earnings before taxes from metal manufacturing operations were $18,584,000, a 90% increase over the $9,793,000 reported in 1971. Sales rose 10% to $301,597,000 from $273,455,000 in the prior year.

Real estate sales and earnings increased in 1972 to $114,668,000 and $5,609,000, respectively. On February 1, 1972 Cerro acquired 65% of Behring Corporation for $13.6 million which together with a former wholly owned Cerro subsidiary, Leadership Housing Systems, Inc., was merged on September 1, 1972, into a newly formed company, Leadership Housing, Inc. ("Leadership"). As a result of this merger, Cerro owned approximately 80% of Leadership. (In 1973, Cerro acquired the remaining stock of Leadership.)

In October 1972, Cerro acquired Illinois-California Express, Inc. ("ICX"), a major motor freight carrier. For the last three months of 1972, sales and pre-tax earnings were $11,756,000 and $1,183,000, respectively.

* Amounts shown for pre-tax earnings (loss) are before corporate administrative expenses and interest expense as well as income taxes.

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In December 1972, operations of Stereo were discontinued. Stereo sustained an operating loss in 1972 of $4,583,000. The extraordinary net loss from liquidation was $3,076,000. The net operating losses for 1972 and 1971 are reported in the Consolidated Statement of Earnings (Loss) as discontinued operations.

Dividends from Cerro's 22¼% interest in Southern Peru Copper Corporation (SPCC) were suspended in the second half of 1972 to free additional funds for development of the Cuajone copper mine. Earnings of SPCC continued at approximately the same rate as in 1971.

1973 vs. 1972

Sales in 1973 were $636,607,000, 49% higher than the $428,021,000 reported in 1972.

Metal manufacturing, with sales of $417,802,000 and pre-tax earnings of $34,111,000 was the largest contributor to the sales and earnings growth over 1972. These improvements reflect the significantly higher selling prices and volume that resulted from strong demand and shortages of fabricated metal products throughout the world.

Effective January 1, 1973, Cerro adopted the First-In, First-Out (FIFO) method of valuing metal inventories at one of its manufacturing plants which had previously reported on the Last-In, First-Out (LIFO) basis. For comparative purposes, the Consolidated Statement of Earnings (Loss) has been restated to reflect this change in accounting. The effect on net earnings per share for each of the years was as follows:

	FIFO Basis	LIFO Basis
1972	$2.10	$2.09
1971	.19	.33
1970	1.65	2.19

Pre-tax earnings from trucking operations (ICX) improved 17% from the prior year with revenues up 19%.

Real estate earnings increased over 1972 by 111% to $11,884,000 while sales increased 39%. There were 2,342 single family homes and condominiums delivered during the year and 2,152 rental apartment units.

In June 1973, Cerro sold its 50% interest in Atlantic Cement for $38,500,000, resulting in a gain of $2,116,000. Cerro's equity in net earnings reported as a discontinued operation in the accompanying Consolidated Statement of Earnings (Loss), through the date of the sale, was $1,556,000.

On January 1, 1974 the Government of Peru expropriated Cerro's wholly owned subsidiary, Cerro de Pasco Corporation, which resulted in a financial statement loss in 1973 after compensation, but before tax benefit of $110,350,000. The tax loss on the expropriation after adjusting the financial statement loss primarily for non-tax deductible pensions and severance reserves was approximately $135 million. On February 19, 1974, based on an agreement between the Governments of Peru and the United States, Cerro received $58 million, including repatriation of 1973's net earnings, from Peru. In December 1974 Cerro received an additional $10 million from the U.S. Government as part of a lump sum settlement agreed to by the U.S. and Peru. The net after-tax loss from expropriation reflected as an extraordinary item in the accompanying financial statements for 1973 is $45,550,000 or $5.50 a share.

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1974 vs. 1973

Pre-tax earnings from metal manufacturing operations increased 36 percent over 1973 to $46,414,000 primarily due to stronger demand for most products, even though market conditions seriously slackened in the last quarter of 1974.

The real estate operations (Leadership) sustained a loss in 1974 of $13,606,000 on sales of $96,006,000 which were down by $64 million from the prior year. The loss is attributable to depressed housing markets and increased building costs, as well as materially reduced land sales and the high cost of financing. See "Real Estate Group—Liquidity and Results of Operations."

Trucking operations experienced a slight reduction, 10%, in pre-tax earnings from the prior year, although revenues were up by 25%. Increased fuel and other costs, along with a reduction in shipments, were not fully offset by increased rate adjustments granted by the ICC during the year.

Mining operations experienced a substantial increase in earnings and sales as a result of the acquisition in September, 1974 of the Fetterolf Coal Group. This segment of the operations had pre-tax earnings of $10,230,000 on sales of $21,446,000 since the date of acquisition.

Cerro did not pay any Federal income taxes for 1974 because of the tax loss sustained as a result of the expropriation on January 1, 1974 of its subsidiary, Cerro de Pasco Corporation, described above. Even though Cerro paid no Federal income taxes on current income, provisions for such taxes are necessary in determining current net income in order to reflect the utilization of the future income tax benefit recorded as an asset in Cerro's balance sheet. This income tax provision should be considered in appraising Cerro's results.

Nine Months Ended September 30, 1975 vs. Nine Months Ended September 30, 1974

The results for the nine months ended September 30, 1975 are considered by Cerro management to reflect unusually adverse conditions in such period for the businesses representing Cerro's operations as discussed below. Accordingly, Cerro management does not consider the results of the nine months ended September 30, 1975 as representative.

A substantially depressed real estate market particularly in Florida existed throughout the 1975 period. Sales of Leadership for the first nine months of 1975 were $23,910,000 as compared with $71,352,000 in 1974. The pre-tax loss in 1975 was $24,658,000 which included a $8,040,000 write-off of goodwill and other write-offs and writedowns of real estate inventories totalling $4,500,000. Pre-tax losses in 1974 were $7,100,000.

Manufacturing group sales in 1975 fell $171,106,000 to $300,351,000, while pre-tax earnings in 1975 dropped $27,603,000 to $17,045,000. These declines are principally attributable to decreased construction and housing activity, which are major markets for the manufacturing group's products, lower metal prices, writedowns of excess and obsolete inventory of Golconda created by reduced demand for its major products, and, to a lesser extent, strikes at the Metal Products and Copper Products divisions which lasted two and four months, respectively.

While 1975 revenues of Cerro's trucking subsidiary, ICX, were relatively unchanged from 1974, pre-tax earnings for the first nine months of 1975 declined to $2,742,000 from $3,721,000 in 1974, principally because of cost increases and start-up costs of newly acquired routes.

Sales and pre-tax earnings for the mining group in the first nine months of 1975 were $57,025,000 and $12,374,000, respectively. These results are directly due to the purchases of the Fetterolf group of coal mining companies in September 1974, GM&W Coal Company and Delta Mining, Inc. on May 30, 1975 and Stott Coal Company on August 28, 1975.

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Analysis of nine months ended September 30, 1975 and September 30, 1974 by quarter

	Net Sales		Pretax Earnings (Loss)	
	1975	1974	1975	1974
First Quarter	$182,117,000	$179,149,000	$10,073,000	$ 9,712,000
Second Quarter	116,984,000	237,646,000	(8,899,000)	19,485,000
Third Quarter	136,910,000	180,893,000	2,896,000	5,055,000
	$436,011,000	$597,688,000	$ 4,070,000	$34,252,000

Although sales and pre-tax earnings in 1975's first quarter increased slightly over 1974 levels, all operations, other than the coal mining companies acquired late in the 1974 third quarter, reported lower sales and earnings. Coal mining operations generated sales of $18,068,000 and pre-tax earnings of $6,930,000 during the first quarter of 1975. Sales and pretax earnings of non-mining operations declined primarily because of lower product prices and reduced volume in the manufacturing group and significantly reduced activity in real estate operations. In addition, strikes at two manufacturing plants adversely affected operations.

Sales and pre-tax earnings for the second quarter of 1975 reflect continuation of the declines from 1974 levels that were experienced in the first quarter. Results in the period include Leadership's pre-tax loss of $13,386,000, which includes the $8,040,000 write-off of goodwill arising from Cerro's earlier acquisition of Leadership. Coal mining operations contributed sales of $18,657,000 on which pre-tax earnings of $4,012,000 were generated.

Third quarter sales and pre-tax earnings in 1975 are above 1975 second quarter levels in each operating group except for mining pre-tax earnings and real estate sales although they are lower than those reported in the comparable 1974 period. The third quarter decline from the comparable 1974 period is principally due to the continuation of lower copper prices and sales volume in the manufacturing group. These unfavorable factors were partially offset by the sales and pre-tax earnings of the coal mining operations which were $19,747,000 and $2,164,000, respectively. The decline in the profitability in coal mining operations in the third quarter was primarily attributable to a drop in spot market prices for coal, certain higher production costs and start-up costs incurred in connection with the development of new mining facilities.

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THE MARMON GROUP, INC. (MICHIGAN)

CONSOLIDATED STATEMENT OF EARNINGS

The following consolidated statement of earnings of The Marmon Group, Inc. (Michigan) prepared on the basis described in Note A has been examined, for the five years ended December 31, 1974, by Arthur Young & Company, certified public accountants, whose report with respect thereto (which, for the year 1974, is based in part on the report of other independent accountants on the consolidated financial statements of Cerro Corporation) appears elsewhere herein. The report of other independent accountants is qualified in certain respects as set forth therein and the report of Arthur Young & Company as to the 1974 year is qualified as to the effects, if any, of the uncertainties related to Cerro Corporation's real estate inventories (see Note 5 to Marmon's consolidated financial statements). The information for the nine month periods ended September 30, 1974 and 1975 is unaudited but includes all adjustments, consisting only of normal recurring accruals except for provisions for losses to be incurred on dispositions of certain businesses in the nine months ended September 30, 1975 (Note B), which Marmon considers necessary for a fair presentation of the results for those periods. These statements should be read in conjunction with the other consolidated financial statements of Marmon and related notes included elsewhere herein. The results of operations for the nine months ended September 30, 1975 are not necessarily indicative of results for the full year.

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
	(Unaudited)		(In thousands of dollars)				
Revenues:							
Net sales (Note B)	$208,263	$194,485	$267,622	$188,278	$151,566	$126,534	$87,388
Miscellaneous—net (Note C)	1,414	1,014	1,513	945	988	982	811
	209,677	195,499	269,135	189,223	152,554	127,516	88,199
Costs and expenses (Notes B and D):							
Cost of product sold	165,296	151,816	212,627	150,108	122,397	101,499	68,470
Selling, general and administrative	20,053	16,767	23,421	19,037	16,668	13,736	9,997
Interest—							
Long-term obligations	5,330	682	996	544	537	521	359
Other	856	1,923	4,318	179	313	183	51
	191,535	171,188	241,362	169,868	139,915	115,939	78,877
Income before income taxes and equity in net earnings of Cerro Corporation	18,142	24,311	27,773	19,355	12,639	11,577	9,322
Income taxes (Note E)	9,955	12,310	14,307	9,879	6,200	5,788	4,668
Income before equity in net earnings of Cerro Corporation	8,187	12,001	13,466	9,476	6,439	5,789	4,654
Equity in net earnings of Cerro Corporation (Note F)	10,224	1,063	4,292				
Net income (Notes B and D)	$ 18,411	$ 13,064	$ 17,758	$ 9,476	$ 6,439	$ 5,789	$ 4,654

See accompanying notes.

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NOTES TO CONSOLIDATED STATEMENT OF EARNINGS

(Information pertaining to the nine month periods ended September 30, 1974 and September 30, 1975 is unaudited.)

(Numerical note references are to notes to The Marmon Group, Inc. (Michigan) consolidated financial statements included elsewhere herein.)

A. On October 21, 1971, the Principal Stockholders (certain members of the Pritzker Family and affiliated trusts and corporations) of The Marmon Group, Inc. (Michigan) (referred to as Old Marmon) transferred all of their Old Marmon common stock (approximately 91% of the total outstanding stock) to GL Corporation ("GL"), an inactive corporation, in exchange for all of the GL common shares. GL then transferred the common shares of Old Marmon to Bess Corporation (Bess), an inactive corporation organized in 1969, in exchange for 1,000 common shares of Bess and Bess became a wholly owned subsidiary of GL and the parent of Old Marmon.

On November 2, 1971, Old Marmon was merged into Bess. In connection with this merger, (a) Bess' name was changed to The Marmon Group, Inc. (Michigan) (referred to as Marmon) and (b) all of the outstanding common stock of Old Marmon owned by stockholders other than Bess (approximately 9% of the outstanding stock) was called for redemption at $12 per share (total of $4,480,000). This reorganization has been accounted for as a pooling of interests. See Note 9 as to litigation arising from the reorganization.

References herein to Marmon relating to dates or periods prior to November 2, 1971 should be considered to be Old Marmon.

B. On December 17, 1970, Marmon acquired all of the capital stock of Keystone Pipe & Supply Company ("Keystone") for $6,010,000 cash in a transaction accounted for as a purchase. No operating results for Keystone were included in the 1970 consolidated statement of earnings.

On May 28, 1971, Marmon acquired all of the capital stock of Penn Brass & Copper Company and affiliated companies ("Penn Brass") for cash and long-term notes totaling $1,582,000 in a transaction accounted for as a purchase. The unaudited sales and pro forma net income of Penn Brass for the five months prior to acquisition were not material to 1971 consolidated sales and net income.

Unaudited pro forma sales and net income for 1970 amounted to $119,873,000 and $5,224,000, respectively, after including the unaudited sales and net income of Penn Brass and Keystone for that year adjusted to reflect interest on funds and notes used in the acquisitions and changes in the carrying values of the acquired assets.

Effective January 1, 1972, GL donated to Marmon its common stock interest in two previously affiliated companies. These companies were included in the 1972 consolidated financial statements at their approximate net book value of $58,000, which amount was credited to other paid-in capital. The operations of these businesses and the subsequent sale of the assets of one of these businesses did not materially affect 1972 consolidated results of operations.

In three separate transactions in 1974, Marmon acquired certain assets and operations of three businesses for $7,979,000 in transactions accounted for as purchases. The sales and net income of these businesses for the period subsequent to acquisition were not material to consolidated sales and net income for the year ended December 31, 1974 or the nine month period ended September 30, 1974. Consolidated sales and net income for 1973 and 1974 and the nine months ended September 30, 1974 would not have changed materially had these acquisitions taken place as of January 1, 1973.

Marmon acquired a 45.33% interest in Cerro Corporation ("Cerro") on August 1, 1974 (Note 5).

The acquisition, sale or discontinuance of other businesses during the five years ended December 31, 1974 did not materially affect consolidated results of operations in any period presented. Losses incurred and provided for, less gains realized, in the nine months ended September 30, 1975 on disposi-

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tions and planned dispositions of certain businesses and sales of assets amounted to approximately $300,000 before income taxes. The operations of the businesses disposed of or to be disposed of were not material to Marmon's results of operations in any period presented.

C. Miscellaneous revenues include (1) net gains of $703,000 from property disposals in the nine months ended September 30, 1975 (Note B), (2) net losses of $526,000, after reversal of $1,500,000 of allowances for losses established in prior years, from sales of marketable securities in 1970, and (3) interest income from affiliated companies of $140,000 in 1973, $76,000 in 1974 and $67,000 and $195,000 in the nine months ended September 30, 1974 and 1975, respectively.

D. Cost of product sold has been reduced by $320,000 in the years 1970 through 1972, $304,000 in 1973 and nominal amounts thereafter by the amortization of deferred credits from pre-1970 acquisitions.

Inventories, in thousands of dollars, used in the computation of cost of product sold follow:

	Beginning	Ending
Nine months:		
1975	$55,098	$51,291
1974	34,832	46,916
Year:		
1974	34,832	55,098
1973	31,112	34,832
1972	30,546	31,112
1971	26,864	30,546
1970	15,427	19,131*

* Excludes $7,733 applicable to a company acquired on December 17, 1970.

Effective January 1, 1974, the last-in, first-out ("LIFO") cost method was adopted for certain inventories previously valued under the average and first-in, first-out cost methods. This change reduced net income by approximately $610,000 in the nine months ended September 30, 1974 and $640,000 for the year 1974. The LIFO cost method was adopted in the year of acquisition for the inventories of businesses acquired in 1970, 1971 and 1974 (Note B).

Cost and expenses include, in thousands of dollars, the following:

	Depreciation	Rent expense	Pension expense	Profit sharing expense	Taxes other than income taxes	Maintenance and repairs
Nine months:						
1975	$4,172	$1,658	$ 950	$ 978	$3,505	$3,365
1974	2,921	1,545	773	811	3,402	3,051
Year:						
1974	4,165	2,111	1,074	1,079	4,476	4,238
1973	3,278	1,864	821	704	3,708	3,594
1972	2,903	1,776	787	538	2,708	2,736
1971	2,405	1,583	755	446	2,303	2,243
1970	1,663	833	610	247	1,815	1,816

Amounts charged to costs and expenses for royalties, advertising and research and development were each less than 1% of total sales and revenues during each of the periods shown.

Rent expense includes approximately $360,000 in 1970 and 1971, $235,000 in 1972, $225,000 in 1973, $141,000 in 1974 and $121,000 and $85,000 in the nine months ended September 30, 1974 and 1975, respectively, related to leases with affiliated parties.

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Management charges to affiliated companies, totaling $100,000 in 1970, $145,000 in 1971, $165,000 in 1972, $269,000 in 1973, $354,000 in 1974 and $265,000 and $282,000 in the nine months ended September 30, 1974 and 1975, respectively, are reflected in the consolidated statement of earnings as reductions in selling, general and administrative expenses.

Selling, general and administrative expenses include charges of $230,000 in 1970, $500,000 in 1971, $250,000 in 1973 and $250,000 in the nine months ended September 30, 1975 for contributions to The Marmon Foundation.

E. Income taxes, in thousands of dollars, consist of the following:

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
Current:							
Federal (Note 1f)	$ 8,332	$10,628	$11,982	$ 8,426	$5,816	$5,003	$3,887
Foreign				3	3	(38)	28
State and other	1,400	1,831	2,115	1,601	909	581	310
	9,732	12,459	14,097	10,030	6,728	5,546	4,225
Deferred, principally federal (Note 1f)	223	(149)	210	(151)	(528)	242	443
	$ 9,955	$12,310	$14,307	$ 9,879	$6,200	$5,788	$4,668

Current federal income taxes include provisions in lieu of income taxes of $204,000 in 1972, $179,000 in 1973, $161,000 in 1974 (of which $46,000 was provided in the nine months ended September 30, 1974), and $65,000 in the nine months ended September 30, 1975 relating to income tax reductions resulting from the utilization of prior losses of companies that were contributed to Marmon in 1972 by its stockholder (Note B), the benefits of which have been credited to other paid-in capital.

The income tax effects, in thousands of dollars, of significant items which resulted in effective tax rates different from the statutory federal income tax rates in effect during the periods shown, are detailed below:

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
Theoretical federal income taxes on reported earnings before income taxes and equity in net earnings of Cerro*	$ 8,708	$11,669	$13,331	$ 9,290	$6,067	$5,557	$4,568
Increase (reduction) resulting from:							
State and other income taxes less federal income tax benefits	728	952	1,100	836	473	302	157
Investment tax credits	(300)	(380)	(485)	(119)	(174)	(122)	
Taxes on equity in net earnings of Cerro	736	77	309				
Other—net (none of which exceed 5% of theoretical federal income taxes)	83	(8)	52	(128)	(166)	51	(57)
Income taxes reported	$ 9,955	$12,310	$14,307	$ 9,879	$6,200	$5,788	$4,668

* Determined using the following statutory federal income tax rates—49.2% in 1970 and 48% for subsequent periods.

With the exception of $.5 million of deferred taxes provided in 1975 applicable to the undistributed net earnings of Cerro, deferred income taxes applicable to each other type of timing difference and the net total thereof are less than 5% of theoretical federal income taxes for each period presented subsequent to 1972. Provisions for income taxes are not expected to differ materially from income taxes payable in the three years subsequent to 1974.

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F. As explained in Notes 1d and 5, Marmon's equity in Cerro's net earnings has been adjusted to reflect the effects of the difference between Marmon's cost and its equity in the net assets of Cerro at the date of acquisition. The effect of such adjustments is to increase significantly the amount reflected by Marmon as its equity in the net earnings of Cerro, as detailed below (in thousands of dollars):

	Nine Months Ended Sept. 30, 1975	Two Months Ended Sept. 30, 1974	Five Months Ended Dec. 31, 1974
Marmon's equity (45.33%) in the reported net earnings (loss) of Cerro	$(1,102)	$ (131)	$ 732
Adjustments of Marmon's equity to reflect the effects of the allocation of Marmon's purchase cost of the Cerro stock to Marmon's proportionate interest in Cerro's net assets at August 1, 1974 (Note 5):			
Reduction in depreciation and amortization	3,168	762	1,900
Reduction in losses from realty sales and write-downs	3,191	371	800
Elimination of the write-off of goodwill applicable to realty operations (Note 5)	3,645		
Other—net	1,322	61	860
Total adjustments	11,326	1,194	3,560
Marmon's equity in Cerro's net earnings, as adjusted	$10,224	$1,063	$4,292
Cash dividends received from Cerro	$ 3,228	$ 897	$1,973

See Note 5 as to uncertainties related to Cerro's real estate inventories.

G. Per share earnings data are not presented as Marmon is a wholly owned subsidiary of GL. No dividends were declared or paid during the five years and nine months ended September 30, 1975.

MARMON MANAGEMENT'S DISCUSSION AND ANALYSIS OF EARNINGS

General

Sales and net income of Marmon have increased throughout the five-year and nine month period ended September 30, 1975. However, income before equity in net earnings of Cerro Corporation declined in the first nine months of 1975 as compared with the comparable 1974 period. Marmon management believes that unusually favorable market conditions existed in 1974 for several of its businesses, as discussed below, and accordingly does not consider the results for 1974 as representative. Data on sales and income of Marmon's lines of business (see "Business and Properties of Marmon" included elsewhere herein) and comments on significant factors that have affected these amounts are presented below (amounts shown for income are before interest expense, equity in net earnings of Cerro Corporation and income taxes). In addition to the factors mentioned below, sales and income have been affected by the inflationary factors which existed in the United States economy during this period. However, the impact of inflation on Marmon's income has been significantly reduced by the use of the last-in, first-out (LIFO) method of valuing a significant portion of Marmon's inventories (see Notes 1c and 3 to Marmon's consolidated financial statements).

Pipe and Tubing

	Nine Months		Year			
	1975	1974	1974	1973	1972	1971
			(In millions)			
Net sales	$68.4	$79.4	$105.9	$69.5	$46.1	$32.2
Income	$ 4.9	$14.2	$ 15.2	$ 7.3	$ 3.0	$ 1.5

The higher level of sales and income of this business in 1974 was primarily attributable to the general state of the economy which had created a strong demand for both steel pipe and tubing and small diameter copper and aluminum tubing. Distributors that would normally purchase mill quantities of steel pipe and tubing turned to steel warehouse operations such as Marmon because of the unavail-

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ability of products from the mills resulting from allocations. In addition, foreign demand for small diameter copper and aluminum tubing increased. The demand from certain of Marmon's customers for steel pipe and tubing began to diminish in the last quarter of 1974 and the decline continued throughout 1975 because of the greater availability of products from mill sources, resulting in a decrease in sales and income in the first nine months of 1975 as compared with the comparable 1974 period.

Dollar sales of steel pipe and tubing for the first nine months of 1975 were less than sales in the comparable 1974 period as price increases did not fully offset a 20% decline in tonnage shipped. The decrease in profit resulted from less tonnage being shipped, and a reduction in margins owing to diminished demand and the liquidation of excess inventories in warehouses and in the hands of users.

Copper and aluminum tubing sales volume decreased in the first nine months of 1975 from 1974 owing to diminished demand and the change in the average price of copper from about $.96/lb. to $.63/lb. which is reflected in the selling price of tubing. The decrease in profit for copper and aluminum products is due to a significant decline in customer demand and the absence of speculative profits in copper which were realized in 1974.

The increase in sales and income in 1972 over 1971 resulted partially from an acquisition in May, 1971 with only seven months results being reported for that year, and partially from internal expansion and increased operating efficiencies. Increased efficiencies and internal expansion continued in 1973 with the opening of new steel pipe and tubing warehouses and the acquisition of additional copper tubing plant capacity. These improvements and the increased demand for product resulted in higher sales and income in 1973 as compared to 1972.

The small diameter copper and aluminum tubing and steel pipe and tubing distribution businesses are relatively high fixed cost operations. As a result, changes in sales owing to demand and market penetration have significant effects on profits.

Automotive Products

	Nine Months		Year				
	1975	1974	1974	1973	1972	1971	1970
				(In millions)			
Net sales	$58.9	$53.8	$75.0	$52.1	$43.2	$35.8	$33.1
Income	$ 5.2	$ 4.7	$ 6.3	$ 6.4	$ 4.3	$ 4.2	$ 3.1

The increase in sales in 1974 over 1973 is primarily attributable to the higher level of demand for Marmon's automotive products, principally truck flat leaf springs and automobile castings, and to the additional sales resulting from businesses acquired during 1974. The acquired businesses generated the majority of the increase in sales and income in the first nine months of 1975 over the comparable 1974 period as reduced truck and automobile production in the first nine months of 1975 adversely affected sales of certain of Marmon's products. A new truck spring plant at Morristown, Indiana began operations in the first half of 1974 and a foundry in Bridgman, Michigan was completed in late 1974. A new replacement market truck spring plant in Columbia, Tennessee was completed in early 1975. Income declined slightly in 1974 from 1973 due principally to startup losses of the new plants.

The increase in sales from 1970 through 1973 is attributable to the growth in the truck spring business and increased sales of castings. Truck spring sales and income were substantially increased in 1973 by the unusually high demand for this product. Premiums were paid during this period by major truck producers and others for additional springs and parts manufactured on an added overtime basis. Income in 1970 and 1972 was adversely affected by losses in an automotive parts business discontinued in 1973.

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Mining Equipment

	Nine Months		Year				
	1975	1974	1974	1973	1972	1971	1970
				(In millions)			
Net sales	$55.4	$30.3	$46.6	$27.6	$24.8	$26.9	$24.8
Income	$11.3	$ 4.4	$ 7.4	$ 2.8	$ 2.8	$ 3.1	$ 3.2

The significant increases in sales and income of this business in the first nine months of 1975 over the amounts of the comparable 1974 period and the year 1974 over the year 1973 resulted from the high level of demand in 1974 and 1975 for coal mining equipment and replacement parts. During this period, demand for underground mining equipment outpaced Marmon's plant capacity. A new plant addition at the Pulaski, Virginia facility was completed in late 1974. An addition to Marmon's Oak Hill, West Virginia facility was completed in 1975, and an additional operating facility of approximately 20,000 sq. ft. was recently acquired at Rural Retreat, Virginia.

The sales and income in this segment of the business can be correlated to the opening of new coal mines and reactivation of coal mines previously closed. New products were introduced throughout the 1970-1973 period but their impact on sales was not significant until 1972. A continuous mining system, which eliminated much of the handling involved in moving coal from the "mine face" to the surface, introduced in 1972, was a significant factor in the increase in 1973 sales from the generally depressed conditions that existed for this business in 1972.

Building Products and Equipment

	Nine Months		Year				
	1975	1974	1974	1973	1972	1971	1970
				(In millions)			
Net sales	$19.2	$25.5	$32.1	$31.0	$31.3	$26.1	$23.6
Income	$ 1.5	$ 2.3	$ 2.7	$ 3.4	$ 2.8	$ 2.7	$ 2.3

Although sales for 1974 and 1973 were about equal, the profitability of these businesses was reduced in 1974. The magnitude of 1974 increases in the price of steel and wood products (the primary materials in this product area) were not sufficiently anticipated in the pricing structure at the time firm price orders were accepted. Mill price materials were not available and warehouse priced material had to be procured to meet the customer's requirements. In addition, because of shortages, material normally fabricated in Marmon's plants had to be purchased in a fabricated form at considerably higher cost.

The decline in sales and profits during the first nine months of 1975 is generally related to the nationwide slowdown in commerical construction and retail store openings and remodelings. In addition, Marmon has decided to withdraw from the ceramic tile business and a provision has been made in 1975 for losses expected to be incurred. Sales of the tile business ranged from $2.4 million in 1970 to $5.8 million in 1974 and income did not exceed $.3 million (a loss of $.6 million was incurred in the 1975 period).

Product pricing for this segment of the business is extremely competitive and, although selling prices have been increased and costs have been reduced somewhat, any improvement in profitability will be dependent upon the extent of the recovery in the nation's commercial construction.

Aggressive marketing efforts and improved customer service, resulting in greater market penetration, and several additions to operating facilities resulted in the increase in sales and income of this segment of the business during the 1970-1973 period.

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Agricultural Equipment and Other

	Nine Months		Year				
	1975	1974	1974	1973	1972	1971	1970
				(In millions)			
Net sales	$ 6.4	$ 5.5	$ 8.0	$ 8.1	$ 6.2	$ 5.5	$ 5.9
Income	$ 1.4	$ 1.3	$ 1.5	$ .2	$ .6	$ .8	$ 1.1

The small decline in sales in 1974 is attributable to the discontinuation of certain segments of the agricultural equipment product line in 1973. Profitability of the agricultural lines improved in 1974 and continued to improve in the first nine months of 1975 due to the increasing need for food production equipment.

Income Before Income Taxes and Equity in Earnings of Cerro

Income for the first nine months of 1975 declined $6.2 million as compared to the comparable 1974 period. This decline is attributable to the reduction in income from businesses other than mining equipment and agricultural equipment which reduced income by $2.6 million, and an increase of $3.6 million in interest expense on debt incurred, principally in the last half of 1974, to finance facility expansion, higher working capital requirements and the purchase of the investment in Cerro.

1974 income increased from 1973 by approximately $8.4 million after $4.6 million of additional interest expense incurred for the aforementioned purposes, due primarily to significant increases in pipe and tubing and mining equipment income.

1973 income was approximately $6.7 million higher than 1972 income owing primarily to significant increases in income of the pipe and tubing and automotive products businesses.

Net Income

The increase of approximately $5.3 million in net income for the first nine months of 1975 as compared with the comparable 1974 period results from the equity in the net earnings of Cerro, which investment was acquired in August 1974, as income was adversely affected by the factors discussed above.

The increase of approximately $8.3 million in 1974 as compared with 1973 results from inclusion of the equity in Cerro's net earnings and the factors discussed above.

The increase of approximately $3 million in 1973 over 1972 net income is due principally to the factors discussed above.

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CERRO-MARMON CORPORATION

PRO FORMA COMBINED CONDENSED BALANCE SHEET
(Unaudited)

The following unaudited pro forma combined condensed balance sheet combines the unaudited consolidated balance sheets of Cerro Corporation and The Marmon Group, Inc. (Michigan) at September 30, 1975. The pro forma combined statement has been prepared on the basis described in Note 1 and gives effect to the adjustments described in Note 2. This statement should be read in conjunction with the historical financial statements of Cerro and Marmon and the notes thereto included elsewhere herein.

ASSETS	Cerro	Marmon	Pro Forma Combining Adjustments (Note 2)	Cerro-Marmon Pro Forma Combined
		(In millions of dollars except per share amounts)		
Current assets	$259.6	$101.6	$ (25.0)(f)	$336.2
Investment in Cerro		77.2	(77.2)(c)	—
Realty assets (Note 2)	184.2		(39.0)(e)	145.2
Notes due from Chile	15.3			15.3
Future income tax benefit	35.7		(35.7)(e)	—
Investments and other assets	15.4	5.4	(15.4)(e)	5.4
Property, plant and equipment—net	151.0	35.8	(66.9)(e)	119.9
Operating rights and goodwill—net	18.3		(16.8)(e)	1.5
	$679.5	$220.0	$(276.0)	$623.5
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities	$ 87.3	$ 39.2	1.5 (a)	$128.0
Realty liabilities	145.2			145.2
Long-term debt and lease-purchase obligations	94.8	84.3	(2.2)(e) (25.0)(f)	151.9
Other non-current amounts	8.7	1.4	3.5 (e)	13.6
Total liabilities	336.0	124.9	(22.2)	438.7
Stockholders' equity:				
Preferred stock (liquidation preference and redemption value of $95.1)			89.7 (a)	89.7
Common stock	29.3		5.0 (b) (29.3)(d)	5.0
Other paid-in capital	178.1	12.1	(5.0)(b) (178.1)(d)	7.1
Retained earnings (Note 8)	152.4	83.0	(152.4)(d)	83.0
Treasury stock	(16.3)		16.3 (d)	—
Total stockholders' equity	343.5	95.1	(253.8)	184.8
	$679.5	$220.0	$(276.0)	$623.5
Book value per common share (Note 6)	$43.42	$19.01		$17.94

See accompanying notes to pro forma combined condensed financial statements.

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CERRO-MARMON CORPORATION

PRO FORMA COMBINED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

The following unaudited pro forma combined condensed statements of operations combine the consolidated statements of operations of Cerro Corporation and The Marmon Group, Inc. (Michigan) for the year ended December 31, 1974 and the nine months ended September 30, 1975 (the 1974 amounts have been adjusted to a pro forma basis as described in Notes 3 and 4). The pro forma combined statements have been prepared on the basis described in Note 1 and give effect to the pro forma combining adjustments described in Note 5. The effect of such adjustments is to increase significantly the amounts shown for pro forma combined net income. These statements should be read in conjunction with the historical financial statements of Cerro and Marmon and notes thereto included elsewhere herein. These statements do not purport to be indicative of the results that actually would have been obtained if the combined operations had been conducted during the periods.

	Year Ended December 31, 1974							
	Cerro			Marmon			Pro Forma Combining Adjustments (Note 5)	Cerro-Marmon Pro Forma Combined
	Historical	Pro Forma Adjustments (Note 3)	Pro Forma	Historical	Pro Forma Adjustments (Note 4)	Pro Forma		
	(In millions of dollars except per share amounts)							
Revenues	$781.9	$60.8	$842.7	$269.1	$	$269.1	$	$1,111.8
Costs and expenses, exclusive of amounts below	719.1	40.1	759.2	231.8		231.8	(.6)(b)	990.4
Depreciation and amortization	8.7	3.0	11.7	4.2		4.2	(6.1)(b)	9.8
Interest expense, net of interest capitalized	14.8	3.5	18.3	5.3	4.3	9.6	.3 (b)	28.2
Realty losses eliminated (Note 5)							(13.6)(b)	(13.6)
	742.6	46.6	789.2	241.3	4.3	245.6	(20.0)	1,014.8
Income before income taxes and Marmon's equity in Cerro earnings	39.3	14.2	53.5	27.8	(4.3)	23.5	20.0	97.0
Income taxes	23.4	5.4	28.8	14.3	(1.2)	13.1	(1.3)(a) 6.3 (c)	46.9
Income before Marmon's equity in Cerro earnings	15.9	8.8	24.7	13.5	(3.1)	10.4	15.0	50.1
Marmon's equity in Cerro earnings				4.3	13.6	17.9	(17.9)(a)	—
Net income	15.9	8.8	24.7	17.8	10.5	28.3	(2.9)	50.1
Net income applicable to preferred stock							10.2 (d)	10.2
Net income applicable to common stock	$ 15.9	$ 8.8	$ 24.7	$ 17.8	$10.5	$ 28.3	$(13.1)	$ 39.9
Net income per common share (Note 6)	$ 2.01		$ 3.12	$ 3.55		$ 5.67		$ 7.98
Ratio of earnings to fixed charges and preferred dividend requirements (Note 7)								2.0
	Nine Months Ended September 30, 1975							
Revenues	$452.4			$209.7			$	$ 662.1
Costs and expenses, exclusive of amounts below	427.1			181.2			(1.1)(b)	607.2
Depreciation and amortization	8.9			4.2			(4.7)(b)	8.4
Interest expense, net of interest capitalized	12.3			6.2			.2 (b)	18.7
Realty losses eliminated (Note 5)							(25.2)(b)	(25.2)
	448.3			191.6			(30.8)	609.1
Income before income taxes and Marmon's equity in Cerro earnings	4.1			18.1			30.8	53.0
Income taxes	6.5			9.9			(.7)(a) 8.1 (c)	23.8
Income (loss) before Marmon's equity in Cerro earnings	(2.4)			8.2			23.4	29.2
Marmon's equity in Cerro earnings				10.2			(10.2)(a)	—
Net income (loss)	(2.4)			18.4			13.2	29.2
Net income applicable to preferred stock							7.6(d)	7.6
Net income (loss) applicable to common stock	$ (2.4)			$ 18.4			$ 5.6	$ 21.6
Net income (loss) per common share (Note 6)	$ (.31)			$ 3.68				$ 4.32
Ratio of earnings to fixed charges and preferred dividend requirements (Note 7)								1.7

See accompanying notes to pro forma combined condensed financial statements.

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NOTES TO PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Proposed combination

The accompanying pro forma statements have been prepared to reflect the pro forma effects of the proposed combination of Cerro Corporation and The Marmon Group, Inc. (Michigan) and the proposed prepayment of $25 million of Marmon's long-term debt with funds contributed to Marmon by Cerro-Marmon. Pursuant to the terms of the proposed combination—

(a) GL Corporation ("GL"), the owner of all the Marmon common shares outstanding, shall transfer all such Marmon common shares to Cerro-Marmon Corporation, a newly organized Delaware Corporation ("Cerro-Marmon"), in exchange for 5,000,000 common shares of Cerro-Marmon.

(b) Cerro will merge into Cerro-Marmon. Pursuant to this merger, each share of Cerro common stock held by persons other than Marmon shall be exchanged for one share of Cerro-Marmon Preferred Stock and the shares of Cerro common stock held by Marmon shall be cancelled.

Upon completion of the above, GL will own all of the outstanding common stock of Cerro-Marmon, the former owners of Cerro common stock, other than Marmon, will own all of the outstanding Preferred Stock of Cerro-Marmon, and Marmon will be a wholly owned subsidiary of Cerro-Marmon.

The above described transactions result in a combination of Cerro and Marmon which, for accounting purposes, is treated as a purchase of Cerro by Marmon. Accordingly, the assets (excluding the investment in Cerro), liabilities and stockholder's equity of Marmon are included in the pro forma combined balance sheet of Cerro-Marmon at the historical amounts reflected in Marmon's consolidated balance sheet and the net assets of Cerro have been adjusted in the pro forma balance sheet to reflect the allocation of Marmon's purchase cost to Cerro's net assets at the dates of acquisition (August 1, 1974 as to the 45.33% common stock interest in Cerro acquired by Marmon as of such date and September 30, 1975 as to the 54.67% common stock interest in Cerro assumed to be acquired as of such date). Such allocations are based on estimates made as of August 1, 1974 and the present time which are subject to final review after the completion of the combination.

It is assumed that all common shares of Cerro, other than shares held by Marmon, will be exchanged for Cerro-Marmon preferred shares and that no cash will be paid to common stockholders of Cerro (see "Rights of Dissenting Stockholders of Cerro" elsewhere herein). The Cerro-Marmon preferred shares assumed to be issued have been valued at an estimated value of $20.75 per share resulting in a purchase cost for 54.67% of Cerro of $91.2 million, including $1.5 million of estimated acquisition costs.

2. Pro forma balance sheet

The pro forma combining adjustments and the pro forma combined amounts reflected in the accompanying pro forma balance sheet are based on the assumption that the proposed combination of Cerro and Marmon and the proposed prepayment of $25 million of Marmon's long-term debt with funds contributed

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to Marmon by Cerro-Marmon had taken place on September 30, 1975. The pro forma combining adjustments consist of the following (in millions of dollars):

a. Issuance of 4,324,970 shares of Cerro-Marmon Preferred Stock for 4,324,970 shares of Cerro common stock outstanding (54.67% of outstanding common shares) at an estimated value of $20.75 per share	$ 89.7
Incurrence of acquisition costs	1.5
Total	$ 91.2
b. Issuance of 5,000,000 shares of Cerro-Marmon common stock, at par value	$ 5.0
c. Elimination of Marmon's investment in Cerro consisting of—	
Cost of 3,586,297 shares of Cerro common stock (45.33% of outstanding common shares)	$ 67.8
Equity in Cerro's undistributed net earnings from August 1, 1974 to September 30, 1975	9.4
Investment in Cerro	$ 77.2
d. Elimination of Cerro's common stockholders' equity	$343.5
e. Adjustment of Cerro's assets and liabilities to reflect Marmon's basis therein consisting of—	
Acquisition of 54.67% interest (a above)	$ 91.2
Marmon's 45.33% interest (c above)	77.2
Marmon's basis in Cerro's net assets	168.4
Cerro's common stockholders' equity	343.5
Net adjustment (allocated as discussed below)	$175.1
f. Reduction in cash and long-term debt	$ 25.0

The allocation of Marmon's purchase cost to Cerro's net assets has been made in two segments. The allocation of the cost of the initial purchase of a 45.33% interest in Cerro, made as of August 1, 1974 for purposes of determining Marmon's equity in Cerro's earnings, was made as set forth in Note 5 to the Marmon financial statements. The basis of the pro forma allocation of the estimated cost of the proposed purchase of the 54.67% interest in Cerro is described below. The concepts used in the August 1, 1974 allocation and the presentation of related adjustments differ in certain respects from the concepts and presentation followed in the pro forma allocation. However, the results of the August 1, 1974 allocation would not have been changed significantly if the concepts used in the pro forma allocation had been followed and the presentation of the pro forma adjustments relative to the 45.33% interest has been conformed to the presentation of the adjustments relating to the 54.67% interest.

The pro forma allocation to Cerro's assets of the estimated cost of the 54.67% interest in Cerro, assumed to have been acquired as of September 30, 1975, has been made on the following basis:

Net current assets and notes due from Chile (long-term portion)

Cost was allocated in amounts equal to Cerro's book values as such amounts were estimated to approximate fair values.

Investments and operating rights, net

Although they are believed to be of value, no cost was allocated to these assets since appraisal values are difficult to obtain because of their unique nature (see Notes 1 and 4 of the Cerro financial statements). Further, if Cerro's book values were considered to approximate appraisal values at September 30, 1975, the aggregate cost which would be allocated to these assets would not significantly affect the pro forma combined financial statements.

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Net realty assets

As more fully explained in Note D to Cerro's consolidated statement of earnings (loss), it is the present intention of management to reduce substantially the business, operations and debt levels of the real estate subsidiary through an orderly liquidation of inventories designed to minimize losses. It is believed that this liquidation will take place while adverse market conditions prevail, creating an uncertainty as to the amount and timing of the ultimate estimated net realizable value of the real estate inventories.

Other actions may be taken in the future with respect to the realty operations as management continues to evaluate its alternatives. However, future actions that might be taken, if any, and the financial effects thereof are not predictable at this time because of the depressed conditions in the real estate markets in which Cerro operates and uncertainties as to future market conditions, the availability of buyers for Cerro's extensive realty inventories and the amounts that might be realized from disposition of the realty inventories under the various conditions under which they might be sold.

Because of the present conditions in Cerro's real estate markets and the existing uncertainties, it is not possible at this time to determine a final amount of purchase cost to be allocated to the individual realty assets, principally realty inventories. Therefore, purchase cost has been tentatively allocated to the net realty assets as a group in an amount equal to Cerro's book value of these net assets less a reserve for future realty losses. The amount of the reserve is based on the sum of Cerro's equity in and advances to the realty subsidiary, debt obligations to the realty subsidiary, and commitments to advance additional funds to the realty subsidiary (see Notes 14 and 15 to the Cerro financial statements). All net gains or losses from the realty operations for a two-year period (or appropriate shorter period), will be credited or charged to such reserve. It is expected that present uncertainties concerning the realty operations will be resolved during this period. The amount of any reserve remaining at the conclusion of this period will be applied to reduce the purchase cost allocated to property, plant and equipment (any remaining reserve applicable to the 45.33% interest will be classified as a deferred credit).

The pro forma reserve for future realty losses reflected in the September 30, 1975 pro forma combined condensed balance sheet of Cerro-Marmon has been determined as follows (in millions of dollars):

54.67% of Cerro's equity in and advances to the realty subsidiary at September 30, 1975	$21.3
54.67% of Cerro's debt obligations and commitments to the realty subsidiary at September 30, 1975	4.9
Reserve for future realty losses applicable to 54.67% interest	26.2
Remaining balance at September 30, 1975 of adjustments made, as of August 1, 1974, to net realty assets applicable to 45.33% interest	12.8
Total pro forma reserve for future realty losses	$39.0

Future income tax benefit

Because of the potential for losses in the realty operation, as discussed under "Net realty assets", the realizable value of Cerro's asset, "Future income tax benefit", is now uncertain. Accordingly, no cost has been allocated to this asset. Future income tax benefits realized will be applied to reduce the purchase cost allocated to property, plant and equipment (benefits realized applicable to the 45.33% interest will be classified as a deferred credit).

Liabilities (long-term)

Cerro's book values were considered to approximate fair values with the following exceptions:

A. Certain long-term debt was reduced to reflect present value amounts based on current interest rates in excess of actual rates.

B. A provision was made for the present value of Cerro's unfunded vested pension benefits.

C. Deferred income was eliminated.

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These adjustments were further adjusted for income tax effects.

Property, plant and equipment—net

After all allocations explained above were made, the residual purchase cost was allocated to property, plant and equipment.

3. Pro forma statement of operations—Cerro

The pro forma statement of operations of Cerro for the year ended December 31, 1974 includes the pro forma results of businesses acquired by Cerro during 1974 and 1975 assuming such acquisitions had been made as of the beginning of 1974. The pro forma adjustments consist of the historical earnings of these businesses for periods in 1974 prior to their acquisition by Cerro (January 1 through May 29, 1974 as to Golconda, January 1 through September 25, 1974 as to the Fetterolf Coal Group, January 1, 1974 through December 31, 1974 as to GM&W Coal Company, Delta Mining, Inc., Stott Coal Company and James M. Stott Coal Company), adjusted to reflect the pro forma effects from January 1, 1974 of (a) the allocations of Cerro's purchase costs to the assets of these businesses, (b) interest applicable to the amounts expended in the acquisitions for the appropriate periods and (c) income taxes applicable to the adjusted pro forma results. The pro forma effect of the 1975 acquisitions was not significant for the nine months ended September 30, 1975.

4. Pro forma statement of operations—Marmon

The pro forma statement of operations of Marmon for the year ended December 31, 1974 includes the pro forma effects of the acquisition of its 45.33% interest in Cerro assuming such acquisition had been made as of the beginning of 1974 and assuming that the acquisitions by Cerro in 1974 and 1975 had been made as of the beginning of 1974 (Note 3). The pro forma adjustments consist of (a) Marmon's pro forma equity in the pro forma net income of Cerro from January 1, 1974 adjusted to reflect the pro forma effects of the allocation of Marmon's cost of its investment in Cerro to its equity in the underlying assets of Cerro as if such allocation had been made as of the beginning of 1974, (b) interest expense on the amount of debt incurred to acquire its investment in Cerro for the period January 1 through July 31, 1974 and (c) income taxes applicable to the pro forma adjustments. The pro forma effect of Cerro's acquisitions in 1975 was not significant to Marmon's equity in Cerro's net earnings for the nine months ended September 30, 1975.

Marmon's pro forma equity in Cerro's pro forma earnings for the year 1974 has been determined as follows (in millions of dollars):

Marmon's equity (45.33%) in Cerro's pro forma net earnings	$11.2
Adjustments of Marmon's equity to reflect the effects of the allocation of Marmon's purchase cost of the Cerro stock to Marmon's proportionate interest in Cerro's net assets as of August 1, 1974 assuming such allocation had been made as of January 1, 1974:	
Reduction in pro forma depreciation and amortization	4.2
Reduction in losses from realty sales and write-downs	2.4
Other—net	.1
Total	17.9
Less equity for the period August 1, 1974 through December 31, 1974 included in Marmon's historical statement of earnings	4.3
Pro forma adjustment of Marmon's equity in Cerro's pro forma net earnings	$13.6

5. Pro forma statement of operations—combined

The combined pro forma statement of operations combines the pro forma statements of operations of Cerro and Marmon for the year ended December 31, 1974 and the historical statements of operations

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of Cerro and Marmon for the nine months ended September 30, 1975 as if the combination had taken place as of January 1, 1974. The pro forma adjustments reflect the effects of the pro forma adjustments of Cerro's assets and liabilities described in Note 2 above as if such adjustments had been made as of January 1, 1974. These adjustments consist of the following (in millions of dollars):

	Nine months 1975	Year 1974
a. Elimination of—		
(1) Marmon's equity in Cerro's pro forma net earnings	$10.2	$17.9
(2) Income taxes on Marmon's equity in Cerro's pro forma net earnings	$ .7	$ 1.3
b. Adjustment of Cerro's costs and expenses—		
(1) Elimination of realty losses:		
Write-off of goodwill	$ 8.0	$
Operating losses	17.2	13.6
Total realty losses eliminated	$25.2	$13.6
(2) Reduction in pro forma depreciation and amortization	$ 4.7	$ 6.1
(3) Increase in interest expense	$ .2	$ .3
(4) Other reductions—net	$ 1.1	$ .6
c. Elimination of Cerro's income tax reductions applicable to realty losses eliminated	$ 8.1	$ 6.3
d. Earnings applicable to preferred stock—		
(1) Dividends at an annual rate of $2.25 per share on 4,324,970 preferred shares assumed to be issued	$ 7.3	$ 9.7
(2) Accrual of excess of redemption value over value assigned to preferred stock	.3	.5
	$ 7.6	$10.2

The pro forma adjustments above applicable to Cerro's realty operations result in the elimination of the net loss incurred by such operations in each period presented. As discussed in Note 2 above, a reserve for such losses was established in connection with the pro forma allocation of Marmon's purchase cost to Cerro's assets. Net losses and profits incurred during the two year period following the proposed combination, during which period it is expected that present uncertainties concerning the realty operation will be resolved, will be charged or credited to the reserve to the extent applicable. This treatment of realty losses differs in certain respects from the treatment accorded Marmon's 45.33% equity in realty losses in Marmon's historical financial statements which treatment was determined on the basis of information known to Marmon at that time.

6. Per share data

The book value per common share amount for Cerro is based on the 7,911,000 common shares outstanding at September 30, 1975. Earnings per common share amounts for Cerro are based on the average number of common shares outstanding during the periods of 7,925,000 shares in 1974 and 7,911,000 shares in the nine months ended September 30, 1975.

The book value and earnings per common share amounts for Marmon and Cerro-Marmon are based on the proposed number of common shares of Cerro-Marmon to be outstanding after the combination (5,000,000 shares), all to be owned by GL. Such determinations as to Cerro-Marmon are

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based on pro forma stockholders' equity after deduction of the liquidation preference of the preferred stock of $95.1 million as to book value per common share and on pro forma net income applicable to common stock as to earnings per common share.

7. Ratio of earnings to fixed charges and preferred dividend requirements

Ratios shown have been determined as follows (in millions of dollars):

	Nine months 1975	Year 1974
Earnings—		
Pro forma net earnings	$29.2	$ 50.1
Pro forma fixed charges	15.4	23.9
Pro forma income taxes	23.8	46.9
Total	$68.4	$120.9
Fixed charges—		
One-third of all pro forma rentals, less realty rentals eliminated*	$ 2.6	$ 3.5
Pro forma interest expense, less realty interest eliminated	12.8	20.4
Pro forma fixed charges added to income	15.4	23.9
Realty interest expense capitalized	5.5	8.5
Realty interest expense eliminated	5.9	7.8
One-third of realty rentals eliminated	.2	.3
Pro forma fixed charges	27.0	40.5
Pro forma preferred dividend requirements (net income applicable to preferred stock grossed up for income tax effects at the effective tax rate reflected in the pro forma combined statement of operations)	13.9	19.7
Total	$40.9	$ 60.2
Ratio	1.7	2.0

* Estimated to approximate the average interest factor included in the leases as determined by the companies.

Marmon will be required under the terms of its bank loan agreement to make substantial principal payments on outstanding bank indebtedness beginning in November 1976 which will, during the term of the loan involved, reduce its available cash and thereby restrict its ability to pay dividends to Cerro-Marmon. See Note 8 below.

8. Restrictions

Cerro-Marmon, as successor to Cerro, and Marmon will be subject to the covenants of various loan agreements of Cerro and Marmon, respectively, which have been amended in contemplation of the business combination. The amendments will become effective upon consummation of the business combination.

Cerro-Marmon, among other things, will be required to maintain minimum levels of working capital, tangible net worth and debt ratios (each as defined) and will be subject to restrictions as to dividends and

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capital stock repurchases and as to other asset transfers, investments and advances to GL or affiliates thereof. At September 30, 1975, after giving pro forma effect to the proposed business combination, Cerro-Marmon would have unrestricted retained earnings of approximately $35.9 million for the payment of dividends and sinking fund requirements with respect to the [illegible] Stock. However, based on the pro forma working capital of Cerro-Marmon, as defined in the amended loan agreements, dividend and sinking fund payments would be limited to approximately $22 million. See Note 9 to the Cerro consolidated financial statements and "Description of Capital Stock of Cerro-Marmon—Certain Restrictions Imposed by Long-Term Debt" elsewhere herein.

Marmon, among other things, will be required to maintain minimum levels of working capital (as defined) and tangible net worth, will be subject to restrictions as to dividends and capital stock repurchases or other asset transfers or advances to Cerro-Marmon and will be required, under certain circumstances, to make substantial prepayments on its long-term debt. See Note 7 to the Marmon consolidated financial statements and "Description of Capital Stock of Cerro-Marmon—Certain Restrictions Imposed by Long-Term Debt" elsewhere herein.

BUSINESS AND PROPERTIES OF CERRO

Business

Incorporated in New York in 1915 as the successor to mining enterprises in Peru which were commenced in 1902, Cerro Corporation (the term "Cerro" refers to Cerro Corporation and its subsidiaries unless otherwise required by the context) is engaged in the United States in the manufacture and sale of refined copper, copper and brass mill products, electric wire and cable and valves, fittings, regulators and other control equipment for pressurized gases; coal mining and other mining operations; common carrier motor freight operations; and real estate operations. A wholly owned subsidiary, Cerro Sales Corporation ("Cerrosales"), conducts world-wide trading activities in nonferrous refined metals, concentrates and other raw materials including copper, lead, zinc, silver and bismuth. Cerro also has a 22.25% interest in Southern Peru Copper Corporation, a company which operates a large copper mine in Peru; a 12% interest in an iron ore mining venture in Australia; and various interests in several relatively small mining and manufacturing companies in Peru.

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Information as to Continuing Lines of Business (Unaudited)

The following table sets forth certain information for each of the last five fiscal years and for the nine month periods ended September 30, 1974 and September 30, 1975, with respect to the contribution to consolidated sales and earnings (losses) before taxes, and before allocation of corporate administrative expenses and interest expense, of the continuing operations of Cerro's principal lines of business. Material intergroup transactions have been eliminated. The information in the table for 1972 and prior years has been restated to reflect the effect of the expropriation by the Peruvian Government referred to above and the other events referred to in Note (1) to the table.

	Nine months ended September 30,				Year ended December 31,									
	1975		1974		1974		1973		1972		1971		1970	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(Thousands of Dollars)							
Sales(1):														
Metal Products	$ 99,489	23	$205,386	34	$251,065	33	$202,160	32	$147,349	34	$111,881	34	$126,510	39
Wire and Cable Products	80,652	18	100,100	17	123,943	16	112,034	18	87,958	21	82,186	25	86,630	27
Metals Trading	120,210	28	165,971	28	192,404	26	103,608	16	66,290	15	79,388	25	87,621	27
Real Estate(3)	24,575	6	71,352	12	96,006	12	159,949	25	114,668	27	52,634	16	21,388(2)	7
Trucking	54,060	12	54,879	9	73,466	10	58,856	9	11,756(2)	3	—	—	—	—
Mining	57,025	13	—	—	21,446(2)	3	—	—	—	—	—	—	—	—
	$436,011	100	$597,688	100	$758,330	100	$636,607	100	$428,021	100	$326,089	100	$322,149	100
Earnings (Losses) from Continuing Operations(1):														
Metal Products	$ 3,186	19	$ 16,423	34	$ 14,231	24	$ 20,846	37	$ 11,057	36	$ 4,377	27	6,175(4)	38(4)
Wire and Cable Products	12,421	74	21,815	44	26,231	44	10,498	19	4,503	14	5,442	33		
Metals Trading	1,438	8	6,410	13	5,952	10	2,767	5	3,024	10	(26)	—		
Real Estate(3)	(24,481)	(146)	(7,100)	(14)	(13,606)	(23)	11,884	21	5,609	18	(2,879)	(18)	(696)(2)	(4)
Trucking	2,742	16	3,721	8	4,970	9	5,550	10	1,183(2)	4	—	—	—	—
Mining	12,374	74	—	—	10,230(2)	17	—	—	—	—	—	—	—	—
Dividends from Southern Peru Copper Corp.	—	—	—	—	—	—	—	—	3,482	11	6,615	41	7,834	48
Other	9,145	55	7,818	15	11,177	19	4,698	8	2,170	7	2,670	17	3,046	18
	$ 16,825	100	$ 49,087	100	$ 59,185	100	$ 56,243	100	$ 31,028	100	$ 16,199	100	$ 16,359	100

(1) Information with respect to 1972 and prior years has been restated for the expropriation of Cerro de Pasco Corporation's properties in Peru, the sale of Cerro's 50% equity interest in Atlantic Cement Company, Inc. and a change in inventory accounting at one of the metal fabricating plants. See Note A to Cerro's Consolidated Statement of Earnings (Loss).

(2) Year of acquisition or start-up: Real Estate—September 1970; Trucking—October 1972; Mining—September 1974.

(3) For all periods, includes results of Leadership Housing, Inc. and Tamarac Utilities, Inc.

(4) Amounts by group are unavailable for such period.

For an analysis by Cerro management of certain factors affecting the results of operations of Cerro's lines of business, see "Cerro Management's Discussion and Analysis of the Consolidated Statement of Earnings (Loss)" elsewhere herein. For information with respect to losses incurred by Cerro's real estate operations, see "Real Estate Operations" below.

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Cerro functions through four operating groups: manufacturing (which includes Metal Products, Wire and Cable Products and Metals Trading as set forth in the table under "Information as to Continuing Lines of Business"); real estate; trucking; and mining.

Manufacturing Group

The operations of the Manufacturing Group are carried out through Cerro Copper Products Division ("Cerrocu"), Cerro Metal Products Division ("Cerromet"), Cerro Wire and Cable Co. Division ("Cerrowire"), Cerro Communication Products Division ("Cerrocom"), Cerrosales and Golconda Corporation ("Golconda").

Cerrocu

Cerrocu produces and sells copper plumbing tube and related items, thin-wall industrial copper tube, and elecrolytic copper cathode. Plumbing tube is sold principally to plumbing wholesalers direct from the mill through twelve regional warehouses. Industrial tube is sold primarily to original equipment manufacturers. Sales of electrolytic copper cathodes are approximately equally divided between sales on the open market to the ultimate user and to Cerrosales for resale (See "Cerrosales" below). Cerrocu also distributes a line of plastic plumbing fittings for another manufacturer.

On March 7, 1975 Cerrocu settled an 18 week strike, which had closed its Sauget, Illinois manufacturing facility, by signing a new three-year contract with the United Steelworkers. Management believes the terms of the new contract will permit Cerrocu's operation at Sauget to remain competitive from the standpoint of labor costs for the term of the new contract.

Cerromet

Cerromet produces and sells brass mill products, including brass and bronze rod, bar, shapes, wire, forgings, screw machine parts and die castings, as well as certain low melting point alloys, principally to original equipment manufacturers and metal distributors.

The principal markets for products manufactured by Cerromet and sold by it to fabricators are the housing, automotive, industrial process and control equipment, and communication and electrical equipment industries. In addition to the foregoing, a small portion of Cerromet's total sales are to distributors of brass rod products.

On April 17, 1975 Cerromet settled a six week strike of the United Auto Workers at its principal facility at Bellefonte, Pennsylvania following expiration of a labor agreement. Cerro's management believes that the settlement terms will not place the division at a competitive disadvantage.

During the second half of 1974 and the first half of 1975 the division experienced a substantial decrease in demand for its rod and fabricated parts products. This decrease began to abate in the third quarter of 1975.

Cerrowire

Cerrowire produces and sells single and multi-conductor building wire and cable, control, power and instrumentation cable, aerospace and marine cable, copper wire rod, electrical metallic tubing and coaxial cable.

Cerrowire's products are sold through its own sales offices, manufacturer's representatives, and distributors to (i) the construction industry, (ii) public utilities, and (iii) diversified manufacturers, including those in the defense, maritime, and aerospace industries. It is expected that in early 1976 Cerrowire will commence the manufacture of intermediate metal conduit in a new building at its Syosset, New York facility. Cerro has acquired a building in East Granby, Connecticut, and related equipment, resulting in an expansion of production of utility wire and cable.

Cerrocom

Cerrocom manufactures coaxial cable and passive devices and sells them directly and through distributors to cable television system builders and operators.

Cerrosales

Cerrosales conducts worldwide metal trading activities. It trades, generally on a hedged position, in metal contracts on The Commodity Exchange, Inc., in New York, the London Metal Exchange and

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foreign exchange markets. Cerrosales deals in nonferrous refined metals, concentrates and ores, including copper, lead, zinc, silver and companion metals. On December 20, 1974 Cerrosales was appointed copper sales agent in the United States and Canada for Corporacion del Cobre, Chile, an agency of the Government of Chile which oversees most copper production and sales operations of Chile.

Golconda

As a result of private purchases and a tender offer concluded at the end of May 1974, Cerro owns approximately 86.6% of the outstanding shares of common stock of Golconda and approximately 73.5% of the outstanding shares of its preferred stock, or approximately 85% of Golconda's total voting stock. Golconda is engaged in the manufacture and sale of valves, fittings, regulators and other control equipment for pressurized gases. The propane gas market has historically accounted for approximately 70% of Golconda's business. The propane market currently is depressed because of the high cost of propane gas. In addition, Golconda's share of such market has eroded. Golconda's products are sold principally in the United States by a variety of methods, including both direct sales and sales through distributors and dealers. Golconda sold its food service equipment business and its precision components and assemblies business in the first half of 1975.

Properties

Cerro's fabricating and manufacturing operations are conducted at twelve principal plant locations having an aggregate of approximately 3.5 million square feet of floor space, all of which are owned in fee (except for 132,000 sq. ft. of the Ohio plant of Cerrocu which is leased under a lease expiring December 31, 1980, renewable to 1995, and the equipment at the New Jersey plant of Cerrocom which is leased).

Competition

The fields in which Cerro's manufacturing divisions operate are intensely competitive. Although Cerro is a major producer in its fields, a number of its major competitors in the copper fabricating field are fully integrated and have captive sources of copper which equal or exceed their fabricating and manufacturing capacities. Each of Cerro's manufacturing divisions is dependent on non-captive sources of supply.

Cerrocu—There are approximately 25 primary and redraw domestic copper tube companies with which Cerrocu competes. All of these companies have capacity substantially in excess of demand, a condition aggravated by substantially reduced demand in the second half of 1974, and the nine months ended September of 1975. Cerrocu attempts to compete in the areas of price and service by maintaining regional warehouses for its product lines and using its own sales force. In the sale of electrolytic copper cathodes, Cerrocu competes with all copper refiners.

Cerrowire—There are a large number of competitors with which Cerrowire competes, no one of which necessarily produces the same product line. Therefore, its competitive position varies with each type of wire and cable produced by this division. Conditions are highly competitive.

Cerrocom—There are approximately six major manufacturers with which Cerrocom competes, no one of which necessarily produces the same product line. Therefore, its competitive position varies with each product produced. Conditions are highly competitive.

Cerromet—There are seven major competitors producing substantially similar products as Cerromet, as well as over 100 foreign and domestic companies competing in various lesser degrees with all products produced by this division. The division competes on the basis of quality of its products and the geographic locations of its facilities.

Golconda—Golconda is subject to intense competition from a large number of firms in the fields in which it is engaged. Competition varies from older and larger firms having greater financial resources than Golconda to small local and regional competitors which have advantages deriving from proximity to local markets.

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Sources and Availability of Raw Materials

Cerro's Manufacturing Group depends for raw materials (principally copper) used in the production of copper and brass mill products, electrical wire and cable products on non-captive sources of supply, including purchases from United States, Canadian and other foreign producers of primary copper, from Cerrosales, from scrap dealers and customer generated scrap. Copper produced by the expropriated operations in Peru had not recently been used as a major source of copper for Cerro's manufacturing operations, and therefore the loss of Cerro de Pasco Corporation has not had a direct effect on the availability of supplies for the Manufacturing Group.

Copper is purchased in the United States at U. S. producer prices and dealer and scrap prices which are generally at variance with one another. When the U. S. producer prices are below those for scrap and dealer copper, Cerro has historically not been able to obtain the quantities of copper it requires at the U. S. producer prices, thus placing it at a distinct competitive disadvantage with those favored with large supplies of copper at U. S. producer prices.

A renewal of the fuel shortage or further increases in the price of oil, natural gas or electricity could result in increases in all energy costs and in the case of oil the costs of materials produced by the petro-chemical industry. The Cerrowire and Cerrocom divisions use a substantial amount of petro-chemical products such as polyethylene, neoprene and polyvinyl chloride in the manufacture of its wire and cable. Renewal of a shortage of such products as occurred in the last half of 1973 could cause some curtailment of output. Production of wire and cable was somewhat curtailed during the first nine months of 1974 because of a shortage of raw materials, primarily copper, steel, plastic resins and plasticizers.

Backlog of Orders

With the exception of the New Haven plant of Cerrowire, backlog of orders are not material to the business of the Manufacturing Group. As at September 30, 1975 the New Haven plant had a backlog of orders believed to be firm of $10.6 million as compared with $17.5 million at September 30, 1974.

Trucking Group

Illinois-California Express, Inc., a Nebraska trucking corporation ("ICX"), is a Class 1 common carrier of general commodities subject to regulation by the Interstate Commerce Commission ("ICC") and operates over 18,000 route miles in all or part of the states of California, Arizona, New Mexico, Texas, Utah, Colorado, Nebraska, Kansas, Missouri, Illinois, Iowa, Indiana, Ohio, Wyoming, Nevada, Oklahoma, Wisconsin, and Minnesota. Since its acquisition by Cerro in 1972, ICX has expanded its operating authority through acquisition of the operating authorities of a number of small trucking companies. During 1974, ICX received temporary authority from the ICC to operate Bestway Freight Lines, Inc., which includes routes to such cities as Tulsa, Oklahoma City, and Wichita. In addition, during 1974, ICX received permanent authority from the ICC to operate Southern Express Company previously operated by ICX under a temporary authority granted in 1973. As a result of the Southern Express acquisition, ICX extended routes directly covered by it from Chicago, Illinois, to the northern Ohio area, including the cities of Cleveland, Akron, Warren, and Toledo. ICX presently has applications pending before the ICC, which, if approved, will enlarge its service in the Chicago, Illinois area, and provide new routes between Omaha, Nebraska and Kansas City, Missouri. During 1974, ICX continued to serve customers on a national basis through interchange agreements with various trucking companies whose authorities cover those portions of the United States for which ICX has no operating authority.

In October 1975, ICX was granted permanent authority by the ICC to operate Arrow Motor Transit, Inc. thereby acquiring an additional terminal facility in Fort Wayne, Indiana and providing a service to and from that area.

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As a common carrier, ICX has no long term agreements with customers and therefore no backlog.

ICX operates both diesel and gasoline fueled trucks. The primary source of fuel is the major oil companies and some independent oil suppliers. In order to avoid the effects of temporary fuel shortages, during 1974 ICX added storage capacity for the purpose of maintaining an adequate supply of fuel. In addition, two transport tankers were purchased for the purpose of moving fuel into areas of short supply. The cost of the foregoing was not material to ICX. The impact of the imposition of any fuel rationing program and/or the imposition of levies on foreign oil cannot be predicted.

On July 1, 1975, rate increases were granted by the ICC of approximately 4% to offset labor cost increases. Such rate increases, however, were not adequate to offset [illegible] labor.

The cost of fuel continued to increase during 1974 and the first nine months of 1975 so that such costs aggregated approximately 5.4% of ICX's total costs for 1974, as compared with approximately 3.1% for 1973, and 5.3% of costs for the first nine months of 1975 and 1974. During the first half of 1974 rate relief was granted in the form of a temporary surcharge, and permanent rate increases were granted during the year. On September 23, 1975, an additional 2% increase in rates was approved by the ICC which, in part, has offset increases in fuel and other operating costs. This rate increase, applies to the operations of ICX in the Rocky Mountain Tariff Bureau area which accounts for about 76% of ICX's business.

At September 30, 1975, the Trucking Group owned thirty terminals. In addition, nineteen terminals were leased by the Trucking Group at an aggregate rental of approximately $826,500 per annum. The leases on the terminals, one of which is on a month to month basis, expire at various dates through December 31, 1987.

The Trucking Group owns 269 road tractors, 462 converter gears and 1,649 road trailers. In addition, the Trucking Group owns 825 pieces of local equipment consisting of pickup trailers, pickup trucks, service tractors and service trucks.

Competition

Competition for freight, within the geographic market in which ICX operates, is intense from competing trucking companies as well as other modes of transportation. Based on the latest available industry statistics, ICX was among the 50 largest General Commodities Common Carriers in terms of gross revenues. ICX, which operates under the regulation of the ICC and various State regulatory agencies has a number of authorities, licenses and franchises with which it believes it is in compliance.

Mining Group

Fetterolf Coal Group

On September 25, 1974, Cerro acquired, through its wholly owned subsidiary, Fetterolf Coal and Construction, Inc. ("Fetterolf"), at a total cost of approximately $34,000,000 in cash, the M. F. Fetterolf Coal Co., Inc. and its affiliates which own and lease operating properties in Somerset County, Pennsylvania containing coal reserves, principally of metallurgical quality.

Cerro engaged Gates Engineering Company, independent consultants, to make an independent study of certain of the Fetterolf coal properties. Based upon this study it is estimated that such properties contain reserves of approximately 40,000,000 tons of clean recoverable coal. These reserves are contained in two seams separated vertically by approximately 100 feet in a tract of approximately 12,000 acres. Such seams are contained in areas of approximately 4,600 acres and 3,100 acres, respectively, with sulfur contents of approximately 1.25% and approximately .80%, respectively. Seams less than 36 inches thick are not considered as reserves.

In addition, Fetterolf owns or leases parcels of land containing coal deposits. Fetterolf conducts surface mining operations on such parcels on which there are no comprehensive exploratory studies. Because of the lack of such studies, Fetterolf is unable to determine the amount of coal in such parcels which will be exploitable. The extent to which this coal is mined will depend upon the results of further exploration studies as well as economic conditions prevailing in the coal industry, neither of which can be predicted at this time.

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In the fourth quarter of 1974, Fetterolf had pre-tax earnings of $10.5 million on sales of $21.1 million. Operations were interrupted during the quarter from November 12, 1974 to December 9, 1974 as a result of a United Mine Workers' strike. In the first nine months of 1975, Fetterolf had pre-tax earnings of $12.1 million on sales of $50.6 million. For information concerning events in the third quarter affecting Fetterolf's profitability see "Cerro Management's Discussion and Analysis of the Consolidated Statement of Earnings (Loss)".

Fetterolf produces low volatile metallurgical coal which is sold both domestically and abroad. As noted below, a substantial proportion of Fetterolf's production is dedicated to a long-term Coal Sales Agreement with two Japanese corporations. The remaining production is sold on the open market (the "spot market"). Such spot-priced coal is subject to wide price fluctuation. Based upon representative shipments, currently such price is at its lowest level in 1975 or approximately $40-45 per short ton while earlier its 1975 high was $70 per short ton. The earnings of Fetterolf during the fourth quarter of 1974 were in large part a result of coal sold on the spot market at record price levels. Average spot prices for metallurgical coal for the first nine months of 1975, while higher than those prevailing during the comparable period in 1974, have fallen substantially from those prevailing during the fourth quarter of 1974.

The demand for metallurgical coal is dependent upon the demand for steel and in particular the demand for steel made from iron ore, since steel can be produced from scrap without the use of metallurgical coal. Because of the world wide decline in steel production, the amount of metallurgical coal sold in the spot market both domestically and abroad has declined since the fourth quarter of 1974.

At the time of acquisition, Fetterolf's underground and surface mining operations were producing at the rate of approximately 650,000 short tons per annum. Expansions are now under way which are expected to increase mine production to 2 million short tons a year at an estimated capital total cost of $23 million of which approximately $7.8 million had been expended as of September 30, 1975. The bulk of such production is and will continue to be from underground mining operations.

Fetterolf's coal preparation plant at Boswell, Pennsylvania, which is also the location of Fetterolf's executive and administrative offices, has a present design capacity to process coal sufficient to produce about 1 million short tons of clean coal per annum. The location of the preparation plant provides access to a source of purchased coal from local independent producers, if desirable. This facility is now in the process of being expanded to a design capacity of approximately 2.4 million short tons a year at a cost of $4.4 million. The expanded coal preparation plant is expected to be fully operational by April 1977.

Coal produced at such preparation plant consists of a blend of coal obtained from surface mining and underground mining, as well as coal purchased from unaffiliated third parties.

The following table sets forth certain information as to Fetterolf's operations for the periods indicated:

	000's Short Tons*			
	Surface Mining	Underground Mining	Coal Purchased From Others	Total Coal Sold**
July 1, 1973 to December 31, 1973***	61	161	149	333
1974	257	290	414	965
January 1, 1975 to September 30, 1975	208	245	360	712

* Tonnage is calculated after processing at Fetterolf's coal preparation plant.

** Differences in totals of sources of coal and coal sold is accounted for by inventory.

*** Fetterolf's coal preparation plant went into production in May 1973.

In the light of the current expansion program described above, the foregoing table is not indicative of the operations of Fetterolf in the future. It is anticipated that when the present expansion programs have been completed, underground mining will constitute a larger portion of Fetterolf's production.

As of October 1, 1974, Fetterolf entered into a Coal Sales Agreement with two Japanese corporations for the sale of metallurgical coal beginning July 1, 1975. Shipments under this Agreement began in April of 1975. Fetterolf is required to deliver and the buyers are obligated to accept 600,000

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long tons (2,240 pounds avoirdupois) during the first nine months and one million long tons annually thereafter until March 31, 1988. The price under the Coal Sales Agreement is firm for the life of the contract, subject to adjustment, based upon certain indices, for increased or decreased costs and to maintenance, in part, of existing profit margins. At present approximately 80% of Fetterolf's production is being dedicated to such Coal Sales Agreement. It is anticipated that when the expansion program discussed above has been completed approximately 50% of such production will be dedicated to such contract. There can be no assurances as to the prices or manner of sale of the remainder of such production.

The price for coal sold under the Coal Sales Agreement is also subject to certain reductions for failure to meet specifications for ash and sulphur content. Initial shipments have been subjected to small price reductions, the causes of which management believes can be corrected. The buyers under the Coal Sales Agreement can also reject coal not conforming to quality requirements in regard to ash and sulphur content if the coal shipped repeatedly fails to conform to those requirements until the buyers have received adequate assurance based on testing results that the coal tendered for delivery will meet content standards. If such coal fails to meet certain other specifications in two consecutive shipments, the buyers must accept such coal but only at a penalty to be borne by Fetterolf to be negotiated. If the next succeeding shipment fails to meet such other specifications, the buyers may reject such shipments unless a reduced price is negotiated. In the event of a failure successfully to negotiate such price, the buyers may terminate the Coal Sales Agreement.

On December 19, 1974, Fetterolf, borrowed from the buyers under the Coal Sales Agreement $35 million at an interest rate of 9.5% per annum. The loan is secured by liens upon a substantial portion of the assets of Fetterolf. Repayment of the loan is to be made in semi-annual installments over a ten-year period commencing December 20, 1977. Cerro used a portion of the proceeds of the loan to finance the purchase of Fetterolf and the balance has been or will be used to expand the existing facilities as described above. Cerro has guaranteed delivery by Fetterolf of one million long tons of coal in the first full fiscal year of the Coal Sales Agreement. Fetterolf has the right under the loan agreement to suspend debt service for up to one year should it be unable to ship coal to the buyers as a result of an event of force majeure as set forth in the Coal Sales Agreement. In addition, damages resulting from a breach of the Coal Sales Agreement by the buyers may be offset against payments due under the loan agreement.

Fetterolf owns or leases coal lands located in western Pennsylvania. Under the terms of the deeds or leases to such lands Fetterolf has the right to remove and take title to coal in certain specified seams in such coal lands but usually, as is customary in the industry for underground mines, does not have title or the right to possession of the surface of such lands. In most cases the right to remove other minerals or coal from other seams has been reserved to the grantor. In addition, Fetterolf owns or leases surface rights to land on which are located or are to be located existing or proposed mine entrances and various structures, such as offices, storage and work sheds, and the coal preparation plant referred to above. Management believes that the material deeds and leases held by Fetterolf are on terms suitable for their intended uses. Such leases are numerous and vary in their terms, but management believes that the terms of the material leases (including permissible renewals thereon, if any) are sufficient to permit mining to exhaustion of the reserves covered thereby if it is so desired.

At present, all of Fetterolf's underground mines are operated under contract by the G.M.&W. Coal Co. In order to assure continued operation by a qualified underground mining organization, Cerro purchased in the second quarter of 1975 the G.M.&W. Coal Co. and its sister company, Delta Mining, Inc., for a price of $7.65 million, of which $2.15 million was paid in cash and the timing of the payment of the remainder is to be based on cash flow of those companies over a period estimated to be four or five years. Both G.M.&W. Coal Co. and Delta Mining, Inc. mine coal for others.

Acquisition of Stott Coal Company ("Stott")

In the third quarter of 1975, Cerro acquired Stott for a net price of $5.0 million, of which $1.4 million was paid in cash and the timing of the payment of the remainder is to be based on cash

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flow of that company over a period of time estimated to be three years. At the time of the acquisition Stott owed Fetterolf $1 million net.

The acquisition of Stott, a producer of medium volatile metallurgical coal located in Pennsylvania approximately 60 miles from the Fetterolf group, will increase Cerro's annual production capacity by 750,000 short tons. Since the start up of the preparation plant in May 1975, Stott has produced medium volatile metallurgical coal approximately 50% of which is obtained from surface mining and the balance of which is purchased from independent operations in the area. It is contemplated that within the next six to 12 months coal obtained from surface mining will increase to 60% of total production. The location of the Stott preparation plant in Philipsburg, Pennsylvania assures a source of such purchased coal, if desirable. Coal produced by Stott does not meet the specifications for the Coal Sales Agreement of Fetterolf, and is not subject to any sales agreement. Therefore, there is no assurance of a market for the coal produced by Stott. Stott has two principal customers, both of which are in the steel industry which purchase substantially all of its production and on which it is presently dependent.

Cerro engaged John T. Boyd Company, independent mining and geological engineers, to make an independent study of certain of the Stott coal properties. Based upon this study it is estimated that such properties contain reserves of approximately 5,000,000 tons of clean recoverable coal. Coal is mined from a number of seams with a sulfur content of from .80% to 1.25% which is then blended to achieve a sulfur content of 1.1% which is permissible within the markets to which Stott sells. These reserves are contained in several seams in several different tracts of approximately 5,000 acres. In addition, Stott owns or leases parcels of land containing coal deposits. Stott conducts surface mining operations on such parcels on which there are no comprehensive exploratory studies. Because of the lack of such studies Stott is unable to determine the amount of coal in such parcels which will be exploitable. The extent to which this coal is mined will depend upon the results of further exploration studies as well as economic conditions prevailing in coal industry, neither of which can be predicated at this time.

Transportation

Coal produced by Fetterolf and Stott is transported primarily by rail and also by trucks. Within the coal industry rail cars are in short supply from time to time and the unavailability thereof could have an adverse impact upon Fetterolf's and Stott's operations and Fetterolf's ability to comply with the Coal Sales Agreement.

Marketing Arrangements

Fetterolf and Stott's production, including that coal sold pursuant to the Coal Sales Agreement, is marketed through an unaffiliated company under a contract for a remaining term of 4.5 years, pursuant to which such company receives a commission of 2% on the first million tons sold by each of Fetterolf and Stott and 1% thereafter.

Competition

Fetterolf and Stott compete with numerous producers, some of whom are substantially larger, and each has only a small share of the market. In addition, there are large reserves of metallurgical coal owned by steel companies and others.

State and Federal Safety and Environmental Regulation

Cerro's coal operations are subject to Federal and State regulation in matters of coal mine health and safety, including legislation prescribing health and safety standards promulgated under the Federal Coal Mine Health and Safety Act of 1969. This Act empowers Federal Mine Inspectors to conduct inspections and issue citations or require cessation of mining in the event that violation of standards or the existence of dangerous conditions are found. The managements of Fetterolf and Stott believe that they are in substantial compliance with the Act.

Fetterolf's and Stott's operations are subject to environmental regulations imposed by the Federal Government and the Government of the Commonwealth of Pennsylvania. Such regulations include water and air quality and surface mining regulations which affect operations at Fetterolf's and Stott's

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mines and facilities. In addition, Fetterolf's underground mines are subject to regulations relating to subsidence of the surface as a result of undermining. The management of Fetterolf and Stott believe that they are in compliance with such regulations. To date the sulfur content of the coal produced and blended by Fetterolf and Stott has been 1.0% and 1.1%, respectively, which is within permissible limits in all the markets in which it is sold.

Cerro Spar Corporation

Cerro's wholly owned subsidiary, Cerro Spar Corporation ("Cerrospar"), is the operator and manager of, and has a 70% interest in, a joint venture which began construction of a fluorspar mine and milling operation in western Kentucky in June 1972. The project was completed in mid-year 1974 at a cost to the venture of $6.7 million. Cerrospar has not in the past contributed to Cerro's earnings and is not expected to do so in the foreseeable future.

Start up problems and certain underground mining conditions resulted in unsatisfactory operations in 1974. Production has been curtailed pending further underground exploration. It is anticipated that this exploration work will be completed in late 1976 at a cost of approximately $1.0 million. On the basis of adequate sampling the existence of approximately 120,000 tons of approximately 35% fluorspar (calcium fluoride) has been established. In addition to this tonnage, based upon limited exploration, the existence of substantial additional mineralization has been established, but the degree to which these deposits will be commercially mineable will depend upon the results of the work currently in progress. Contingent upon the results of this exploration work the mine would be designed to produce at an annual rate of 56,000 tons of acid-grade fluorspar. The two principal uses for fluorspar are in the production of hydrofluoric acid by the chemical industry and as a flux in the steel industry. Cerrospar expects to sell all of its production to the chemical industry. Approximately 50% of its design capacity is committed to long term contracts with 2 customers in the chemical industry. As to the excess of design capacity over such commitments no contracts have been made.

The fluorspar business in the United States experiences competition from both European and Mexican producers. However, Cerrospar's principal competition is from Mexico owing to the shipping advantage that Mexican producers have over the European producers.

Zidani Asbestos Mine Project

The mining rights to the Zidani asbestos deposit in northern Greece are held under long-term lease by a 71.25% owned Greek subsidiary of Cerro. The remaining interest is held by the Hellenic Industrial Development Bank S.A., an agency of the Greek Government, which has provided funds for field work and related studies. In 1974, Cerro fully reserved the amount of its investment and has no plans at this time to develop the deposit.

Real Estate Group

Cerro's wholly owned subsidiary, Leadership Housing, Inc., is engaged in the residential real estate business. (The term "Leadership" refers to Leadership Housing, Inc., and its subsidiaries unless otherwise required by the context.) The principal real estate operations include (i) housing operations consisting of the development, construction and sale of communities of single family homes, including condominium units; (ii) the sale of improved and unimproved land; and (iii) the development, construction, sale and management of rental apartment complexes. In addition, Leadership is a participant in joint ventures engaged in real estate development.

Leadership has been experiencing operating losses and severe liquidity problems. It is the intention of Cerro management to reduce substantially the business, operations and debt levels of Leadership through an orderly liquidation of inventories designed to minimize losses. As a result of the depressed condition of the real estate market existing in the United States generally, and in Florida in particular, an orderly liquidation of inventories designed to preserve corporate assets is likely to take several years. Based upon the information presently available, management believes that this liquidation will take place while adverse market conditions prevail. Management does not intend to acquire additional properties or undertake new projects except to the extent required to sell existing properties.

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Liquidity

Leadership, because of its operating losses, experienced working capital deficiencies during the first half of 1975 and was without sufficient cash to meet operating requirements. Even with capital infusions, Leadership was not able to comply with various covenants under the loan agreement with its principal bank lenders pursuant to which it had borrowed $42.5 million during 1973-1974. See Note 14 to notes to Cerro's financial statements.

In June 1975, the loan agreement was restated and amended. Credit available to Leadership under the loan agreement was increased by $12 million (from $42.5 million to $54.5 million) and the maturity date was extended to April 1, 1977. The principal lenders agreed to provide $2 million of this increase and Cerro agreed to provide $10 million, all to provide funds for working capital and to pay short term indebtedness. In connection with such restatement and amendment of the loan agreement, Cerro purchased from Leadership: (i) all of the issued and outstanding capital stock of Tamarac Utilities, Inc., Leadership's wholly owned utility company; (ii) a note and mortgage from Tamarac Utilities, Inc. to Leadership, the prepayments of which are to be made directly to Leadership's lenders to reduce the unpaid principal amount under the loan agreement; and (iii) certain accounts receivable of Leadership from Tamarac Utilities, Inc. The purchase price for such assets was $15.75 million, of which approximately $12 million was paid in cash to Leadership and approximately $3.75 million was paid by issuance of a nonrecourse Cerro note (secured by the Tamarac note and mortgage referred to above). In the event of a disposition of Tamarac Utilities, Inc. by Cerro, Cerro must pay to the lending banks the amount of proceeds of such disposition which exceeds such purchase price and certain other payments which amount will be credited to reduce Leadership's debt under the Loan Agreement. The Cerro note was pledged to provide additional collateral under the loan agreement and payments of the principal thereof are to be made directly to the pledgee. All such funds (and the terms under which they were made available) were meant to sustain Leadership for the foreseeable future. For information on the interest rate, elimination of compensating balances and further terms of the loan agreement, see Note 9 and Note 6(a) to Note 15 of the Notes to Cerro's Financial Statements.

Cerro was required under the terms of the loan agreement to subordinate amounts owing to it from Leadership (other than the $10 million to be advanced under the loan agreement and $5 million evidenced by two notes which are pari passu to the lending banks' claims under the loan agreement) to the claims of the lending banks. Such subordination covers past advances only.

The loan agreement contains, in addition to provisions normally found in such similar debt instrument, covenants which Cerro's management believes are consistent with its decision to reduce substantially Leadership's business operations and debt levels, such as a prohibition against the acquisition of any real estate, a prohibition against the commencement of new projects and required prepayment of the loan by application of a specified portion of the proceeds from the disposition of its assets. Events of Default exist under certain of the covenants in the Amended and Restated Loan Agreement of Leadership. However, Leadership has been notified by a letter dated January 20, 1976 from the agent bank that an agreement has been reached in principle, which has been approved in principle by several of the Participating Banks, to effect certain modifications in the provisions of the Loan Agreement which would have the result of eliminating all such existing Events of Default. Such agreement in principle is subject to receipt by the agent bank of satisfactory documentation and to its receiving formal approval of such documentation from the Participating Banks. So long as the Loan Agreement is not so amended, such Events of Default may continue to exist and upon notification from the principal lenders, the debt covered thereby would become due and payable. See Note 6 to Note 15 of the Notes to Cerro's Financial Statements.

Of the $12 million made available to Leadership under the amended loan agreement executed on June 18, 1975, the principal bank lenders have advanced their entire $2 million and, as of January 22, 1976, Cerro had advanced $7.7 million. All such funds were required by Leadership to meet its cash requirements. $2.3 million remains available under the amended loan agreement. In the fourth quarter of 1975 Leadership had to borrow $2.95 million to meet its cash requirements. In light of such cash

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requirements and limited availability of additional funds, Leadership's management has formulated goals with respect to overhead reduction, the reduction of cash outflow through the cooperation of lenders and other creditors, housing unit sales and reduction of land inventory. Even if these goals are achieved, there can be no assurance that temporary financing for working capital purposes will not be needed, or that if needed, will be available. See "Pending Legal Proceedings." At September 30, 1975 the amount of Cerro's equity in Leadership was $39.9 million and the only material legally binding commitment of Cerro (other than the loan agreement) in respect of Leadership is in connection with surety bonds amounting to $36.2 million, guaranteeing Leadership's performance under certain construction contracts. A substantial amount of work has been preformed under such contracts, but it is not possible to predict the cost to Cerro, if any, under the surety bonds.

Results of Operations

Leadership's revenues from sales declined from approximately $160 million in 1973 to approximately $96 million in 1974, resulting in a pre-tax loss of $13.6 million in 1974 as contrasted with a pre-tax profit of approximately $11.9 million in 1973. Leadership's revenues from sales declined from approximately $71.4 million in the first nine months of 1974 to approximately $23.9 million for the first nine months of 1975, resulting in a pre-tax loss of approximately $24.7 million in the first nine months of 1975 compared with a pre-tax loss of approximately $7.1 million in the first nine months of 1974. Of the pre-tax loss experienced during the first nine months of 1975, approximately $8 million was attributable to a write-off of goodwill (which arose from Cerro's acquisition of Leadership) that was being amortized over a 40 year period and was determined to be of no continuing benefit to Cerro. The write-off of goodwill does not generate any income tax benefit. Leadership has completed an evaluation of substantially all its real estate inventories to determine that they are carried at the lower of cost or estimated net realizable value, as explained in Note 1 to Note 15—Condensed Real Estate Financial Statements. In connection with this evaluation, write-downs and other charges of approximately $3 million were charged to operations during the third quarter ended September 30, 1975. There can be no assurance that there will not be further write-downs of inventories, which will depend on changes in the real estate market.

For the financial statements relating to the following analysis of the results of operations of Leadership, see Note 15 to the Financial Statements of Cerro Corporation and Consolidated Subsidiaries which contains (a) a statement of operations for the periods ending December 31, 1974 and December 31, 1973, as well as the interim periods ended September 30, 1975 and September 30, 1974 which include sales by lines of business and (b) a balance sheet at September 30, 1975 and December 31, 1974.

The principal factors underlying Leadership's decline in profitability for 1974 were a decline in sales and the impact of the substantially higher interest rates prevailing during that year combined with rapid inflation in material and labor costs. For the first nine months of 1975, the economic recession caused a decline in consumer confidence whereby new home buyers withdrew from the markets in which Leadership operates, resulting in fewer sales. The lack of new home buyers discouraged other builders from acquiring land parcels from Leadership thereby eliminating sales and profits from this activity. In Florida, Leadership's most important market, the withdrawal of potential buyers coincided with the completion by all builders of a record number of dwelling units resulting in an oversupply of unsold units.

The depressed state of the single family market did not result in a substantial decline in Leadership's revenue for 1974 from the sale of single family homes as compared with 1973, because such revenues for 1974, for the most part, were derived from the closings on homes under contracts entered into in 1973. The gross profit margin, however, on sales of single family homes in 1974 and in the nine months ended September 30, 1975 declined substantially owing principally to materially increased costs of interest, labor and materials and the inability to recover these cost increases in full from purchasers of such homes under the terms of Leadership's contracts. See "Single Family Housing" below for information on the decline in the number of contracts entered into for single family homes during 1974 and the first nine months of 1975 as contrasted with the prior comparable periods.

There was a substantial decline in 1974 in the revenues from the development, construction, sale and management of multi-family housing. This decline resulted primarily from economic conditions

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prevailing in the housing industry during 1973. The revenues recognized in 1973 were attributed to sales made in prior years. In 1973 Leadership substantially reduced its sales and construction activities with respect to multi-family housing.

During the first nine months of 1975, no sales of apartments were recognized compared to the one project recognized in the first nine months of 1974. See Note 1 to Note 15 of Notes to Cerro's Financial Statements for methods of accounting for revenues from sales of multi-family projects.

Leadership's revenue from sales which do not fall within its principal operations and certain production related revenues and expenses are encompassed within the "Other" category, in the Statement of Operations contained in Note 15 to Cerro's Financial Statements. This category consists of operations which are ancillary to Leadership's principal businesses such as country clubs constructed for the purpose of making homes and land more marketable and utility services. Leadership's gross revenues from this category were higher in 1973 than 1974 because of sales in 1973 of an office building and two country clubs for $7.7 million. Such sales in 1973 also resulted in a gross profit of $1.3 million in that year, as contrasted with a gross loss in 1974 of $2 million attributable to increased operating expense and a decline in profitability of Richmar Development Corporation, a Leadership subsidiary engaged in the development of commercial real estate properties, and losses of a utility corporation. See "Water and Sewer Facilities" below.

Single Family Housing

The following table sets forth certain information as of September 30, 1975 and 1974 and as of December 31, 1974 and 1973 with respect to single family housing units under construction or completed.

	Housing Units Under Contract and Under Construction or Completed(1)				Housing Units Completed or Under Construction But Not Under Contract(2)			
	As at Nine Months Ended September 30		As at Year Ended December 31		As at Nine Months Ended September 30		As at Year Ended December 31	
	1975	1974	1974	1973	1975	1974	1974	1973
Housing East								
Palm Beach County, Florida	15	19	10	21	3	11	14	5
Broward County, Florida	112	600	276	1,267	201	185	238	85
Pinellas County, Florida	8	44	5	259	60	51	68	13
	135	663	291	1,547	264	247	320	103
Housing West								
San Diego, California	34	28	41	14	39	65	44	23
Leucadia, California	28	20	6	30	87	132	132	155
Orange County, California	76	50	39	65	39	146	148	118
Northern California and Nevada	45	21	18	18	18	40	18	104
	183	119	104	127	183	383	342	400
	318	782	395	1,674	447	630	662	503

(1) Although there are contracts covering these housing units, there can be no assurance that the purchasers will perform. It has been Leadership's practice to retain all or a substantial portion of the purchasers' deposit and resell the unit rather than attempt to enforce such contracts. The purchasers' deposit varies from approximately $500 on units sold in California to somewhat higher amounts on housing units sold in Florida.

(2) Does not include additional housing units which are not under construction but which are included in the current plans for the respective developments and which may be subsequently constructed. Includes certain housing units on which refundable reservation deposits have been received from the prospective purchaser and which, at the option of such prospective purchaser, may subsequently result in binding contracts.

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The following table sets forth information as to contracts entered into for, and deliveries of, single family housing units during the nine months of 1975 and 1974 and during the years ended December 31, 1974 and 1973, and single family housing units contracted for but not delivered as of such dates:

	Nine Months Ended September 30		Year Ended December 31	
	1975	1974	1974	1973
Housing Units contracted for sale (net of cancellations)	378	650	648	2,329
Housing delivered	501	1,775	2,250	2,342
Housing Units contracted for sale but not delivered at end of period	336	936	459	2,061

As of September 30, 1975, Leadership had a backlog of orders for 336 single family housing units aggregating approximately $14,900,000, as compared with 936 single family housing units aggregating approximately $30,970,000 as of September 30, 1974. At December 31, 1974, Leadership had a backlog of orders for 459 single family housing units aggregating approximately $16,000,000 as compared with 2,061 single family housing units aggregating approximately $62,000,000 at December 31, 1973. Although there are contracts covering these housing units there can be no assurance that the purchasers will perform. It has been Leadership's practice to retain all or a substantial portion of the purchaser's deposit and resell the housing unit rather than attempt to enforce such contract. The decline in each of the periods was due to a number of factors, including the limited availability of mortgage financing, substantially higher mortgage interest rates, buyer concern with the state of the economy, and the adoption by Leadership of a policy to reduce backlog owing to the difficulty of securing contracts with purchasers which protect Leadership against substantial increases in the cost of labor and materials and interest attributable to single family housing units during the period of construction. However, the number of units contracted for sale increased during the third quarter of 1975 reflecting the introduction of a new single family housing project in the Northern California division of Housing West and the results in Housing East of a major advertising program coupled with substantial price reductions on completed condominium and single family homes which were instituted to reduce carrying costs. Housing East increased activity will not result in a proportionate increase in gross profit because of the substantial price reductions involved. Initiation of new single family projects required to sell existing land inventory will depend on the market and cost conditions enumerated above. Leadership does not contemplate acquiring additional land for single family projects.

Multi-Family Projects

Three projects were completed in 1975, of which one was sold in 1975 and two were sold in 1974. See "Recent Development" for information relating to an additional project.

In substantially all multi-family projects constructed and sold by Leadership, Leadership has guaranteed for a specified period either (i) a fixed rate of return to the purchaser or (ii) that revenues from the project will be sufficient to meet expenses and debt service. Typically, the guarantees are for a period of from two to three years after completion, and with respect to some projects under certain conditions may be extended to five years after completion of construction and with respect to three projects the guarantees are for up to thirty years after completion of construction.

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Land Sales

Leadership has acquired large parcels of unimproved land for its own use as well as for sale to other developers. The approximate landholding interests of Leadership, other than those presently under development with the joint ventures mentioned below and under "Management of Cerro—Transactions with Pritzker Family Affiliates" elsewhere herein, consist of, at September 30, 1975, 650 acres in Broward County, Florida; 940 acres in Palm Beach County, Florida; 4,170 acres in Pinellas and Hillsborough Counties, Florida; 435 acres in Orange County, California; 190 acres in San Diego, California; 145 acres in Contra Costa County, California; and an aggregate of 140 acres in Maui and Kauai, Hawaii. As the home-building industry deteriorated in 1974, Leadership ceased negotiations to acquire options on additonal property and allowed other options to expire without exercise. The losses in 1974 attributable to the options which expired aggregated approximately $1.2 million. There were no significant losses attributable to expired options in the first nine months of 1975.

A major source of financing of Leadership's land development has been borrowings from real estate investment trusts ("REIT's"). REIT's have been experiencing significant problems relating to liquidity which effectively eliminated this group as a source of financing for land development activities. Commercial banks, which have substantial commitments to the REIT's, curtailed their direct real estate lending activities further limiting available sources of funds. As a result, potential buyers of Leadership's lands are having difficulty obtaining necessary financing for acquisition and development activities.

As a result of the foregoing and the depressed state of the single family home market, Leadership's land sales declined from $30 million in 1973 to $2.9 million in 1974. There were no significant land sales during the first nine months of 1975. It is not expected that land sales will return to previously existing levels until such time as there is a general improvement in the housing industry, and an increase in the availability of funds for land development at lower rates of interest than generally prevailed in 1974 and during the first nine months of 1975.

Joint Ventures

Leadership currently has an interest in four ventures with investors.

The first is a partnership agreement relating to approximately 2,100 unsold acres at September 30, 1975 in Palm Beach County, Florida. Leadership manages, on behalf of the partnership and for a fee, the development and ultimate sales of this tract for 50% of the profits (but not losses) on approximately 800 acres of the property unsold at September 30, 1975, and shares equally in profits and losses on the balance. Sales by the foregoing partnership resulted in a pre-tax profit (loss) to Leadership of approximately $1.6 million and $4.2 million for the years ended December 31, 1974 and 1973, respectively, and ($.3) million and $1.6 million for the nine months ended September 30, 1975 and 1974, respectively.

For a description of the other three joint ventures with private trusts of which members of the Pritzker family, including Messrs. Jay A. Pritzker and Robert A. Pritzker, are the beneficiaries, see "Management of Cerro—Transactions with Pritzker Family Affiliates."

Pending Legal Proceedings

Leadership is a defendant in numerous law suits which have arisen in the normal course of its business. In the opinion of the management of Leadership, such suits will not have a materially adverse effect upon Leadership; however, the timing and amount of a judgment or settlement in one or more of such actions could adversely affect Leadership's cash position. See the discussion under the heading "Liquidity" elsewhere herein.

Materials and Supplies

Leadership is dependent for construction materials on independent local and regional suppliers in the building supplies business. During 1973 and the early part of 1974, Leadership experienced periods in which certain construction materials were either in short supply or not available at the times required

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by it. The cost of nearly all the materials purchased by Leadership have increased substantially, and because of existing contracts and market conditions, Leadership, in most instances, has been unable to pass on such cost increases to its buyers.

Water and Sewer Facilities

Tamarac Utilities, Inc., a wholly owned subsidiary of Cerro, (the stock of which was purchased from Leadership in connection with the financing referred to under "Liquidity" herein) services the City of Tamarac, Florida and the surrounding area. Operations are conducted under an exclusive and perpetual [illegible] issued by the Florida Public Service Commission. Tamarac Utilities, Inc. also has a franchise agreement with the City, largely with respect to the use of public rights of way, in consideration of a payment by the utility to the City of an amount equal to the net of 4 percent of the gross sales of the utility, less certain building or permit fees. During the 21 month period ended September 30, 1975 the results of operations of this utility were approximately break even. An application is presently pending before the Florida Public Service Commission for an increase in the rates the utility may charge its customers. The utility is presently charging its customers on the basis of an interim rate order allowed by the Commission, representing approximately 80% of its rate request. The utility expects the Commission to issue a final order within 90 days. During 1974 and 1975, approximately $5.9 million was expended on plant and system expansion. In addition, funds for additional facilities will be required in an amount which is estimated to be approximately $1.2 million for 1976. It is presently contemplated that funds for such additional facilities will be provided by Cerro. The facilities are subject to regulation by the Florida Public Service Commission, Florida Department of Environmental Regulation (Health Department and Pollution Control), and the Central and Southern Florida Flood Control District (water diversionary rights).

Recent Development

Cerro has committed to provide Leadership with a construction loan of $4,020,000, secured by (a) a first Deed of Trust on real estate, (b) a security interest in personal property and (c) an assignment of rents, for a 300-unit apartment complex to be constructed by Leadership in Dallas, Texas, known as the Meadow Road II Project. This project has been sold in advance of construction, for approximately $6,000,000. Construction commenced in January, 1976 and is anticipated to be completed by January 1, 1977. In conjunction with this construction loan, Cerro has made certain completion and repayment guarantees which, together with the $4,020,000 construction loan, create a maximum exposure to Cerro of approximately $6,627,000. In the event that Cerro is required to provide funds under the guarantees, the repayment of all sums (other than the $4,020,000 construction loan, which will be repaid upon completion and delivery of the project to the purchaser and funding of the permanent loan, and except for approximately $520,000) may not be made to Cerro until Leadership pays all of its obligations under its aforementioned loan agreement, an event which, if it occurs, will most likely not occur for a substantial period of time.

Competition

The housing industry is highly competitive. Leadership is one of many national home builders and competes with numerous builders (national, regional and local) of both single and multi-family residences in every area where its developments are located. Competition is based primarily on design, location and price. Although it is impractical to estimate the number of companies with which Leadership competes, there are numerous competitors which are larger, more experienced and have greater financial resources.

Investments

Southern Peru Copper Corporation

Cerro has a 22.25% interest in Southern Peru Copper Corporation ("SPCC"). SPCC holds concessions covering two mines, Toquepala, in operation, and Cuajone, under development, both located inland from the southern port city of Ilo, Peru.

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In 1974 SPCC had sales of approximately $187.9 million and net income of approximately $40.5 million, compared with sales and net income in 1973 of approximately $215.7 million and $61.3 million, respectively. For the first nine months of 1975, SPCC had sales of approximately $77.5 million and a net loss of approximately $2.5 million compared to sales of $185 million and net income of $45 million for the comparable period in 1974. The decline in sales and the reported loss were due principally to a seven week strike of the mine and smelter employees at Toquepala, lower copper prices and increased fuel costs during the third quarter of 1975. In the last half of 1972, dividends were suspended as SPCC used its earnings in the development of Cuajone.

Pursuant to Peruvian law, the mining community made up of SPCC's employees will eventually receive 50% of the ownership in SPCC's assets, thereby reducing proportionately Cerro's interest in SPCC's assets. Under Peruvian law SPCC's employees are entitled to receive 10% of SPCC's pre-tax income in each fiscal year, 4% of which is to be paid in cash and 6% of which is to be attributed to the acquisition of SPCC's employees of a 50% ownership participation in SPCC's assets. An additional 1% of such annual pre-tax income must be paid to Peru's Mining, Scientific and Technological Institute. At January 1, 1975, these participations in assets amounted to approximately 9% compared with approximately 7% as of January 1, 1974. For Cerro's method of accounting for its investment in SPCC, see Note 4 of Notes to Cerro's Financial Statements.

Tax dispute. The Peruvian tax authorities have assessed additional income tax against SPCC on a basis which, if upheld, would result in the liability of SPCC for additional income tax (exclusive of interest and surcharges) in respect of the years 1970 through 1974 of approximately $37.2 million. The assessment for 1970 is presently the subject of an administrative review by the Peruvian Fiscal Tribunal, the outcome of which may resolve the dispute as to all the years of assessment. Cerro has no contingent liability with respect to these assessments.

Toquepala. SPCC has entered into an agreement with Minero Peru Comercial ("Minpeco"), the Peruvian government's export marketing entity for all Peruvian mineral products, whereby as of July 1, 1975 the output of the Toquepala mine is sold to Minpeco for resale to third parties. As a result of costs related to the strike of Toquepala employees, additional financing of approximately $30 million had to be obtained in order to return production to pre-strike levels, which is subject to approval by SPCC's lenders described below. At December 31, 1974, estimated ore reserves at the Toquepala mine amounted to 249 million tons of sulfide ore, with average content of 0.89% copper.

Cuajone. Cuajone is being developed under an agreement with the Peruvian Government requiring minimum annual expenditures. Failure to maintain the investment program or complete the project as scheduled (December 1976) in the absence of force majeure will result in termination of the Cuajone concession and the loss of SPCC's investment therein. Presently the development of Cuajone is proceeding in accordance with such schedule.

A Peruvian joint venture has been established to develop and operate Cuajone. SPCC (with equity of 88.5%) manages the project while Billiton, N.V., (a Netherlands company holding the remaining equity interest which it acquired for $24.75 million to be paid to SPCC) has assigned senior engineers to SPCC for work on project development and on subsequent mining and production operations. Cuajone will have a design capacity of 170,000 short tons of blister copper per annum. At June 1975 reserves were estimated at 468.4 million tons of sulphide ore averaging slightly over 1% copper and 22 million tons of oxide material averaging 1.29% copper. In addition, low grade leach material (both sulphide and oxide) amount to 106.5 milion tons averaging 0.32% copper.

Through October 31, 1975, $383 million was borrowed by SPCC under financing arrangements providing for a total credit of $404 million for Cuajone, in which 54 different institutions participate. Such financing arrangements restrict dividends and additional borrowings and grant the lenders a security interest in the assets of SPCC. In addition, Cerro has agreed to indemnify SPCC against certain losses and expenses related to refining certain Cuajone copper in Peru (limited to the amount of future cash divi-

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dends paid by SPCC to Cerro out of Toquepala current and retained earnings over a period not exceeding from four to seven years). Cerro would also be liable to pay for the value of certain blister copper from such project estimated not to exceed $5 million even though such copper may not be delivered. Recently, certain stockholders of SPCC, including Cerro, arranged for an option to place in effect on or before July 1, 1976, insurance against the contingent liability with respect to blister copper. Cerro's coverage under such insurance would be approximately $1.5 million.

Cost overruns exceed the credit available under SPCC's financing arrangements by approximately $106 million, including $70 million for working capital. Borrowings by SPCC to meet these additional costs will require waivers under such financing arrangements. In order for SPCC to obtain waivers which will be effective until June 30, 1976 Cerro and the other stockholders of SPCC will be required to invest an aggregate of $20 million ($4.45 million in the case of Cerro) in additional equity capital in SPCC. Further, an additional offering of equity securities of SPCC (possibly securities with a preference to dividends) in the amount of $25 million to SPCC stockholders and to third parties may be required by such lenders. Such offering would reduce Cerro's equity interest in SPCC to the extent Cerro does not subscribe thereto. Such equity investments would allow SPCC to seek additional credit during the waiver period to June 30, 1976. In the event such additional equity offering is not fully purchased or such additional credit is not available on a timely basis the development of the Cuajone concession by the scheduled date of December 1976 may become impracticable and the loss of such concession and SPCC's investment therein may result therefrom. In such event the lending institutions would be entitled to accelerate the indebtedness relating to the Cuajone financing in connection with which the lending institutions possess a security interest in all the assets of SPCC. Preliminary discussions are being held by SPCC with possible sources of such additional funds. Through September 30, 1975, $553 million had been expended by SPCC in the development of Cuajone.

Chile

Under arrangements with the Government of Chile providing for compensation for the expropriation in 1971 of Compania Minera Andina S.A., a Chilean corporation, 70% owned by Cerro, Cerro received in 1974 a cash payment of $3,223,000 and notes in the principal amount of $38,633,794. Through November 30, 1975, Cerro had collected $11.8 million in prepayments of principal and $3.8 million in regular payments of principal on such notes. For a description of such notes see Note 6 of Notes to Cerro's Financial Statements.

Peruvian Affiliates

In 1974, Cerro received net dividends of $1,136,000 from its Peruvian industrial and mining affiliates. For the first eleven months of 1975, Cerro received net dividends of $1,058,000 from such affiliates as compared with $1,033,000 for the comparable period in 1974. In 1973 Cerro fully reserved for its entire investment in its Peruvian affiliates.

Compensation for Expropriation of Cerro de Pasco Corporation

In December 1974, Cerro received from the United States Government $10.0 million plus interest, representing the final installment of the $68.0 million paid by Peru as compensation for expropriation of Cerro de Pasco Corporation. The $10.0 million had been paid to the United States Government by Peru in February 1974.

Savage River Corporation (Northwest Iron Co. Ltd.)

Through its 24% equity position in Northwest Iron Co., Ltd. ("Northwest"), Cerro holds an approximate 12% interest in Savage River Corporation, a joint venture operating iron mining and pelletizing facilities in Tasmania, Australia. Besides Cerro, the owners of Northwest include Pickands Mather & Co. as operator and 48% owner with the balance distributed among a number of institutional investors.

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Cerro and Pickands Mather & Co. have agreed to advance sufficient funds to maintain Northwest's working capital at a level of $500,000 until certain of its outstanding indebtedness aggregating $18.8 million at September 30, 1975 has been repaid; such repayment is scheduled for 1983. Under this arrangement, Cerro is obligated to advance one-third of the funds necessary to maintain working capital at such level; Cerro advanced $247,000 in 1971 for this purpose. Working capital shortfalls could be in excess of $500,000 and could be recurring. In the event that Cerro and Pickands Mather & Co. would find it desirable to have the entire amount of the indebtedness repaid rather than contribute to working capital, Cerro would be contingently liable for $6.3 million based on outstanding indebtedness at September 30, 1975. There can be no assurance that Pickands Mather & Co. would concur in such judgment and agree to repay that portion of such indebtedness relating to its obligation. No advances were required in 1972, 1973, and 1974. In July, 1975, Cerro pledged $1,000,000 principal amount of marketable debt instruments owned by it to a lending institution as partial security for an interim loan in the amount of $3,000,000 made to Northwest. On November 7, 1975, in connection with permanent financing arrangements and upon an increase in the loan to $6,000,000, Cerro increased the principal amount of pledged securities to $2,000,000. Pickands Mather & Co. supported the balance of such loan.

In 1973 and 1974, Cerro fully reserved, exclusive of its contingent liability, the amount of its investment in Northwest. Northwest has never contributed to Cerro's earnings and it is unlikely that it will contribute to such earnings in the foreseeable future. See Note 4 of Notes to Cerro's Financial Statements for Cerro's share of the reported profits (loss) of Northwest for recent fiscal periods.

Foreign Operations

For the calendar years 1972, 1973 and 1974 Cerro recognized net dividends and other income from foreign affiliates in the amounts of $732,000, $881,000 and $1,136,000, respectively. The net income for the calendar year 1972 is exclusive of dividends received from Southern Peru Copper Corporation in the amount of $3,482,000. For the nine months ended September 30, 1974 and 1975, Cerro received net dividend income of $750,000 and $1,070,000, respectively. The results for calendar years 1972 and 1973 reflect only results from continuing operations. The Division of Enforcement of the Securities and Exchange Commission is conducting informal inquiries into certain transactions involving the company's foreign operations. In the opinion of Cerro, these transactions are not material to Cerro's continuing business and operations.

Research and Development; Exploration

Cerro expended a total of approximately $700,000 in 1974 and approximately $900,000 in 1973 in research and development in respect of new products and improvements of existing products and in mineral exploration activities. For the first nine months of 1975 the amount of such expenditures were $926,000 as compared with $433,000 for the same period in 1974.

Licenses, Patents and Trademarks of Operating Groups

Except in the case of ICX, which is discussed under the heading "Trucking Group" above, Cerro holds no material patents, trademarks, licenses, or franchises which are important to its business.

Environmental Matters

Compliance with Federal, State and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment is not expected to have any material effect upon the capital expenditure, earnings and competitive positions, of Cerro's Manufacturing Group, its Real Estate Group or its Trucking Group. See "Mining Group" for a discussion of environmental matters relating to that Group.

Employees

As of September 30, 1975, Cerro had approximately 7,440 employees of whom approximately 5,187 were represented by 18 local unions. Cerro experienced one strike in 1975 lasting for 37 days in a

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plant which produces and sells brass mill products and also had a series of wildcat strikes throughout the year totaling 7 days at a subsidiary which operates a fluorspar mine and milling facility. A lengthy five month contract negotiation and work stoppage lasting from November 1974 until March 1975 was settled in the large copper refining and copper tube mill.

In 1974, Cerro experienced, in addition to the above mentioned strike in the copper refining and tube mill, a work stoppage which lasted 12 days in the wire and cable plant. During the prior four years Cerro experienced only three major work stoppages, two of which occurred at its metal refining and tubing facilities (one week in 1973, and one and a half weeks in 1971) and one of which occurred in the trucking group in 1970, as a result of a nationwide trucking strike which lasted for six weeks. Cerro is a party to 18 contracts, seven of which expire in 1976, six of which expire in 1977, and five of which expire in 1978. Cerro believes its employee relations to be generally good.

Cerro has established benefit plans for its employees consisting of basic and major medical, disability, group life insurance and accidental death and dismemberment. Many Cerro operating units have pension plans which normally cover hourly unionized employees with benefits provided under dollars-per-year of service types of formulae which are based on industrywide patterns and determined by negotiations with labor unions. Those employees not covered by a bargaining unit normally are covered by separate pension plans with benefits provided under percentage-of-final compensation types of formulae.

MANAGEMENT OF CERRO

Directors

The following table sets forth certain information concerning the directors of Cerro.

Name	Principal Occupation or Employment	First Became a Director	Shares of Cerro Common Stock
Robert H. Cutler	Chairman, Illinois - California Express, Inc. (trucking subsidiary of Cerro Corporation)	1973	5,000(1)
Thomas F. Githens	Senior Vice President and Director, Smith, Barney & Co., Inc. (investment banking)	1973	200
Robert C. Gluth	Vice President, Marmon; Vice President, Cerro Corporation, Vice President, GL	1975	—0—
Lewis B. Harder	Chairman (Chief Executive Officer), International Mining Corporation (mining company)	1971	—0—(2)
George A. Jones	Executive Vice President and Director, Marmon	1975	1,000(3)
G. Willing Pepper	Chairman of the Board, The Institute for Cancer Research (nonprofit research organization)	1973	200
Jay A. Pritzker	Chairman of the Board, Cerro Corporation; Chairman of the Board, Marmon; Chairman of the Board, GL; Chairman of the Board, Hyatt Corporation (hotels)	1974	—(4)(5)
Robert A. Pritzker	President, Cerro Corporation; President and Director, Marmon; President and Director, GL; Chairman of the Board of Hammond Corporation	1974	—(4)
Alan Wolfley	Executive Vice President, Cerro Corporation	1971	600

(Footnotes on following page)

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NOTES:

(1) Mr. Cutler also owns 5,000 shares of ICX, Cerro's trucking subsidiary.

(2) Mr. Harder's wife owns 1,583 shares of Common Stock of Cerro, as to which Mr. [illegible] disclaims beneficial ownership.

(3) Owned by trusts of which Mr. Jones and members of his immediate family are the beneficiaries.

(4) As stated above, Marmon owns 3,586,297 shares of common stock (approximately 45% of the outstanding shares) of Cerro. GL owns 100% of the outstanding stock of Marmon. Messrs. Jay A. Pritzker and members of his immediate family and Robert A. Pritzker and members of his immediate family are the indirect beneficial owners of 38.4% and 28.8%, respectively, of the outstanding stock of GL and other members of the Pritzker family are the beneficial owners of the balance.

(5) Mr. Jay A. Pritzker was elected Chairman of the Board of Cerro at the February 12, 1975 meeting of the Board of Directors upon the resignation as Chairman of Mr. Charles B. Harding.

Each of the individuals listed was elected a director of Cerro at the last annual meeting of stockholders.

Remuneration of Directors and Officers

The following table sets forth (i) the aggregate remuneration paid by Cerro and its subsidiaries during 1974 to each director and each of the three highest paid officers of Cerro whose aggregate remuneration exceeded $40,000 and to all persons, as a group, who were officers or directors of Cerro at any time during that year, and (ii) the estimated annual benefits payable upon retirement at normal retirement date to such persons under Cerro's pension plans:

Name of Individual or Identity of Group	Capacities in Which Remuneration Was Received	Aggregate Remuneration(1)	Estimated Annual Retirement Benefits
C. Gordon Murphy(2) ...	President and Chief Executive Officer; Director	$ 626,400	—
Alan Wolfley	Executive Vice President; Director	269,416(3)	$35,220
Robert H. Cutler	Director; Chairman of Cerro's trucking subsidiary	130,426(4)	34,867
Philip C. Walsh	Vice President	312,733(5)	—
Directors and Officers as a Group(6)		2,422,645(7)	—

1. The aggregate remuneration shown includes salaries, incentive compensation, consulting fees and directors' fees.

2. On February 12, 1975, Mr. Murphy resigned as a director and as President and Chief Executive Officer of the Corporation (see "Changes in Management—Litigation").

3. Includes deferred compensation of $60,515.

4. Includes deferred compensation of $65,326.

5. Includes $240,000 awarded to Mr. Walsh as special compensation for his services in connection with the settlements of, and compensation received by Cerro for, expropriated mining properties in Peru and Chile. Mr. Walsh's principal responsibility during his employment with Cerro commencing in 1972 was to negotiate and obtain satisfactory arrangements with the Governments of Peru and Chile with respect to Cerro's mining properties in those two countries. These matters were successfully concluded in February and March of 1974, and the Board of Directors awarded Mr. Walsh such special compensation in recognition of the value of his services rendered to the Corporation in this regard. Included in Aggregate Remuneration is $38,570 received by Mr. Walsh upon surrender of stock options (see "Stock Option Matters"). Mr. Walsh resigned as an officer of the Corporation on May 24, 1974.

6. 24 persons constitute this group.

7. Includes deferred compensation of $199,781 and $96,928 received upon surrender of stock options.

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Messrs. Jay A. Pritzker and Robert A. Pritzker, who have been Chairman of the Board and President, respectively, of Cerro since February 12, 1975, are each being compensated at the rate of $75,000 per annum during 1975. The Messrs. Pritzker devote such time to their duties as is necessary for the proper performance thereof.

Change of Management—Litigation

On June 12, 1974 Cerro and C. Gordon Murphy entered into an Employment Agreement (the "New Agreement") which superseded a prior agreement which would have expired February 15, 1975 (the "Original Agreement").

Under the Original Agreement, Mr. Murphy had agreed to serve Cerro for a five year term in such senior executive capacity as Cerro's Board of Directors may from time to time have determined. The Original Agreement provided, among other things, that Mr. Murphy's salary was to be at a minimum rate of $200,000 per annum during the last three years of his employment thereunder.

The Original Agreement also provided that in the event of Mr. Murphy's disability during his employment, Cerro would pay during the period of his disability (but not to exceed five years) and notwithstanding the termination of such Agreement, one-half of Mr. Murphy's base compensation in effect at the time of his disability. Such payments would have been in addition to all retirement and other disability benefits to which Mr. Murphy would have been entitled under Cerro's employee benefit programs.

The New Agreement provided for a basic salary to him of not less than $275,000 per annum and annual incentive compensation in an amount equal to 1.5% of the Pre-Tax Accounting Income of Cerro (as defined in the New Agreement) in excess of $25,000,000 but less than $35,000,000 and 2% of such income in excess of $35,000,000, with a maximum annual incentive compensation equivalent to 200% of his basic salary.

The New Agreement was for a term ending in February 1980 and provided that if at any time during the term thereof Mr. Murphy should (other than by his voluntary resignation) cease to be a director and President and Chief Executive Officer of Cerro he could convert his status under the New Agreement for the balance of its term to that of general advisor and consultant to Cerro on a non-exclusive basis and at an annual salary equivalent to his basic salary plus an amount equal to his incentive compensation for the year immediately preceding such conversion of status.

The New Agreement further provided that if any of the options previously issued to Mr. Murphy pursuant to Cerro Alternate Stock Option Plan of 1971 (the "1971 Plan") to purchase 144,750 shares of common stock of Cerro were exercised or surrendered by him or expired, new options would be granted for an equivalent number of shares whether or not he had converted such status.

The New Agreement also provided for certain payments to Mr. Murphy in the event of his disability.

Shortly after the termination of GL's tender offer (see "The Business Combination—General") discussions commenced between GL and Cerro in respect of a merger of Cerro and Marmon. After lengthy consideration, on September 11, 1974, following a meeting of Cerro's Board, an agreement in principle, with which Mr. Murphy concurred, was announced with respect to a merger of Cerro into Marmon, subject to final approval of the Board of Directors of Cerro and its stockholders. On September 20, 1974, Cerro and Marmon announced that they had suspended the plan to merge. Cerro has been advised that on September 21, 1974, differences which had been developing between Mr. Jay A. Pritzker and Mr. Murphy over management policy, organization and conduct of operations became irreconcilable. On September 25, 1974, at the direction of Mr. Murphy, a special meeting of the Board of Directors of Cerro, to be held on September 27, 1974, was called to consider whether, under the circumstances, discussions concerning the merger should be continued. GL has advised Cerro that, although it had been under the impression the merger negotiations had been terminated by reason of the September 20th announcement, having learned of the September 25th notice, it delivered a letter to Cerro on September 26, 1974 formally terminating the merger negotiations and GL has also advised that its reason for termination of the negotiations was legal problems of GL and Marmon then existing in connection with the

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proposed merger. Mr. Murphy has advised Cerro that, after the September 21 meeting with Mr. Pritzker, he decided (i) to oppose the merger based on his disagreements with Mr. Pritzker and on the merger terms proposed, and (ii) to seek to cause the Pritzker interests to dispose of their holdings of Cerro stock. He further advised that he spoke to certain of the directors with respect to his opposition to the proposed merger. The matter of continuing the merger discussions was not acted upon by the Board of Directors of Cerro at its special meeting because of the termination by GL of the discussions.

The merger terms, at such time, contemplated that the capital stock of Marmon would be converted into 6,500,000 shares of class A common stock of the surviving corporation and that each share of Cerro common stock held by persons other than Marmon would be converted into one share of common stock of the surviving corporation. It was further contemplated that the class A common stock and the common stock would be equal in all respects, without preferences given to either class, except that the class A common stock would be entitled to three votes per share while the common stock (to be received by the stockholders other than Marmon) would be entitled to one vote per share. As a result of such contemplated merger, GL would have held approximately 60% of the equity and approximately 82% of the voting interest in the surviving corporation and the public stockholders, then holding approximately 55% of the equity and voting interest in Cerro would have held, after the merger, approximately 40% of the equity interest of the surviving corporation and approximately 18% of the voting interest in the surviving corporation.

In connection with its consideration of this matter, the Board of Directors of Cerro requested Smith, Barney to commence an evaluation from a financial viewpoint of the fairness of the proposed common stock transaction to the stockholders of Cerro other than Marmon. Prior to the termination of the merger negotiations, Smith, Barney had indicated to the Cerro Board, based upon its preliminary analysis and certain assumptions about Cerro's internal projections regarding its earnings for 1974 and subject to the satisfaction of certain conditions, that it believed it would be prepared to render a favorable opinion as to the fairness from a financial viewpoint of the transaction to the stockholders of Cerro other than Marmon.

In addition, there has been testimony in the federal consolidated action (75 Civ. 1795) described below regarding an initial proposal made in July and early August 1974 for a merger of Cerro and Marmon to be accomplished by means of the issuance of preferred stock of the surviving corporation to persons other than Marmon holding common stock of Cerro. The terms of the merger proposal and the proposed characteristics of such preferred stock were never finalized although, before the proposal was withdrawn in favor of the common stock proposal discussed above, Smith, Barney had begun to evaluate from a financial viewpoint the fairness of the proposed preferred stock transaction to the stockholders of Cerro other than Marmon. Mr. Thomas Githens, a Director of Cerro and a Senior Vice President and Director of Smith, Barney (who was not directly involved in the evaluation undertaken by Smith, Barney), and Mr. Murphy have testified that they believed Smith, Barney to have suggested that such preferred stock should have terms resulting in a value of approximately $25 per preferred share. Mr. Robert Hotz, a Vice-President of Smith, Barney who participated in Smith, Barney's evaluation, has testified that Smith, Barney indicated to the Board of Directors of Cerro that, based on its preliminary analysis, Smith, Barney would feel comfortable in advising the Board as to the fairness of the transaction with a preferred stock which would carry a $2.50 dividend and a $25.00 call price. Mr. Hotz indicated that he did not believe Smith, Barney could reach a favorable opinion regarding a preferred stock carrying a $2.00 dividend. He further testified that Smith, Barney was not asked to evaluate any proposal based on a dividend greater than $2.00 but less than $2.50, and thus Smith, Barney had not considered a proposal with a lower dividend than $2.50 per share. Mr. Hotz, in addition, stated that at the time Smith, Barney performed its preliminary work there was no proposal regarding certain attributes of such preferred stock including, among others, sinking fund provisions, restrictions on dividend payments to holders of securities junior to the preferred stock and provision for the election of directors by the preferred stock as a class upon certain non-payment of dividends, and that such attributes could be significant in evaluating the preferred stock. Mr. Jay A. Pritzker has testified that one of the reasons for the withdrawal of the preferred stock proposal was that he never agreed with the dividend and call price being considered by Cerro. He further testified that he had

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been contemplating a preferred stock with an annual dividend of $1.75 to $2.25 and with a call price of somewhere in the $20 to $22 range.

In December 1974, in the light of the continuing serious and irreconcilable differences between Mr. Jay A. Pritzker and Mr. Murphy regarding the conduct of Cerro's operations and other policy matters described above, which differences were continuing to affect the ability of Cerro's management to function properly, Cerro and Mr. Murphy agreed that he would convert his status under the New Agreement to that of a non-exclusive general adviser and consultant to Cerro, effective May 1975. Under such status, for the unexpired term of the New Agreement, Mr. Murphy would have been entitled to the annual rate of compensation required by the New Agreement upon such conversion, which rate would have been $638,260 per annum, or an aggregate of $3,031,735 during the four years and nine months ending February 1980.

On February 12, 1975, it was determined that the interests of Cerro would best be served by an immediate resolution of the continuing policy differences referred to above; consequently, a termination agreement was entered into between Mr. Murphy and Cerro on that date pursuant to which (i) the New Agreement was terminated and Mr. Murphy resigned as a director, President and Chief Executive Officer of Cerro; (ii) Mr. Murphy's options to purchase 144,750 shares of Common Stock of Cerro were cancelled and Cerro was relieved of its obligation to issue substitute options; (iii) Mr. Murphy received $1,950,000; (iv) general releases were exchanged by Cerro and Mr. Murphy; and (v) all of Mr. Murphy's fringe benefits as an employee of Cerro were cancelled, except that he was provided medical and life insurance coverage until August 12, 1975 at a cost to Cerro of $3,047. Cerro also provided Mr. Murphy with office space and secretarial assistance until August 12, 1975 at a cost to Cerro of approximately $16,000. Mr. Murphy agreed, on terms similar to those contained in the New Agreement, (a) not to compete with Cerro for a period of two years from February 12, 1975, except that he may accept a consultant position or employment from any other concern engaged in coal mining (except within a 70 mile radius of Somerset, Pennsylvania) and/or in the real estate business, and (b) not to divulge any confidential information of Cerro.

During the course of the federal consolidated action (75 Civ. 1795) described below, Mr. Murphy testified to the effect that if he had continued as Chief Executive Officer of Cerro, Cerro might have reported net earnings per share in the fiscal year ended 1974 of approximately $3.10 per share in lieu of the $2.01 reported by Cerro. He stated that the most important element in arriving at such increase in earnings would have been the reversal of certain investment reserves which had been established for the year ended December 31, 1973 while he was Chief Executive Officer of Cerro. Reversal of those reserves as to which Mr. Murphy specifically testified would have added approximately $2.85 million (or $.36 per share) to the after tax earnings (assuming a 50% tax rate). Other than with respect to such reserves, Mr. Murphy's testimony does not reveal the basis for his view. Mr. Murphy left office before the audit for 1974 had been completed and did not participate in the subsequent discussions among management, Cerro's Audit Committee and Price Waterhouse & Co., Cerro's independent public accountants, as a result of which it was determined not to reverse the investment reserves referred to above.

The reserves which were the subject of Mr. Murphy's testimony were established because recovery of the investments was improbable, owing to political risks and because under Peruvian law, the equity position of Cerro will be eroded over time through the granting of stock ownership in Cerro's mining affiliates to Peruvian employees. Nothing has occurred warranting a reversal of any of such reserves, although there have been changes in Cerro's reserve balance as a result of the sale of a manufacturing investment; accordingly, management does not anticipate future reversals of such reserves.

There is pending in the Supreme Court of the State of New York a consolidated derivative stockholders' action brought by two persons claiming to be shareholders of Cerro. Named as defendants are seven former directors (including Mr. Murphy), and Messrs. Robert H. Cutler, Thomas F. Githens, Lewis B. Harder, Jay A. Pritzker, Robert A. Pritzker, Alan Wolfley, GL and Cerro. The complaint alleges, in connection with the payment to Mr. Murphy, corporate waste pursuant to an alleged plan among the defendants to permit GL to acquire control of the Corporation by means of GL's tender offer.

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The complaint apparently demands that the New Agreement be declared null and void; that Mr. Murphy account for all sums received by him in connection with cancellation of the New Agreement; and that the defendants account for any profits realized by them and any losses and damages sustained by Cerro as a result of the matters alleged in the complaint. All of the defe[illegible] been served with process in the consolidated action have denied the material allegations of the complaint.

There is also pending in the United States District Court for the Southern District of New York, a consolidated action (75 Civ. 1795) encompassing five actions which were commenced in such court in April and May 1975. The consolidated amended complaint ("Complaint") alleges class action claims against C. Gordon Murphy, Jay A. Pritzker, Robert A. Pritzker, GL and Marmon based upon alleged violations of Section 10(b), Rule 10b-5 promulgated thereunder and Section 14(e) of the Securities Exchange Act of 1934 and the common law. The Complaint charges that Jay A. Pritzker and Robert A. Pritzker, and corporations allegedly controlled by them, have wrongfully acted in seeking to acquire 100% ownership of Cerro; it also makes claims of wrongdoing with respect to the GL tender offer for 1.5 million Cerro shares made on June 26, 1974 and subsequent conduct directed to a proposed merger of Cerro with corporations allegedly controlled by the Pritzkers, including Marmon. This latter conduct is alleged to include actions taken by Jay A. Pritzker and Robert A. Pritzker, after gaining effective control of the Cerro Board, to depress the market value of Cerro shares by understating Cerro's 1974 earnings, keeping dividends at an unwarrantedly low level and generally understating Cerro's allegedly favorable prospects. The relief sought on the class claims in the Complaint includes an injunction for a period of at least five years against the voting of the shares of common stock of Cerro owned by Marmon and the other defendants acquired by them prior to and pursuant to the GL tender offer, and, in addition, compensation for damages allegedly sustained by the class.

In addition to the foregoing class action claims, the Complaint alleges derivative claims on Cerro's behalf, seeking to recover up to $1,950,000 (the sum paid to Mr. Murphy in settlement of the New Agreement) from certain present and former directors of Cerro, specifically Mr. Murphy, Jay A. Pritzker, Robert A. Pritzker, Alan Wolfley, Robert H. Cutler, Thomas F. Githens, Lewis B. Harder, Charles B. Harding, William L. Henry, Adrian M. Massie, G. Willing Pepper and John B. Stone.

Cerro is named as a defendant in all these claims but no relief is sought from it. All other defendants who have been served with process have denied the material allegations of the Complaint, have denied any wrongdoing and have asserted affirmative defenses.

The court has ruled that the class action claims in the Complaint may be maintained as a class action and has ordered that notice with respect to such claims be given by mail to members of the class, defined as all persons, other than defendants, who owned Cerro stock at any time during the period from June 12, 1974 to July 26, 1974, inclusive. The court has currently scheduled the trial of this consolidated action for a date to be determined in April 1976.

Other Litigation

On May 22, 1975, one Maurice Seiden, claiming to be a shareholder of Cerro, filed a complaint in the United States District Court for the Eastern District of New York (75 Civ. 790) naming as defendants Cerro, certain of its present directors, certain of its former directors, Leadership Housing Systems, Inc., a subsidiary of Leadership, and Cerro's auditors, Price Waterhouse & Co., commencing a class action and a shareholder's derivative suit. The complaint alleges, among other things. that the reporting of Cerro's financial condition for the years ending December 31, 1972 and 1973, and for a portion of 1974, did not accurately reflect the difficulties of certain of its subsidiaries, principally Leadership Housing, Inc. and Cerro de Pasco Corporation, Cerro's former mining subsidiary in Peru. All of the defendants who have been served with process in this action whose time to file a responsive pleading has expired have filed answers denying the material allegations of the complaint.

In September 1975 an action was commenced in the Supreme Court of the State of New York by one Harry S. Samuels against Jay A. Pritzker, GL, Marmon and Cerro. The complaint alleges that the plaintiff is entitled to recover from Jay A. Pritzker, GL and Marmon a finder's fee of $750,000 for introducing Jay A. Pritzker to C. Gordon Murphy, by reason of an alleged agreement by those

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defendants to pay plaintiff a finder's fee equal to the reasonable value of his services upon the acquisition of control of any business entity to which Jay A. Pritzker was introduced by plaintiff. The complaint also alleges that Cerro impliedly agreed to pay plaintiff such a finder's fee and seeks damages against Cerro in the amount of $750,000. All of the defendants in this action have served answers to the complaint denying the material allegations thereof.

Stock Purchase Proposal

Immediately prior to the resignation as President of Mr. Murphy, Mr. Jay A. Pritzker was approached by an unaffiliated third party with a proposal to purchase the shares of Cerro common stock owned by Marmon. The proposal consisted of a purchase price to Marmon of $25.00 per share in cash. In connection with the proposal, Mr. Pritzker was informed that the other stockholders of Cerro would not be offered cash. No assurances were given as to the value of any securities that would be offered to the other stockholders of Cerro. Mr. Pritzker refused to consider the proposal.

Resignation Arrangements

On February 12, 1975, Mr. S. Roy French, Jr., Mr. J. Hugh Murphy and Mr. Robert F. Long resigned as Vice President and General Counsel, Secretary and Assistant General Counsel and Treasurer of Cerro, respectively. These resignations were part of the transfer of executive authority to the Messrs. Pritzker, but were not a condition of, or in any other way related to, Mr. C. Gordon Murphy's termination agreement, which was arrived at separately. Messrs. French and J. Hugh Murphy, whose resignations as officers were effective April 30, 1975, have received severance and consulting services payments (which included their base salaries from February 12, 1975 to April 30, 1975) of $73,442 and $53,460, respectively, pursuant to which they have agreed to serve as consultants to Cerro, without additional compensation other than continuation of existing fringe benefits, including participation under the Cerro Corporation Pension Trust Plan (United States), coverage under the Cerro Corporation Life and Health Benefit Program, and existing stock options, until April 30, 1976 and February 29, 1976, respectively. Mr. Long, whose resignation as Treasurer became effective on May 13, 1975 and continued as an employee to September 30, 1975, received a severance and consulting services payment of $43,000 and agreed to serve as a consultant to Cerro for a period of one year thereafter without additional compensation other than continuation of the above described existing fringe benefits and stock options. The estimated costs, based on actuarial assumptions, to Cerro of providing such fringe benefits, which are ordinarily available only to full time employees of Cerro, to Messrs. French, J. Hugh Murphy and Long during the terms of their consulting agreements are $8,022, $4,266 and $5,876, respectively. Messrs. French, J. Hugh Murphy and Long are each obligated to spend up to 20 hours in each month, on a non-cumulative basis, in providing such consulting services.

Employment Arrangement

Mr. Alan Wolfley, Executive Vice President and a Director of Cerro, has an arrangement with Cerro whereby he will be employed by Cerro on a non-exclusive basis (and by Cerro-Marmon after the business combination) for a period of six months from January 1, 1976, at a salary of $6,700 per month. At the end of this period, this arrangement will be reviewed.

Transactions with Pritzker Family Affiliates

Affiliates of the Pritzker family are engaged in certain transactions with Cerro and its subsidiaries ("Transactions").

Prior to the date Messrs. Jay A. Pritzker and Robert A. Pritzker became officers or directors of Cerro, affiliates of the Pritzker family had entered into certain real property transactions with Leadership, described in Transactions I through IV below. The intention of Cerro management to reduce substantially business operation and debt levels of Leadership through an orderly liquidation of inventories designed to minimize losses will not affect any of such Transactions. Because Transactions I through IV involve continuing business and contractual relationships, the Pritzker family's later acquisition of control of Cerro, and indirectly of Leadership, gives rise to the possibility of conflicts of interest between

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the interests of the Pritzker family and the interests of Leadership and/or Cerro. As set forth under Transaction I, a Pritzker family affiliate has extended the time for Leadership to make certain contractual repurchases from such affiliate. Cerro believes that the granting of such extension and the related forebearance by the trusts are on terms as favorable as those which could have been obtained from unaffiliated third parties because they were granted without a charge or a change in the contractual terms other than the deferment of the payment of principal and interest payable on the mortgage note given by the Trusts to Leadership in connection with Transaction I during the period of such extension.

During the course of such continuing business and contractual relationships, a number of decisions will be made and actions taken some of which will affect and further define the relationships between the Pritzker family and the interests of Leadership and/or Cerro. More particularly, the agreements described below with respect to the Transactions may be modified and rights related thereto owing by one party to another may be enforced or waived. To the extent that the interests of Leadership and/or Cerro differ from the interests of the Pritzker family, the resolution of such differences could involve a conflict among the interests of the Pritzker family, Cerro and Leadership. Certain of such possible conflicts are set forth below.

Leadership entered into Transactions I through IV with affiliates of the Pritzker family at a time when the Pritzker family was not affiliated with Cerro. The Transactions were negotiated at arm's length. In each case, the Pritzker family affiliate had available to it capital to invest, but did not have the capability to undertake the land planning and other activities necessary to turn the unimproved real property into real property ready to sell for development. Leadership had the development capabilities, but required additional financing to undertake such land planning and/or the acquisition of additional property on the scale contemplated by Transactions I through IV.

In connection with the execution of the amended and restated loan agreement of June 1975 between Leadership and its principal lenders, Leadership, with the consent of the trustee of the Pritzker family trust described below, assigned to such lenders as additional collateral its right to receive cash distributions from the North Broward Associates and Section 7 Associates joint ventures also described below under Transactions III and IV. As of September 30, 1975, no such cash distributions had been made.

Transaction I—Sale of Property and Joint Venture

Date of Transaction	Property		Parties			Terms of Payment	
	Size	Location	Seller‡	Purchaser	Sales Price	Cash	Mortgage†
December 1972	1700** acres	City of Tamarac, Broward County, Florida	Leadership	Simon Zunamon*	$22,415,000	$17,932,000	$4,483,000

* Trustee of a group of trusts (the "Trusts") under which members of the Pritzker family are the beneficiaries, which Trusts own a 94% beneficial interest in the purchased property, the balance being owned by two individuals who are associates of the Pritzker family.

** On the date of sale to the Trusts, the subject property was zoned for an aggregate of approximately 13,300 residential units. However, such zoning is the subject of litigation hereinafter described.

† Issued by the Purchaser and subordinate to a series of notes secured by a first mortgage of $30,440,000 held by First Chicago Realty Services Corporation, a subsidiary of First Chicago Corporation, which is also the parent of First National Bank of Chicago.

‡ See the discussion under the heading "General" on page 77 for a description of an agreement between Leadership and the Trusts whereby Leadership is obligated to cause certain improvements to be made to the property, including grading and the construction of roads, drainage facilities, utilities and golf courses. As set forth on page 77 an amendment to such agreement in 1973 permitted Cerro to recognize Leadership's profit of $7,542,000 from the sale of the portion of the property referred to therein for the year ended December 31, 1972.

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Allocation of Sales Price Elements As of December 31, 1972*

	Portion for Resale Resulting in Reportable Income (See pp. 74-75)	Portion to be Repurchased Not Resulting in Reportable Income (See pp. 76-77)	Total
Sales Price	$10,613,000	$11,802,000	$22,415,000
Cost of Sales	3,071,000	3,549,000	6,620,000
Gross Profit	7,542,000**	8,253,000**	[illegible]**

* Leadership did not allocate cost or profit for accounting or financial reporting purposes to the acreage designated "Golf Course Portion" (see page 75) in the sale to the Trusts, since the economic value of the land is considered by Leadership to be entirely in the portion of the property zoned for housing units.

No portion of the Sales Price was attributed to "First Refusal Right of Trusts—Other Properties" (see page 77), since the purpose of the agreement referred to therein was to protect the Trust's investment.

As discussed under the heading "General" on page 77, concurrently with the sale to the Trusts, the Trusts became obligated for improvement costs with respect to the property aggregating $11,292,460. Such amount was based upon the Trusts' estimates of the costs of such improvements. Such costs are to be recovered by the Trusts on a per unit basis on subsequent resale transactions before any participation of Leadership in the profits of the venture.

** As set forth above and in the discussion under the heading "General" on page 77, for financial and accounting purposes, a gross profit of $7,542,000 was recognized by Leadership for the year ended December 31, 1972 on the sale to the Trusts of that portion of the acreage described under "Portion for Resale". No gross profit was recognized upon the sale by Leadership to the Trusts of that portion of the acreage described under "Portion to be Repurchased" owing to the contemporaneous commitment made by Leadership to repurchase substantial portions of such acreage. Of the repurchased property zoned for 779 residential units discussed under the heading "Portion to be Repurchased" on pages 76 and 77, 756 units have been developed. 575 units have been sold by Leadership through September 30, 1975 resulting in a gross loss of approximately $1.9 million which includes reserves for losses anticipated through the completion of the project. These losses occurred principally as a result of cost overruns during development and the declining market conditions experienced. The future recognition of gross profit or gross loss on the remaining unsold units and the Portion to be Repurchased will be dependent on market conditions prevailing at the time of resale by Leadership of those portions and other factors not now ascertainable and will generally be measured by the difference, if any, between the price received by Leadership on resale for each unit and Leadership's cost allocable to such unit. The aggregate costs to be allocated to such units consists of the land purchase price payable by Leadership for those portions repurchased, and the development, construction, carrying and other costs incurred by Leadership from the time of such repurchase to the time of resale of the respective units, after reducing such aggregate costs by the $8,253,000 netted by Leadership at the time of the original sale of such portion to the Trusts in 1972 but not then recognized for financial or accounting purposes.

Portion for Resale

Under the terms of a management agreement among Leadership and the Trusts executed concurrently with the sale, approximately 40% of the property, zoned for 6,141 dwelling units, is to be improved (although without the construction of dwelling units) and sold under the management of Leadership, with Leadership and the Trusts sharing equally in net profits. The Trusts bear all losses. In determining profits and losses, the Trusts are entitled to first recover their acquisition costs, their improvement costs and all of their carrying costs (such as taxes, mortgage interest and similar costs) for the property. During the period January 1, 1973 through September 30, 1975, properties zoned for 1,014 units and a small parcel zoned for commercial use were sold to unaffiliated third parties for an aggregate sales price of $3,746,000, resulting in a gross profit to Leadership and the Trusts of approxi-

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mately $657,000 each. In addition, as of September 30, 1975, property zoned for 868 units was under contracts of sale to unaffiliated third parties for an aggregate sales price of approximately $3,038,000; profit, if any, on this sale is not presently determinable.

The purchasers and contract vendee of the property zoned for 868 units and property zoned for 825 units of the property zoned for 1,014 units (representing a sales price of $2,887,000 and gross profit to Leadership and the Trusts of $610,000 each), respectively, described above, have filed actions or claims in the 17th Judicial Circuit, Broward County, Florida and the United States District Court, Southern District of Florida, seeking rescission of the contracts, based on an attempt by the City of Tamarac to change the zoning, density and subdivision development standards applicable to the property. If the rescission actions are successful, Leadership and the Trusts would be required to reverse such profits.

At the present time, all of the property that was sold to the Trusts pursuant to this transaction is the subject of litigation between Leadership and the Trusts on the one hand and the City of Tamarac on the other hand, regarding the zoning, density and subdivision development standards applicable to the property. The litigation arose out of the annexation of the property by the City of Tamarac and an attempt by the City to change the subdivision development standards and to rezone the property for a lower density than was applicable to the property at the time of sale to the Trusts. A court order entered by the Circuit Court of the 17th Judicial Circuit, Broward County, Florida in favor of Leadership and the Trusts was appealed by the City of Tamarac and the order was affirmed. The City has appealed this ruling to the Supreme Court of Florida. In addition, in February 1974 the City of Tamarac passed an ordinance imposing a building moratorium pending action by the City to reduce the allowable density applicable to the lands in question. Leadership and the Trusts have sued the City of Tamarac for an injunction on the moratorium, attacking the legality of the ordinance. As of the date hereof, the matter has not yet been set for a final hearing. The result of this suit will not be determinative of the suits by the purchasers and contract vendors referred to above.

Golf Course Portion

Approximately 20% of the property sold to the Trusts has been designated for the construction of two eighteen hole golf courses and a clubhouse ("Golf Courses"). Presently, the estimated cost of construction is approximately $1,800,000, of which, pursuant to the December 1972 agreement, $1,500,000 will be borne by the Trusts and the balance by Leadership. At the time of the execution of the original agreement with respect to the development of the Golf Courses, such estimated cost of construction was $1,500,000 and the Trusts agreed to pay that amount. The additional $300,000 of such presently estimated cost represents overruns which have occurred subsequently, for which Leadership, as the party responsible for construction of the Golf Courses, is obligated under the agreement. In addition, Leadership is required to pay for the construction of a clubhouse estimated to cost $500,000. Under the terms of an agreement between Leadership and the Trusts, Leadership may acquire, and the Trusts may cause Leadership to acquire, a 50% interest in the Golf Courses, for $750,000 plus 50% of the carrying charges on the property (estimated to be approximately $190,000). Such acquisition is to be made by June 30, 1976, based on agreements extending the acquisition date. After such acquisition, the Golf Courses are to be managed by Leadership as general partner in a limited partnership with the Trusts. The Trusts are required to contribute to the capital of the limited partnership their interest in the Golf Courses, valued at $750,000, plus one-half of any additional required capital up to an additional maximum of $150,000. Leadership is to contribute to the capital of the limited partnership its interest in the Golf Courses, valued at $750,000, one-half of all additional required capital up to $150,000, and all additional capital required thereafter. Profits and losses are to be shared equally. In view of Leadership's right to acquire, and the Trust's right to cause Leadership to acquire, a 50% interest in the Golf Courses, a conflict could exist between the interests of Leadership and the Trusts if it were economically desirable for one of such parties to acquire or sell such 50% interest, but not economically desirable for the other party to acquire or sell such interest.

The two eighteen hole golf courses have been operated since the completion of their construction in the fall of 1975 by Leadership under an interim management agreement with the Trusts under which profits and losses are shared equally.

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Portion to be Repurchased

This portion relates to the balance of the property or approximately 40% of the total property. Pursuant to an agreement among Leadership and the Trusts executed concurrently with the original sale, Leadership is required to repurchase portions of the property zoned to permit an aggregate of 4,500 housing units to be built on the repurchased property of which a portion of property zoned for 779 units has been repurchased. On the repurchased land zoned for 779 units, 756 units have been constructed by Leadership of which 575 units had been sold through September 30, 1975. Under the terms of the agreements, repurchases were to be effected in substantially equal amounts by June 30th of each year from 1973 through 1979. The repurchase price is to consist of the total of the allocated land cost to the Trusts, allocated costs of improvements to the property, carrying costs, and an additional amount equal to $760 per unit (the "Additional Payment"), intended to constitute a predetermined gross return to the Trusts. Thus, on required repurchases of all such property, the Trusts are to receive a guaranteed Additional Payment of $3,420,000. If Leadership makes the required repurchases, the development and/or disposition of such land would depend upon then prevailing market conditions. It can not now be determined what such development and/or disposition would be owing to the presently prevailing unfavorable market conditions. If Leadership fails to make the required repurchases, the Trusts will have a cause of action against Leadership for damages sustained as a result of the breach of contract. Moreover, if Leadership fails to make the required repurchases, the agreement provides that, in addition to all of the other rights the Trusts may have, the Trusts may terminate all of Leadership's rights under the agreement, including Leadership's option rights referred to below. The agreement further provides that the Trusts may set off against the purchase money second mortgage owing to Leadership the difference, if any, between the price at which the Trusts sell the property and the price at which Leadership would have been required to repurchase the property. The relinquishment by the Trusts of any such rights, or their failure to assert any such rights could involve a conflict between the interests of the Trusts and Leadership.

In addition, under the terms of the agreement, Leadership has an option to purchase other portions of the improved property, zoned to permit approximately 2,700 units on the same terms as apply to the property zoned for 4,500 units. The agreement provides that the optional portion must be purchased in parcels zoned for approximately 750 units by June 30 of each year or the option for such parcel will be forfeited by Leadership. Prior to June 30, 1974 Leadership exercised its first option by repurchasing property zoned for 991 units. As a result of presently prevailing market conditions, there are no present plans with respect to the development of the property zoned for the 991 units. Leadership informed the Trusts that, based on Leadership's current financial condition and results of operations, it did not believe it would be in a position to make the required repurchase of property zoned for 753 units on June 30, 1975. On March 14, 1975, Leadership and the Trusts entered into an amendment to the above agreement providing that Leadership is not required to make the minimum repurchase for 1974, and the obligation to make required repurchases otherwise has been extended by one year. Leadership has agreed that interest and principal on the purchase money second mortgage note shall not be payable for an equivalent one year period and that during such period interest on the note shall not accrue. Thereafter, the remaining principal payments on such note have been extended by one year, with interest accruing in accordance with the terms of such note. The amendment of March 14, 1975 provided for the surrender of an option to purchase parcels zoned for 753 units, in accordance with the terms of the agreement. Depending upon the then value of the property, decisions as to whether Leadership will exercise such options could involve conflicts between the interests of Leadership and the Trusts.

On April 25, 1975, Leadership and the Trusts further amended the agreement to defer the obligations of both parties until June 30, 1977. The amendment of April 25 contains an extension for optional purchases (other than the portion zoned for 753 units referred to above) as well as the required repurchases. Leadership's loan agreement with its bank lenders referred to elsewhere herein prohibits any such repurchases prior to April 1, 1977, the maturity date of the loan agreement.

In the event that Leadership exercises its option to repurchase the balance, including the optional purchases, it will result in an Additional Payment to the Trusts of $3,554,520. In total, during the period January 1, 1973 through September 30, 1975, Leadership repurchased property zoned for 1,770 units

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for an aggregate amount of approximately $4,697,000, of which approximately $1,345,000 represented an Additional Payment to the Trusts. Except for property zoned for 779 units, such repurchased property, zoned for 991 units, with respect to which Leadership is bearing carrying costs, has not been resold or developed primarily because of adverse market conditions prevailing in Florida, and accordingly it is impossible to determine whether Leadership will ultimately realize a profit or sustain a loss with respect thereto.

First Refusal Right of Trusts—Other Properties

Pursuant to an agreement between the Trusts and Leadership, executed concurrently with the original sale, for a period of 6 years from December 1972 the Trusts have a right of first refusal to participate as a limited partner with Leadership in development of property acquired by Leadership, other than single family residential property, within a radius of 5 miles from a designated point in the property purchased by the Trusts from Leadership. The right does not apply to property owned by Leadership as of December 1972. Since it could be economically advantageous for Leadership alone to develop any additional properties, the possible exercise by the Trusts of their first refusal rights could conflict with the interests of Leadership. As of September 30, 1975 no additional property had been acquired by Leadership other than the property described in Transaction III.

General

Land owned by Leadership adjacent to the property sold to the Trusts as well as the property sold to the Trusts has been jointly master planned, which master plan can only be revised by the mutual consent of Leadership and the Trusts. The master plan provides for drainage, grading, the Golf Courses, and certain roads and utilities (the "Improvements"). Concurrently with the sale, Leadership entered into an Improvement Agreement with the Trusts whereunder Leadership agreed to cause the Improvements to be constructed on the Trusts' property, at a cost to the Trusts of $11,292,460, and also agreed to cause Tamarac Utilities, Inc., Cerro's wholly owned subsidiary, to provide sewer and water facilities sufficient to service the Trusts' property. The costs to the Trusts aggregating $11,292,460 are allocated to the properties described above and recovered by the Trusts on a per unit basis.. Of such amount, $670,870 has been recovered by the Trusts. Leadership, in turn, contracted with Caporella & Sons, Inc., an independent third party to undertake the Improvements at the same cost, less the amount previously advanced by Leadership referred to below. Through September 30, 1975, approximately $9,074,000 had been paid to Caporella & Sons, Inc. and others by the Trusts. Although the construction contracts are for fixed amounts, there are provisions for additional charges by the contractor in some cases. In 1973, the Trusts agreed that they would look only to the contractor with respect to construction of substantially all of the Improvements and not to Leadership, provided that Leadership agreed to enforce all of its rights against the contractor and the contractor's bonding company, and provided further that Leadership agreed to pay $1,115,000 toward the costs of the Improvements, which sum had already been advanced by Leadership. The foregoing agreement permitted Cerro to recognize Leadership's profit in the year ended December 31, 1972 of $7,542,000 attributable to the sale of that portion of the property to be resold. As at September 30, 1975, approximately 90% of the Improvements had been completed.

Brokerage commissions in the aggregate amount of approximately $1,100,000 in connection with the sale were payable in installments over a period of years by Leadership to two entities, neither of which is an affiliate of Cerro, Leadership or the Pritzker family.

TRANSACTION II — *Purchase of Property and Proposed Joint Venture*

Date of Transaction	Property		Parties		Purchase Price	Terms of Payment	
	Size	Location	Seller	Purchaser		Cash	Mortgages
March 1973	2,000 acres	North Tarpon Lake, Florida ("North Tarpon")	Unaffiliated Third Parties	Leadership	$7,000,000	$1,500,000	$5,500,000

Leadership and Diversified Capital (Not Inc.), a partnership ("DC") which is engaged in the business of finance and investments, considered the possibility of entering into a joint venture providing

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for the development of the above property as well as 2,000 additional acres of property known as South Tarpon Lake, Florida ("South Tarpon") already owned by Leadership. In connection with the purchase of North Tarpon and for the development and carrying costs related to South Tarpon, DC advanced to Leadership approximately $4,200,000 over the period April 6, 1973 through October 31, 1973, in exchange for Leadership's notes bearing interest at rates ranging from 7¾% to the prime rate of the First National Bank of Chicago plus 3% per annum. The notes were secured by an assignment of Leadership's beneficial interest in land trusts through which Leadership holds title to such land. Through June 1, 1974, Leadership paid $485,000 of interest on the loan, and repaid the entire principal on June 1, 1974. On November 30, 1973 Leadership and DC terminated plans to proceed with the joint venture and no joint venture was ever formed with respect to this property. DC advised Leadership that its reason for terminating plans to proceed with the joint venture was that more favorable investments were available at that time. As a result of cancellation of the plans, the notes held by DC were repaid as indicated above, and the additional property was added to Leadership's inventory of land. No capital contribution was made by DC because the joint venture plans were terminated. DC, through a number of trusts, is beneficially owned 100% by the Pritzker family.

TRANSACTION III — *Purchase of Property and Joint Venture*

Date of Transaction	Property		Parties		Purchase Price	Terms of Payment	
	Size	Location	Seller	Purchaser		Cash	Mortgages
November and December 1972 and March 1973	235 acres	Section 7, Broward County, Florida ("Section 7")	Unaffiliated Third Parties	Leadership	$2,400,000	$800,000*	$1,600,000

* Advanced to Leadership by DC in return for Leadership notes secured by an assignment of Leadership's beneficial interest in a land trust through which Leadership holds title to such land.

In November 1973, Leadership and DC entered into a joint venture for the purpose of holding Section 7 as an investment for ultimate development and sale and Leadership was to attempt to secure zoning on the property permitting construction of residential units and obtain a commitment for water and sewer service to the property appropriate for the number of residential units for which the property was ultimately zoned. DC cancelled the notes of Leadership as DC's contribution to the joint venture. No interest was paid by Leadership on such notes. In addition, the joint venture assumed the mortgages securing the payment of the balance of the original purchase price of the property. Under the terms of the mortgages, the holders may have recourse to Leadership for payment, in which event Leadership would have recourse against the joint venture. As of September 30, 1975 the amount of mortgages having recourse to Leadership was approximately $800,000.

Under the terms of the joint venture, day-to-day operations are to be performed by Leadership. Major decisions with respect to the venture are made jointly by Leadership and DC. DC, however, has the right to obtain required capital for the venture by borrowing money secured by the property. If DC borrows money at a rate of interest exceeding 3% over the prime rate charged by First National Bank of Chicago without the consent of Leadership, DC is required to bear the additional costs.

The joint venture agreement provides that if either party defaults, the non-defaulting party may purchase the interest of the defaulting party at market value determined by appraisal. In addition, in the event of a dispute between the parties, either party has the right to offer to buy the assets of the venture and in the event the offer is refused, to cause the assets of the venture to be sold to the party receiving the offer at the same price, with the consideration, in each case, payable in cash.

DC is obligated to contribute all of the capital required by the venture. As of September 30, 1975, the capital contribution of DC to the venture was $1,653,647. Under the terms of the joint venture, DC is entitled to recover from the operations of the joint venture its capital contribution and interest thereon at the rate of 3% over the prime rate charged by the First National Bank of Chicago. In addition, Leadership and DC will bear equally all losses and divide all profits attributable to the venture. No portion of the property has been sold by the venture. Consequently, neither DC nor Leadership has received any distributions in respect of profit, nor has DC received any return of capital. For financial

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reporting purposes, all costs of the venture have been capitalized as permitted by generally accepted accounting principles.

A non-control employee of Leadership received $10,000 in connection with services performed in respect of the acquisition of a portion of the above property. The venture assumed the obligation to pay approximately $9,000 of such amount.

TRANSACTION IV—*Purchase of Property and Joint Venture*

Date of Transaction	Property		Parties		Sales Price	Terms of Payment	
	Size	Location	Seller	Purchaser		Cash and Note	First and Second Mortgages
March, June and November 1973	3,900 acres	North Broward County, Florida ("North Broward")	Unaffiliated Third Parties	Leadership	$30,500,000	$6,900,000*	$23,600,000†

* $2,500,000 of which was advanced to Leadership by DC in return for unsecured Leadership notes bearing interest at rates varying from 7½% to the prime rate of the First National Bank of Chicago plus 3% per annum. Includes commissions, title insurance and closing costs.

† Under the terms of approximately $19,200,000 of such mortgages, as of September 30, 1975, the holders have recourse for payment to Leadership, in which event, by reason of the assumption of such obligation by the joint venture hereinafter described, Leadership would have recourse to the joint venture.

In October 1973, Leadership and DC formed a joint venture to develop and sell the North Broward property, title to which was then conveyed to the joint venture. Approximately $2,300,000 of the notes issued by Leadership were cancelled by DC as its equity contribution. Under the joint venture agreement, DC became obligated to return Leadership's capital, and to provide all required capital to the joint venture, with the parties continuing to share profits and losses equally.

In December 1973, the venture borrowed approximately $4,093,000 from a third party, the proceeds of which were distributed equally to Leadership and DC to reduce their equity investments. During 1974, distributions aggregating approximately $1,350,000, representing the proceeds of additional borrowings from such third party, were made to reduce other indebtedness of the venture. In June 1975, an additional $700,000 was borrowed which was utilized to reduce DC's equity investment. The loans are repayable by the venture on June 30, 1976 with interest payable monthly at the rate of 4% in excess of the prime rate of The Chase Manhattan Bank (N.A.) and are secured by mortgages on the property. Pursuant to the joint venture agreement, DC returned Leadership's remaining equity contribution to the venture in the amount of $2,801,000 in 1974. From the date of return of Leadership's capital, DC's capital investment bears interest at a rate of 3% per annum over the prime rate of The Chase Manhattan Bank (N.A.). As at September 30, 1975, the total capital contribution of DC to the venture was $8,570,000. As a result of market conditions recently existing in the Florida real estate market, no portion of the property has been sold since the formation of the venture. Consequently, neither DC nor Leadership has received any distribution from the venture, other than as described above.

The provisions of the joint venture agreement are substantially similar in all material respects to the terms of the joint venture agreement described in Transaction III above. However, the agreement in respect of Transaction IV provides that if Leadership or DC, or any subsidiary or affiliate of either, should acquire any interest in any additional real property located within a certain described area in the vicinity of the property, the other party shall have the right to participate in the development thereof.

Leadership has a wholly owned subsidiary known as South Canal Utilities, Inc. which may be required to make significant capital expenditures in order to provide sewer and water capacity to the property within a period of not more than 6 months upon written request by the venture provided the venture will not make the request unless it is necessary to provide services to structures erected upon the property or to fulfill commitments to third parties purchasing portions of the property from the venture. Because the extent to which services will be required is based on ultimate sales and use of the property, it is not possible to estimate the required capital expenditures. It is presently contemplated that temporary facilities will be constructed at an estimated cost of approximately $150,000 during the period ending December 31, 1976.

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Brokerage commissions in respect of the purchase of the property in the aggregate amount of approximately $1,400,000 were payable in installments to two entities, neither of which is an affiliate of Cerro, Leadership or the Pritzker family. [illegible] was consummated, the venture assumed the obligation to pay such commissions.

TRANSACTION V

In the normal course of business, Cerro sells from time to time copper raw materials to Marmon. In 1974, Marmon paid Cerro $2,785,000 for such materials. During the first ten months of 1975 Marmon paid Cerro $1,869,192 for such materials. Such sales have been made to Marmon at prevailing market prices. Similar transactions between the two companies have been engaged in over the past several years.

TRANSACTION VI

Cerro is advised that a trust for the benefit of the Pritzker family acquired in 1975 Penn Pocahontas Coal Company ("PPC") which owns coal land and operates surface mines in close proximity to the mines operated by Fetterolf. (See "Business and Properties of Cerro-Mining Group"). Both PPC and Fetterolf produce coal which can be used for metallurgical purposes. Cerro and PPC are investigating the possibility of Fetterolf assuming a management role in the further development and operation of PPC's property and the marketing of PPC's coal. Personnel of Cerro and Fetterolf have provided certain technical assistance to PPC for the purpose of planning the development of the property, and in addition have initiated on behalf of PPC discussions with potential coal buyers. As of November 25, 1975 Cerro was owed approximately $505,000 by PPC for such services. Such payment was based upon time expended by Cerro personnel and in reimbursement of expenses incurred by Cerro.

TRANSACTION VII

On May 19, 1975 Cerro's principal office was relocated to 39 South LaSalle Street, Chicago, Illinois. Cerro is subletting 2,800 square feet from Marmon at $7.89 per square foot, which is the cost to Marmon for such space. Marmon, in turn, rents such space from a company in which the Pritzker family has a 50% beneficial interest. See "Management of Marmon—Certain Transactions".

TRANSACTION VIII

During the first nine months of 1975, Marmon sold mining equipment to certain members of the Cerro Mining Group for $1,284,000. Such sales were made at prevailing market prices.

TRANSACTION IX

On July 15, 1975, The Pritzker Foundation, a charitable foundation in which the Pritzker family has no beneficial interest, purchased $965,600 principal amount of Cerro's 12% Subordinated Notes at face amount and subsequently offered the notes to Cerro for the Foundation's cost, plus accrued interest. On August 28, 1975, Cerro purchased the notes on such terms.

Stock Option Matters

The following tabulation shows as to certain directors and officers and as to all directors and officers as a group (i) the number of shares covered by options granted to purchase Cerro's common stock since January 1, 1974, and (ii) the number of shares subject to all unexercised options held as of September 30, 1975.

Options to Purchase Common Stock	Alan Wolfley	All Directors and Officers As a Group
Options Granted—1974 to date:		
Number of shares	—	2,000
Average per share option price(1)	—	$16.43
Unexercised at September 30, 1975:(3)		
Number of shares	38,000	69,250(2)
Average per share option price(1)	$14.74	$14.73(4)

1. All option prices have been adjusted in accordance with the terms of the Alternate Stock Option Plan of 1971, as amended (the "1971 Plan") to reflect cash dividends paid during the period May 14, 1974 through September 25, 1975.

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2. In addition, Mr. Robert H. Cutler, who became a director of Cerro on March 14, 1973, has been granted options to purchase 10,000 shares of common stock of Cerro's subsidiary, ICX, at an average price per share of $10.43.

3. During 1974, options to purchase 37,769 shares of Cerro's common stock were surrendered for cancellation by officers of Cerro who, pursuant to the 1971 Plan, received in exchange therefor $96,928 (see text below). Of such amount $38,570 was received by Mr. Walsh.

4. $16.28 per share as to options which were granted under the 1970 Stock Option Plan (see text below).

All of the options referred to above were granted under the 1971 Plan and (except for options granted subsequent to March 14, 1973) include "corresponding options" granted under the Cerro Corporation Stock Option Plan of 1970 (the "1970 Plan"). Exercise of an option under the 1970 Plan operates automatically to extinguish the optionee's corresponding option under the 1971 Plan. Conversely, as a condition precedent to surrender of an option under the 1971 Plan, the optionee is required to surrender to Cerro for cancellation the corresponding option under the 1970 Plan. The number of shares to be issued (set forth in the table above) upon the exercise or surrender of options unexercised at March 31, 1975, represents the maximum number of shares which Cerro would be required to issue if all options granted to the persons referred to in such table under the 1970 or 1971 Plan were exercised or surrendered.

Under the 1971 Plan, an optionee is not entitled to exercise options granted thereunder, but upon surrender thereof is entitled to receive the equivalent, in cash, of the appreciated value of the stock covered by his option, such appreciated value being the difference between the option price and the fair market value of the stock at the time the option is presented for surrender.

All options referred to above were granted at an option price equal to 100% of the fair market value of the shares of common stock covered by each such option on the date of the grant thereof, subject to adjustment for stock dividends and similar transactions and for cash dividends declared and paid by Cerro after May 14, 1974, or the date of grant of the option, whichever is later. Upon the consummation of the business combination, options relating to Cerro common stock will be converted into a like number of options relating to Cerro-Marmon Preferred Stock.

BUSINESS AND PROPERTIES OF MARMON

General

As set forth above, Marmon is a wholly owned subsidiary of GL. GL, a Delaware corporation, is a private corporation, wholly owned, directly or indirectly, through trusts and other entities, by the Pritzker family which, for the purposes hereof, consists of the descendants and certain of their spouses, of the late Nicholas J. Pritzker (including A. N. Pritzker, Jack Pritzker, Jay A. Pritzker and Robert A. Pritzker, who are controlling persons of GL). Marmon, which was organized on August 26, 1969, is the successor through merger to a corporation which was organized in 1904. Marmon is engaged, directly and through several subsidiaries, in five basic lines of business: the distribution of steel pipe and tubing and the manufacture and fabrication of copper and aluminum tubing; the manufacture of products for use principally in the automotive industry; the design and manufacture of equipment used in the mining industry; the manufacture of building products and equipment; and the manufacture of specialized equipment for use principally in the agricultural industry. Marmon's executive offices are located at 39 South LaSalle Street, Chicago, Illinois 60603 (tel. no. 312-372-9500). As used herein, the term "Marmon" includes Marmon and its subsidiaries and Marmon's predecessor, unless the context otherwise requires.

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The following table sets forth for the five years ended December 31, 1974 and the nine months ended September 30, 1974 and September 30, 1975 the approximate amount and percentage of total sales and revenues and approximate amount and percentage of total income before interest expense, equity in net earnings of Cerro Corporation, income taxes and extraordinary items for each of Marmon's line of business:

	Nine Months Ended September 30,				Year Ended December 31,									
	1975		1974		1974		1973		1972		1971		1970	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(In Millions of Dollars)													
Net sales:														
Pipe and Tubing(1)	$ 68.4	33%	$ 79.4	41%	$105.9	40%	$ 69.5	37%	$ 46.1	30%	$ 32.2	26%	$	%
Automotive Products	58.9	28	53.8	27	75.0	28	52.1	28	43.2	29	35.8	28	33.1	38
Mining Equipment	55.4	27	30.3	16	46.6	17	27.6	15	24.8	16	26.9	21	24.8	28
Building Products and Equipment(5)	19.2	9	25.5	13	32.1	12	31.0	16	31.3	21	26.1	21	23.6	27
Agricultural Equipment and Other(2)	6.4	3	5.5	3	8.0	3	8.1	4	6.2	4	5.5	4	5.9	7
Consolidated totals.	$208.3	100%	$194.5	100%	$267.6	100%	$188.3	100%	$151.6	100%	$126.5	100%	$87.4	100%
Income before interest expense, equity in net earnings of Cerro Corporation and income taxes(4)														
Pipe and Tubing(1)	$ 4.9	20%	$ 14.2	53%	$ 15.2	46%	$ 7.3	36%	$ 3.0	22%	$ 1.5	12%	$	%
Automotive Products	5.2	21	4.7	17	6.3	19	6.4	32	4.3	32	4.2	34	3.1	32
Mining Equipment	11.3	47	4.4	16	7.4	22	2.8	14	2.8	21	3.1	25	3.2	33
Building Products and Equipment(5).	1.5	6	2.3	9	2.7	8	3.4	17	2.8	21	2.7	22	2.3	24
Agricultural Equipment and Other (3)	1.4	6	1.3	5	1.5	5	.2	1	.6	4	.8	7	1.1	11
Consolidated totals.	$ 24.3	100%	$ 26.9	100%	$ 33.1	100%	$ 20.1	100%	$ 13.5	100%	$ 12.3	100%	$ 9.7	100%

(1) Marmon acquired the principal companies which comprise this group in December 1970 and May 1971. No sales of the company acquired in 1970 were included for such year. See Note B to the Consolidated Statement of Earnings.

(2) Includes amounts not attributable to a line of business.

(3) Includes interest and dividend income, gains and losses on temporary investments, residual amounts of unallocated or overallocated corporate administrative expenses, and miscellaneous other amounts not attributable to a line of business.

(4) Amounts are after the allocation of corporate administrative expenses, which amounts have been allocated generally on the basis of relative sales and capital employed in each line of business, but before miscellaneous amounts not attributable to a line of business.

(5) Includes the following net sales and income (loss) for the tile companies which were sold during 1975. See Note B to the Consolidated Statement of Earnings.

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
			(In millions)				
Net sales	$3.1	$4.6	$5.8	$4.7	$3.3	$2.8	$2.4
Income (loss)	$(.6)	$ .3	$ .3	$ .2	$ .2	$ .2	—

(6) Foreign operations accounted for the following percentages of net sales and income before interest expense, equity in net earnings of Cerro Corporation and income taxes. (See Note 4 above.)

	Nine Months Ended September 30,		Year Ended December 31,				
	1975	1974	1974	1973	1972	1971	1970
Net sales	2.1%	1.6%	1.8%	3.1%	3.8%	4.7%	5.7%
Income (loss)	1.4%	.6%	1.2%	(1.1%)	.6%	(3.9%)	3.0%

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Pipe and Tubing

Products and Marketing. The principal pipe and tubing business of Marmon is the distribution of carbon, alloy and stainless steel pipe and tubing. It has nine warehouses located throughout the United States which maintain large inventories of steel pipe and tubing of various lengths, shapes and diameters. Such steel pipe and tubing is sold through approximately 73 salesmen compensated on a salary plus incentive basis to a variety of customers including manufacturers of machinery and capital goods as well as to the refinery and petrochemical industries. During 1974, sales relating to the distribution of steel pipe and tubing constituted approximately 34% of total sales of Marmon, and approximately 40% of total income of Marmon before income taxes, interest expense, equity in net earnings of Cerro Corporation and extraordinary items. During the nine months ended September 30, 1975, such figures were approximately 29% and approximately 18%, respectively.

As an operation separate from the distribution of steel pipe and tubing, Marmon manufactures and fabricates small diameter drawn copper and extruded and drawn aluminum tubing which is sold primarily to companies that manufacture refrigerators, air conditioners, automotive equipment, and electrical controls as well as to companies engaged in the general appliance industry. This aluminum and copper tubing, which is manufactured to order, is sold nationally primarily through approximately 20 manufacturers' representatives who are compensated on a commission basis pursuant to agreements which generally are terminable on 30-90 days' notice and three full-time salesmen. Sales of small diameter copper tubing approximated 80% of total sales of small diameter copper and aluminum tubing of Marmon and were generally concentrated among seven customers during 1974, with the largest customer representing approximately 11% of sales of this product in 1974. Sales of small diameter aluminum tubing were generally concentrated among seven customers which accounted for 49% of total sales of small diameter aluminum tubing, the largest of which represented approximately 12% of total small diameter aluminum tubing sales of Marmon. During 1974, sales of small diameter copper and aluminum tubing constituted approximately 6% of Marmon's total sales and approximately 6% of its total income before income taxes, interest expense, equity in net earnings of Cerro Corporation and extraordinary items. During the nine months ended September 30, 1975, such figures were approximately 4% and approximately 2%, respectively.

For an explanation of the decline in net sales and earnings in this line of business for the first nine months of 1975, see "Marmon Management's Discussion and Analysis of Earnings—Pipe and Tubing".

Sources of Supply and Production. Marmon purchases the carbon, alloy and stainless steel pipe and tubing distributed by it primarily from domestic steel mills and, to a minor extent, from foreign steel mills.

Marmon purchases redraw copper tubing from large brass mills and copper mills and extruded aluminum tubing and aluminum ingots in billet form from extruders of aluminum and prime aluminum producers. In addition Marmon purchases other forms of copper raw material which are converted for it into redraw copper. Redraw copper tubing is further drawn by Marmon. Aluminum billets are extruded and drawn by Marmon and purchased extruded aluminum tubing is drawn by Marmon in order to make tubing. In August, 1975, Marmon purchased an aluminum mill to draw aluminum tubing to increase capacity and to increase the variety of alloys offered. During 1974, Marmon paid Cerro approximately $2,785,000 for copper raw materials which represented approximately 32% of total expenditures by Marmon for copper raw materials. For the nine months ended September 30, 1975, the comparable figures were approximately $1,190,000 and approximately 36% respectively. During 1974 and the nine months ended September 30, 1975, the bulk of the conversion of copper raw materials into redraw form was performed on behalf of Marmon by one company. Marmon, however, is not dependent on such company for such conversions.

Competition. In the distribution of steel pipe and tubing, Marmon competes primarily on the basis of service and price and, therefore, maintains a wide variety of inventory, supplies high level technical assistance in conjunction with its sales activities and promptly fills orders. While Marmon has

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nine warehouses located in different areas of the United States, to the extent that it does not have a warehouse located close to a customer, it may be at a competitive disadvantage because of increased freight costs and delayed delivery. There are numerous companies engaged in the distribution of steel pipe and tubing of the type distributed by Marmon, and Marmon believes that the sales of any one company, including itself, do not account for any significant portion of total industry sales. Marmon believes that during 1974 and the first nine months of 1975 its sales relating to the distribution of steel pipe and tubing accounted for less than 5% of total industry sales.

Marmon is one of the smaller companies in both the small diameter aluminum and small diameter copper tubing markets. Competition in these markets is primarily on the basis of service and quality although price is also an important factor. To the extent that Marmon competes with companies in the manufacture of small diameter copper and aluminum tubing which have a captive source of supply of raw materials, Marmon is at a competitive disadvantage.

Properties. Marmon has ten warehouses and three manufacturing facilities, aggregating approximately 910,500 square feet of floor space. Eight of these are leased and five are owned. One of the leases has been entered into in connection with industrial revenue bond financing which gives Marmon the option to purchase the leased property at a nominal price in 1994 (exclusive of renewal options).

Automotive Products

Products and Marketing. Marmon manufactures truck flat leaf springs for sale primarily to the original equipment market ("OEM") and secondarily to the replacement market and automoblie springs for sale to the replacement market. Sales of such springs, together with sales of U-bolts and chassis parts, accounted for approximately 47% of the sales of this group and approximately 13% of total sales of Marmon during 1974, and through September 30, 1975, these percentages are 43% and 12%, respectively.

In addition, Marmon manufactures for sale primarily to the OEM gray iron castings for use in automotive parts such as brake and master brake cylinders, power steering pumps and compressors. Compressors made with Marmon castings are also used in refrigeration and air conditioning systems. Marmon makes malleable iron castings employed in the automotive, farm equipment, electrical and machine tool industries. Marmon also manufactures a broad line of automotive parts including automobile and truck transmission gears, shafts and synchronizers, clutch plates, U-bolts and chassis parts and related parts for sale primarily to the replacement market. Automotive products are manufactured to individual specification pursuant to customer order, as well as for inventory.

Sales to the OEM are made primarily to the major truck manufacturers, and substantially all such sales of truck flat leaf springs are made to four of such manufacturers. One of such manufacturers accounted for approximately 36% of total sales of Marmon truck flat leaf springs in 1974 and approximately 40% of sales of such product for the nine months ended September 30, 1975. Marmon has an arrangement with such manufacturer pursuant to which, for an additional period of at least three years, and at a negotiated price, virtually the entire production of one of Marmon's plants producing truck flat leaf springs may be purchased by such manufacturer. Such plant was built primarily to meet the needs for truck flat leaf springs of such manufacturer. Sales to the automotive replacement market are made primarily to numerous wholesale distributors of automotive parts, including spring service stations. Sales of gray iron castings are made to approximately 35 customers, with sales to the largest customer representing approximately 35% of all 1974 and the first nine months of 1975 sales of gray iron castings made by Marmon. Marmon has a long term commitment from such customer (for an additional period of four years) to the effect that such customer will purchase from Marmon significant portions of such customer's requirements for gray iron castings at a negotiated price. An additional facility for the manufacture of gray iron castings has been constructed, in part, to meet the needs for gray iron castings of such customer and to provide additional capacity for other customers.

For information with respect to the backlog of orders for automotive products see "Backlog."

Sources of Supply and Production. The principal raw material used in the manufacture and fabrication of automotive products are bar spring steel, steel forgings and steel plate. In addition,

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in the manufacture of castings, Marmon uses pigiron, cast scrap, coke, sand and limestone. Such materials are purchased from domestic steel mills, steel forges and other sources. See "Regulatory, Energy and Related Matters".

Truck flat leaf springs are manufactured on assembly lines through the use of metal processing and forming machines and heat treating facilities. The other automotive equipment is manufactured generally through the use of lathes, boring mills, gear cutters and other related machining equipment and components. Castings are produced through the use of equipment employing green sand and shell molding processes.

Competition. Competition in this area of Marmon's business is on the basis of price, service and quality. Marmon believes itself an important factor in the truck flat leaf spring market, primarily the medium and heavy-duty truck flat leaf spring market. There are several other significant manufacturers, selling heavy duty, medium and other truck flat leaf springs to the OEM. In addition to competition on the basis of price, Marmon competes in the sale of other automotive parts to the replacement market on the basis of service and believes that its ability to fill orders promptly, to maintain a large variety of inventory and to provide high level technical assistance allows it to compete with the automobile manufacturers which sell parts to this market. Marmon is not an important factor in the replacement market or in the other areas which comprise this group.

Properties. Marmon has eight manufacturing facilities and three warehouses, aggregating approximately 1,059,000 square feet of floor space. Five of these are leased and six are owned; portions of two of the owned facilities are leased. Some of the leases have been entered into in connection with industrial revenue bond financing which gives Marmon the option to purchase the leased property at nominal prices with the leases expiring at various dates from 1979 through 1995 (exclusive of renewal options).

Mining Equipment

Products and Marketing. Through this group, Marmon designs and manufactures underground mining equipment such as feeder-breakers, mobile drills, roof bolters, conveyors, haulages, winches, hoists, carbide drills, bits and augers, and non-explosive blasting systems and parts. In 1972, Marmon introduced a continuous mining system, which eliminates much of the handling involved in moving coal from the "mine face" to the surface. Marmon also manufactures conveyors for use in above ground mining and distributes conveyor rollers and belting to the replacement market. Special purpose haulage vehicles such as mine cars and brakeman cars for use in the mining industry and railroad track-work machinery and equipment as well as special purpose highway and off-highway vehicles and components are also manufactured by Marmon. Substantially all of these products are used principally in the coal and hardrock mining industry, and are sold generally in response to customer orders, primarily in the mining regions of the United States, and, to a lesser extent in the United Kingdom. Sales are made through approximately 30 salaried salesmen and approximately 19 salaried service personnel who also render technical assistance to the customer. Marmon owns five and leases two warehouses in the mining regions of the United States from which it sells parts for its mining equipment and services equipment sold by it. The four largest purchasers of mining equipment from Marmon in 1974 accounted for approximately 31% of Marmon's total sales of mining equipment, with the largest customer accounting for approximately 12% of such sales. Through September 30, 1975, those purchasers accounted for approximately the same respective percentages of such sales. The balance of Marmon's sales of mining equipment was made to a large group of diverse customers.

For information with respect to the backlog of orders of mining equipment, see "Backlog".

Sources of Supply and Production. Marmon purchases the steel used to manufacture mining equipment from domestic steel mills and service centers and purchases hydraulic components, gear reducers and electric motors and components from various manufacturers. See "Regulatory, Energy and Related Matters". Mining products are fabricated with medium and heavy-duty fabricating, assembly and automatically controlled machining equipment as well as specialized manufacturing equipment and welding, shearing, forming, tube cutting and painting equipment.

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Competition. Competition in the sale of underground mining equipment is on the basis of design, service and quality as well as price. There are at least four other manufacturers of underground coal mining equipment which Marmon believes have greater sales than it and numerous small machine shops which manufacture mining equipment. Of the approximately 15 products manufactured, Marmon believes it has 50% of the market for conveyors and feeder-breakers, which represents approximately 40% of the total sales of this group. Competition in the above ground mining equipment market is on the basis of price, quality and service and Marmon is an insignificant factor in this market.

Properties. Marmon has seven warehouses and six manufacturing facilities, aggregating approximately 437,100 square feet of floor space. Eight of these are leased and five are owned. Two of the leases have been entered into in connection with industrial revenue bond financing which gives Marmon the option to purchase the leased property at nominal prices expiring from 1985 through 1994 (exclusive of renewal options).

Building Products

Products, Marketing, Sources of Supply and Production. This group designs and manufactures merchandising equipment for display and storage purposes, metal point-of-purchase displays, and other similar products used principally by general merchandise, variety, department and discount stores, supermarkets and other self-service retail establishments. These products, which normally are designed and manufactured to the customer's specifications, are sold through approximately 16 salaried salesmen to a small group of customers, the five largest of which represented in excess of 75% of sales by Marmon of store fixtures and the largest of which represented approximately 30% of sales of its store fixtures in 1974. Through September 30, 1975, those figures were approximately 80% and approximately 36%, respectively.

Raw materials used to make these products are cold-rolled sheet steel, cold-rolled steel, wood and wood products. See "Regulatory, Energy and Related Matters". These products are fabricated through metal forming, punching, rolling, welding, machining, plating, sawing, boring, laminating, and painting processes.

Marmon manufactures all-steel doors and door frames which it sells nationally to approximately 100 distributors through approximately eight salaried salesmen. It purchases steel products to make doors and door frames from steel mills and steel service centers. See "Regulatory, Energy and Related Matters".

Sales by Marmon of steel doors are made to a large group of diverse customers none of which represents a significant portion of such sales.

Sales of doors and door frames accounted for approximately 31% of the sales of this group and approximately 4% of total sales of Marmon during 1974; and through September 30, 1975, such figures were approximately 31% and approximately 3%, respectively.

Competition. Marmon competes in the area of store fixtures on the basis of price, service and quality. Marmon participates in the design of the fixture and is able to offer the customer a product which meets his specific requirements. There are numerous other companies which manufacture store fixtures to specification, at least five of which Marmon believes have greater market shares than it.

Marmon competes with 80 other metal door manufacturers on the basis of quality and price. There are four other metal door manufacturers which Marmon believes have greater market shares than Marmon.

Properties. Marmon has four manufacturing facilities, aggregating approximately 900,000 square feet of floor space. Three of these are leased and one is owned. These leases have been entered into in connection with industrial revenue bond financing which gives Marmon the option to purchase the leased property at nominal prices expiring from 1986 through 1994 (exclusive of renewal options).

Agricultural Equipment

Products, Marketing, Sources of Supply and Production. Marmon manufactures high quality right angle gear drives which vary from 20 to 1200 horsepower. Marmon's right angle drives are

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used for agricultural irrigation purposes and cooling towers, and by the shipbuilding and petroleum industries as well as for municipal water systems to transmit power from a horizontal drive to a unit requiring a vertical power supply. These drives, which are manufactured from steel and iron castings, bar steel and steel forgings purchased from several foundries and forges, are sold through one salaried salesman. Right angle gear drives are manufactured to order through extensive high technology machining operations with the use of lathes, spiral bevel gear generators and heat treating facilities.

Marmon manufactures in Canada and Australia incubator/hatcher systems for sale in countries other than the United States. This product, which has an approximate capacity of 90,000 eggs, is sold primarily to commercial poultry farms. Materials employed to fabricate this product include sheet steel and aluminum panels, heating and ventilating system components, electric motors and other components.

Sales of agricultural equipment accounted for approximately 47% of the sales of this group and approximately 1% of total sales of Marmon during 1974; and through September 30, 1975, such figures were approximately 45% and approximately 1%, respectively.

Competition. In the manufacture of right angle gear drives for use in agricultural irrigation and cooling towers and by the shipbuilding and petroleum industries and in municipal water systems Marmon competes on the basis of quality, service and price. Marmon believes it is a substantial factor in this market, in which approximately three other companies compete. Marmon competes with numerous other companies in the sale of incubator/hatcher systems on the basis of design, service, price and quality and believes it is a significant factor in this market in which there are approximately seven other important competitors.

Properties. Marmon has two manufacturing facilities, aggregating approximately 83,800 square feet of floor space. Both of these are owned.

Research and Development

Each Marmon operation has personnel responsible for improving existing products and developing new products. Marmon owns several trademarks, licenses and patents, none of which, in the opinion of management, is material to its business.

Backlog

The following table sets forth information with respect to the backlog of orders on September 30, 1974 and 1975 for each of Marmon's lines of business listed:

	Backlog (000 omitted)	
Line of Business	September 30, 1975	September 30, 1974
Automotive Products	$12,889	$19,105
Mining Equipment	36,916	35,474
Building Products	2,231	2,874
Agricultural Equipment	2,405	4,263
	$54,441	$61,716

The backlog of orders in the manufacture of small diameter copper and aluminum tubing amounted to $2,049,000 at September 30, 1975 as compared with $2,392,000 at September 30, 1974. Owing to the nature of the business and the fact that individual sales are generally in relatively small amounts, the backlog of orders in the distribution of steel pipe and tubing is not recorded and is not indicative of trends in such business.

The large backlog of orders in mining equipment at September 30, 1974 and at September 30, 1975, results from the heavy demand for coal and coal mining equipment during this period. While

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no definite trend has been established, there has been some slowing in the rate of orders for mining equipment since June 30, 1975. In addition, Marmon, because of a new plant addition at the Pulaski, Virginia facility, was able to reduce the backlog during the three month period ended September 30, 1975. The decline in the automotive products' backlog of orders from September 30, 1974 to September 30, 1975 is attributable primarily to reduced truck and automobile production. The backlog of orders in agricultural equipment decreased from a nine month level at September 30, 1974 to a four month level at September 30, 1975 primarily because of increased production during the twelve months ended September 30, 1975.

The amounts set forth in the above table are gross amounts. These orders must be adjusted for such factors as modifications, cancellations, returns, freight allowances and normal trade discounts.

Marmon may experience variations in the total dollar amount of its backlog of orders, and the size of the backlog at any date is not necessarily indicative of trends in Marmon's business. In addition, while Marmon believes that the foregoing figures represent orders which are firm and which will in most cases be filled within the next 12 months, it is possible that orders will be cancelled or delivery dates extended.

Employees

At September 30, 1975, Marmon had approximately 4,600 employees, of whom approximately 2,900 were represented by 24 local unions. Marmon experienced only one strike in 1975, this beginning on August 31, 1975 in a major warehouse in the pipe and tubing line of business and lasting nine weeks.

Marmon did not experience any major work stoppages (in excess of one week) in 1974 and during the four prior years experienced only five major work stoppages, three of which occurred in 1972 (mining equipment 13 weeks, and three weeks, pipe and tubing eight days) and one of which occurred in 1971 in mining equipment for six weeks. Marmon is a party to 21 union contracts, three of which expire in 1976, ten of which expire in 1977 and eight of which expire in 1978. Marmon believes its employee relations to be generally satisfactory.

Marmon has established benefit plans for its employees consisting of basic and major medical, disability, group life insurance and accidental death and dismemberment. Many Marmon operating units have pension and profit sharing plans. The pension plans normally cover hourly unionized employees with benefits based on industrywide patterns and determined by negotiations with labor unions. Each operating unit's profit sharing plan covers those employees not covered by a bargaining unit and generally provides for discretionary company contributions, voluntary employee contributions and full vesting after ten years of participation.

Regulatory, Energy and Related Matters

Marmon is subject to various federal, state and local laws, ordinances and regulations relating to plant safety and air and water pollution. Marmon has not received any material citations for violations of such laws, ordinances or regulations. Marmon actively engages in testing its facilities to assure compliance with applicable air and water pollution requirements. While Marmon believes that it is presently in substantial compliance with all such laws, ordinances and regulations and does not anticipate having to make any major capital expenditures in the foreseeable future in connection with environmental matters, because of the continued development of new regulations and reinterpretation of existing regulations in this area, Marmon is unable to predict the effect, if any, which any such regulations may have on its business in the future.

As previously indicated, steel products are the principal raw materials used by Marmon in its business. Marmon purchases steel products from many suppliers. It has not been materially adversely affected by any shortage of supplies of steel products or other raw materials, or of electrical energy or gas, on which it depends to operate and heat its facilities, although it has experienced increased fuel costs. Even though Marmon believes that it has made adequate provisions to obtain raw materials in the future and that any limitations on fuel supplies and mandatory fuel or raw material allocations will not significantly affect its

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business, there can be no assurance thereof. Sales of automotive products have been affected adversely in 1975 owing to the reduction of trucks and automobiles produced in the United States and internationally. To the extent that increased fuel costs will influence consumers' purchase of automobiles and trucks, Marmon sales of products to the automotive market may be adversely affected in the future. See "Marmon Management's Discussion and Analysis of Earnings—Automotive Products."

No significant portion of Marmon's business is subject to or influenced by seasonal factors. However, Marmon's business is affected by the cyclical nature of the businesses in which it is engaged.

Properties

In addition to the operating facilities discussed in the Properties section under each line of business, Marmon leases approximately 10,500 square feet of executive office space at 39 South LaSalle Street, Chicago, Illinois, pursuant to a five-year lease expiring in 1976 at an annual rental of approximately $115,000. See "Management of Marmon—Certain Transactions."

The aggregate annual rentals paid by Marmon in 1974 were approximately $2,111,000, exclusive of amounts paid under lease-purchase obligations. Substantially all of Marmon's leases are net leases pursuant to which Marmon is obligated to maintain the property, to pay real estate taxes, insurance and other related expenses. In the opinion of Marmon's management, substantially all of its properties are in good condition and are well maintained. In many instances, the leased facilities are relatively new, having been constructed through industrial revenue bond financing within the past ten years.

Except for manufacturing, fabricating and other machinery and equipment located at plants the construction of which was financed by the sale of industrial revenue bonds, which equipment is leased and is subject to the terms and conditions of the applicable leases, Marmon owns substantially all of its manufacturing and fabricating equipment.

Litigation

In late 1971, Marmon's predecessor was merged into Marmon. In connection with the merger, all outstanding common stock of the predecessor owned by persons other than GL was called for redemption at $12 per share. On October 27, 1972, a class action entitled *Seymour Abrams, et al.* v. *The Marmon Group, Inc., et al.*, was brought in the United States District Court for the Northern District of Illinois, Eastern Division, against "The Marmon Group, Inc." (presumably Marmon's predecessor) and certain former and present directors of Marmon and its predecessor. This action seeks (a) rescission of the 1971 merger described above and of a 1970 reincorporation merger, (b) an accounting to Marmon for profits received by the defendants and for losses caused by Marmon by reason of the alleged acts and wrongdoings, (c) if the mergers cannot be rescinded, an award to the plaintiffs of $10,220,000 or such sum as the court may find due, and (d) reimbursement of certain costs of the plaintiffs. Discovery in this action is close to completion. Counsel for Marmon is presently of the opinion that the action has no merit and that Marmon has, in any event, substantial meritorious defenses. Counsel is of the opinion that the probable outcome of the action will be favorable to Marmon and will have no material impact on Marmon's consolidated financial statements.

In addition to the foregoing action, Marmon is a defendant in an action brought in April 1972 on behalf of the holders of approximately 7,500 shares of Common Stock of Marmon's predecessor which were called for redemption in the 1971 merger referred to above. Such action, entitled *Rodman and Renshaw, Inc. et al.* v. *The Marmon Group, Inc. (Michigan)*, which is pending in the Chancery Court in the State of Delaware, seeks "fair value" for such shares. Marmon has offered to pay such holders $14 per share. Settlement has been accepted by all but 650 shares represented in that action.

Marmon is also a defendant in certain actions involving its and GL's acquisition of Cerro stock which are described under "Management of Cerro—Change of Management—Litigation—Other Litigation" and in Note 9 to "Marmon's Consolidated Financial Statements."

Marmon has also been named as a party in several lawsuits involving product liability, substantially all of which are covered by insurance and none of which, in the opinion of Marmon, is material to Marmon.

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MANAGEMENT OF MARMON

Directors

The following table sets forth, as of the date hereof, as to each director of Marmon, his principal occupation for at least the last five years, and the year in which each director became a director.

Name	Principal Occupation or Employment	Director Since
Jay A. Pritzker	Chairman of the Board of Marmon; Chairman of the Board of GL; Chairman of the Board of Cerro; Chairman of the Board of Hyatt Corporation (hotels).	1963
Robert A. Pritzker	President and Director of Marmon; President and Director of GL; President and Director of Cerro.	1963
George A. Jones	Executive Vice President of Marmon; Director of Marmon; Director of Cerro.	1970

Each of the foregoing directors was elected at the annual meeting of stockholders of Marmon held April 22, 1975 to serve until his successor shall have been duly elected and qualified. Robert and Jay Pritzker are brothers. None of the other executive officers and directors of Marmon is related to any other executive officer or director.

As indicated above, the Pritzker family is the beneficial owner of 100% of the stock of GL which owns 100% of the stock of Marmon. For the purposes of the Securities Exchange Act of 1934, the Pritzker family, as referred to above, may be deemed to be the parent of Marmon.

For information as to the management of Cerro-Marmon Corporation after the merger, see "The Business Combination—Organization After the Business Combination."

Remuneration

The following table sets forth the aggregate remuneration accrued by Marmon during the fiscal year ended December 31, 1974 for each director whose aggregate direct remuneration exceeded $40,000 and for each of the three highest paid officers of Marmon whose aggregate direct remuneration exceeded that amount, and for all officers and directors as a group.

Name of Individual or Identity of Group	Capacity in Which Remuneration Received	Aggregate Direct Remuneration	Amount Set Aside or Accrued in Profit Sharing Plan in 1974(1)	Amount Set Aside or Accrued in Profit Sharing Plan through 1974(1)
Robert A. Pritzker	President and Director	$ 52,087	$ 3,946	$ 23,805
George A. Jones	Executive Vice President and Director	95,000	5,112	59,355
Robert C. Gluth	Vice President	95,000	4,165	34,213
William H. Shinn	Vice President	81,500	6,172	9,006
All officers and directors as a group (7 persons)		410,037	25,938	163,446

(1) The Profit-Sharing Plan provides for discretionary employer contributions of up to 15% and voluntary employee contributions of up to 10% of total employee compensation. The Plan covers all employees of the Marmon home office with one or more years of full-time service. Employer contributions and amounts remaining as a result of forfeiture by terminated employees are allocated to the participants based upon each participant's total compensation. Earnings from investments of Plan funds are allocated to each participant's account on a pro rata basis. Participants' accounts vest over a period of ten years. The amounts set aside or accrued in the Plan through 1974 include voluntary employee contributions (Mr. Jones—approximately $19,121; Mr. Gluth—approximately $15,771; and all officers and directors —$55,561). The amounts shown as set aside in 1974 represent only employer contributions.

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Jay A. Pritzker has not heretofore received a salary from Marmon.

None of the officers or directors of Marmon participates in any retirement plan of any of Marmon's subsidiaries. Marmon does not have any stock options outstanding.

Certain Transactions

For the purposes of the following discussion, the term "Principal Stockholders" means the Pritzker family as referred to under "Business and Properties of Marmon—General." Marmon is wholly-owned by the Principal Stockholders through their ownership of GL. It is Marmon management's view that all the transactions in which there is any continuing contractual arrangement are on terms as favorable to Marmon as terms between independent third parties.

Certain companies, including Marmon, in which the Principal Stockholders have a beneficial interest are covered under the same property, casualty, and group insurance policies, thus reducing the cost of each of the insured companies because of the spreading of the risk. The premium payable by each insured company is determined by the insurance broker or insurance company as if such company were independently insured. The total premium for all such policies for the year ended December 31, 1974, was $3,777,000, of which $2,700,000 was paid by Marmon.

The Principal Stockholders have an option to buy an insurance company from Cayman Assurance Co., Ltd. to which premiums of approximately $1,140,000 were paid for the year ended December 31, 1974 by certain of the companies referred to in the preceding paragraph, including $900,000 paid by Marmon. Such acquisition is contingent upon obtaining a ruling from the Internal Revenue Service on certain income tax aspects of the acquisition. It is expected that in the event such insurance company is acquired, the business relations with such companies will continue, and the types of coverage and the amounts of premiums may be expanded and increased. The premiums for all risks insured by such insurance company are presently competitive with those available from other unaffiliated insurance companies, and it is anticipated that in the event of consummation of the acquisition, the premiums will continue to be competitive.

The Marmon Retirement Trust (the "Trust"), a commingled trust including profit sharing trusts and pension trusts for the benefit of certain employees of Marmon and other companies in which the Principal Stockholders have a beneficial interest, was the holder of a promissory note in the principal amount of $50,000, dated December 4, 1970, issued by National Textbook Co., a company in which a Principal Stockholder has a 45% interest which was paid on September 23, 1975. In addition, the Trust is the holder of a mortgage note of such company, dated December 4, 1970, initially in the principal amount of $200,000, the unpaid balance of which was approximately $195,000 on September 30, 1975. In addition to certain real property, such mortgage note is secured by shares of stock the value of which at September 30, 1975, was approximately $304,000 and to a limited extent by a guaranty of such Principal Stockholder. Such mortgage note bears interest at 11% per annum and is payable in 299 equal monthly installments of $1,960, which commenced October 1, 1972, and continue through August 1, 1997, with a last payment of $1,853 being due on September 1, 1997. The Trust also owns a motel in Illinois, which it has leased through 1987 at a monthly rental of $3,233 based upon comparable rentals in such area to a wholly owned subsidiary of Hyatt Corporation which is controlled by the Principal Stockholders.

During 1974, an exporting subsidiary of Marmon made sales of approximately $704,000 on behalf of two companies which are beneficially owned by the Principal Stockholders, on which it earned a gross profit of approximately $195,000. During the nine months ended September 30, 1975, sales on behalf of such two companies were $618,000 on which a gross profit of approximately $176,000 was earned by such subsidiary.

In April 1974, Marmon advanced $200,000 to Diversified Capital (not Inc.), a company beneficially owned by the Principal Stockholders. Such amount bears interest currently at the rate of 8%

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per annum which is adjusted periodically to ½% over the prime rate of the First National Bank of Chicago which is Marmon's cost of borrowing. The original due date thereof has been extended twice and is currently due in April 1976.

Marmon charges certain companies which are owned by the Principal Stockholders a management fee for services rendered by officers and other personnel of Marmon. Such fees aggregated $354,000 for 1974 and approximately $282,000 for the nine months ended September 30, 1975.

For a description of sales of mining equipment by Marmon to certain members of Cerro's Mining Group, see the discussion of Transaction VIII under "Management of Cerro—Transactions with Pritzker Family Affiliates."

During 1974, Marmon paid to companies or trusts in which the Principal Stockholders are the beneficial owners of, or have a beneficial interest in, an aggregate of $141,000 as rentals for properties and equipment leased from such companies or trust including $86,000 for Marmon's principal office at 39 South LaSalle Street, Chicago, Illinois. For the nine months ended September 30, 1975, such rental was approximately $85,000 all of which was attributable to rent for Marmon's principal office. Such rental on a square foot basis is at least as favorable as paid by the largest tenants in the building.

During 1974, Marmon paid to the law firm of Pritzker and Pritzker $59,497 in legal fees on account of services rendered. For the nine months ended September 30, 1975, such amount was $42,508.

Effective June 30, 1975, Marmon sold the net assets of K-B Axle, a subsidiary acquired in 1974, to a company owned by the Principal Stockholders. The selling price of $1,343,000 was equivalent to the net book value of the asset at June 30, 1975, plus the LIFO inventory reserve at such date. Marmon believes that such selling price was equivalent to the fair market value of the net assets sold.

For a description of purchases of copper raw materials by Marmon from Cerro, see the discussion of Transaction V under "Management of Cerro—Transactions with Pritzker Family Affiliates."

Marmon and its domestic subsidiaries filed a consolidated federal income tax return for 1970 and have been included in the consolidated federal income tax returns of GL subsequent to 1970. Pursuant to a formal income tax sharing agreement with GL, federal income taxes of Marmon are determined, in general, as if Marmon and its domestic subsidiaries filed a separate consolidated federal income tax return. Federal income taxes so determined are paid periodically to GL; amounts accrued but not yet paid or payments in excess of amounts accrued are included as income taxes or refundable income taxes in the consolidated balance sheet. Interest at 115% of a bank's prime rate is paid or received by Marmon on differences between payments made and payments due. In addition, Marmon, as a member of the GL consolidated group, is contingently liable for federal income taxes attributable to other members of such group for the year in which a consolidated tax return is filed.

DESCRIPTION OF CAPITAL STOCK OF CERRO-MARMON

The following is a summary of certain of the powers, preferences and rights pertaining to the stock of Cerro-Marmon as they will be in effect after the business combination. This summary is qualified in its entirety by reference to the form of the proposed amendment of Article Fourth of the Certificate of Incorporation of Cerro-Marmon, and to the form of the proposed resolutions of the Board of Directors of Cerro-Marmon which will create the $2.25 Cumulative Series A Preferred Stock (the "Series A Preferred Stock"), copies of which are Appendix 1 and Appendix 2, respectively, to the copy of the Exchange Agreement which is attached hereto as Exhibit B.

Cerro-Marmon has authorized (a) 10,000,000 shares of Common Stock, par value $1 per share, of which 5,000,000 shares will be issued to GL after the business combination and (b) 10,000,000 shares of Preferred Stock, par value $1 per share, of which an aggregate of 4,324,970 shares will be issued for all the outstanding Cerro common stock held by persons other than Marmon (in the event that no additional shares of Cerro common stock are issued pursuant to the exercise of Cerro stock options prior to the business combination and no stockholder of Cerro exercises his appraisal rights).

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The shares of the Preferred Stock ranking on a parity with the Series A Preferred Stock as to dividends or distributions of assets will be available for issuance of series in addition to the Series A Preferred Stock, as determined by the Board of Directors and without further action by the Preferred Stockholders of Cerro-Marmon, for corporate purposes, including acquiring the minority interests in current subsidiaries of Cerro, such as Golconda Corporation and, under certain circumstances described herein, for any corporate purpose. No restrictions are placed on the issuance by the Board of Directors, for corporate purposes, of additional series of Preferred Stock ranking junior to the Series A Preferred Stock as to dividends and distribution of assets. The Board has the authority to fix the powers, preferences and rights of each series of the Preferred Stock with respect to dividend rate, redemption price and terms, liquidation rights, sinking fund or purchase fund provisions, conversion rights and voting powers. All shares of the same series of the Preferred Stock will rank equally and possess identical powers, preferences and rights.

Dividend Rights. The holders of the Series A Preferred Stock will be entitled to receive, prior to payment of dividends on the Common Stock or any class or series of stock ranking junior to the Series A Preferred Stock, cumulative cash dividends at the annual rate of $2.25 per share, when and as declared by the Board of Directors out of assets legally available for dividends, payable quarterly on the first business day of April, July, October and January (beginning with April 1, 1976), and accruing from the effective date of the business combination. All dividends declared on the Series A Preferred Stock for any dividend period and on any class or series of stock ranking on a parity with the Series A Preferred Stock as to dividends will be declared pro rata. Accumulations of dividends will not bear interest. No dividends may be declared or paid on the Common Stock or any distribution ordered or any payment made on account of the purchase or retirement of Common Stock unless (i) full cumulative dividends and sinking funds to which the Series A Preferred Stock are entitled have been paid for all past periods and dividends to which the Series A Preferred Stock are entitled have been provided for to the end of the then current dividend period and (ii) after giving effect to such dividends, purchases, distributions and retirements of Common Stock, the accumulated Consolidated Net Income of Cerro-Marmon (as defined) from December 31, 1975, less all dividends, purchases, distributions and retirements after such date with respect to the Common Stock, the Series A Preferred Stock and any series or class of stock ranking junior to the Series A Preferred Stock would be greater than zero. For the purposes thereof, dividends or distributions shall include all investments in or loans and advances made to any holder, affiliate thereof (as defined) or member of an affiliated group (as defined) of holders of capital stock controlling (as defined) Cerro-Marmon, except such investments, loans or advances to any subsidiary of Cerro-Marmon or certain others and payments made to GL pursuant to the tax sharing agreement to which Cerro-Marmon will be a party.

Redemption. The Series A Preferred Stock may be called for redemption at any time on or after April 1, 1981, in whole or in part, at the election of Cerro-Marmon at the redemption price of $22 per share, plus accrued unpaid dividends to the date fixed for redemption. Series A Preferred Stock may be redeemed only after full cumulative dividends upon the Series A Preferred Stock (except the shares to be redeemed) shall have been paid or provided for to the end of the current dividend period. If less than all the Series A Preferred Stock is to be redeemed, the redemption shall be made pro rata or by lot in the manner determined by the Board.

Liquidation Rights. In the event of any liquidation, dissolution or winding up of Cerro-Marmon, the holders of the Series A Preferred Stock will have a liquidation preference of $22 per share, plus accrued and unpaid dividends to the date of payment, before any distribution of assets upon the Common Stock or any series or class of stock ranking junior to the Series A Preferred Stock and the holders of the Common Stock and any series or class of stock ranking junior to the Series A Preferred Stock as to distribution of assets will be entitled to receive remaining assets that are available for distribution to stockholders in accordance with their respective rights. If, upon any liquidation or dissolution or winding up of Cerro-Marmon, the amounts payable on or with respect to the Series A Preferred Stock are not paid in full, the holders of the Series A Preferred Stock shall share ratably in any distribution of assets according to the respective amounts would be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to the Preferred Stock of all series were paid in full.

Sinking Fund. The Series A Preferred Stock will be entitled (subject to any restrictive provisions contained in Cerro-Marmon's Certificate of Incorporation, any loan agreement, mortgage, indenture, deed

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of trust or any other loan arrangement existing from time to time) beginning, the first business day in January 1982 and annually thereafter, to annual aggregate sinking fund purchases sufficient to retire annually 6⅔% of the issued Series A Preferred Stock and the entire issue by the end of the 20th year after the business combination. Shares of Series A Preferred Stock acquired or redeemed by Cerro-Marmon otherwise than through sinking fund purchases may, at the option of Cerro-Marmon, be credited against any sinking fund requirements at the redemption price. If Cerro-Marmon is prevented by law or by any restrictive provisions in its Certificate of Incorporation, any loan agreement, mortgage, indenture, deed of trust or any other loan arrangement or for any other reason from acquiring shares for the sinking fund in any 12 month period, any shares not so acquired will be acquired in the next succeeding 12 month period in which Cerro-Marmon shall not be so prevented. If the Board of Directors should for any reason fail to make any required sinking fund purchases (or otherwise redeem the number of shares required to be redeemed by crediting shares voluntarily redeemed or otherwise acquired) then the Board may not thereafter pay dividends on Common Stock until all past payments (or credits in lieu thereof) are made or provided for. See "Dividend Rights" above. See also "Voting Rights" below for rights to a class vote in the event of default in making sinking fund payments for a specified period.

Voting Rights. Each holder of the Series A Preferred Stock will be entitled to one vote per share at every meeting of stockholders of Cerro-Marmon, and, except as described below, the Series A Preferred Stock and the Common Stock shall vote together as a single class. The Common Stock is entitled to four votes per share. See "Non-Cumulative Voting".

If payments to the Series A Preferred Stock shall be (i) in default in an amount equal to six full quarterly dividends, or (ii) in default in an amount equal to two full annual sinking fund payments, the holders of the Series A Preferred Stock, voting separately as a class, will be entitled to elect two directors of Cerro-Marmon. If payments to the Series A Preferred Stock shall be (i) in default in an amount equal to ten full quarterly dividends or (ii) five full sinking fund payments, the holders of the Series A Preferred Stock, voting separately as a class, will be entitled to elect such number of directors as will constitute a majority of the Board of Directors. The right to elect such directors shall continue until all dividends or sinking funds in default have been paid or declared and set apart for payment. The Board of Directors in connection with the issuance of additional series of Preferred Stock may grant voting rights similar to those granted to the Series A Preferred Stock and such series will vote together with (as the same class) the Series A Preferred Stock on such matters. Such Preferred Stock may not have voting rights per share in excess of the quotient obtained by dividing the liquidation preference of such Preferred Stock by 22 (which is the liquidation preference of the Series A Preferred Stock).

In addition to the right to act separately as a class on certain matters that the holders of the Preferred Stock will have under the laws of Delaware, the resolutions authorizing the issuance of the Series A Preferred Stock require (i) the affirmative vote or written consent of the holders of two-thirds of the outstanding shares of the Series A Preferred Stock, voting separately as a class, in order to effect (A) any change in the powers, preferences or rights given to the Series A Preferred Stock by such resolutions which would affect the Series A Preferred Stock or (B) the creation of any class of stock ranking, as to payment of dividends or distribution of assets, prior to the Series A Preferred Stock, (ii) the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock, to increase the authorized number of shares of Preferred Stock or to authorize or create any class of stock ranking on a parity with the Series A Preferred Stock as to dividends or distribution of assets (the Board having the right to grant such voting rights similar to the Series A Preferred Stock to additional series of Preferred Stock and such series shall be entitled to vote together as a class with the Series A Preferred Stock) and (iii) the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock, voting separately as a class, in order to effect (A) any increase in the number of outstanding shares of the Series A Preferred Stock or the creation or issuance of any class or series of stock ranking, as to payment of dividends or distribution of assets, on a parity with the Series A Preferred Stock outstanding unless, after giving effect to the issuance of such stock and the proceeds therefrom, the Consolidated

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Net Tangible Assets (as defined) of Cerro-Marmon are equal to at least two and one-half times the aggregate liquidation preference of the outstanding shares of the Series A Preferred Stock and of all preference stock ranking on a parity as to dividends or distributions of assets with the Series A Preferred Stock outstanding after the transaction, (B) the sale of substantially all the assets of Cerro-Marmon or the consolidation or merger of Cerro-Marmon with or into any other corporation (an "Acquisition") for securities unless (a) any securities exchanged for the Preferred Stock shall be preferred stock which is substantially similar in all material respects to the Series A Preferred Stock exchanged and (b) the Consolidated Net Tangible Assets (as defined) of the surviving corporation shall be equal to at least two and one-half times the aggregate liquidation preference of all preference stock ranking on a parity with the Series A Preferred Stock outstanding after the transaction; provided that nothing in clause (A) above or this clause (B) would prevent (or require stockholders' consent to) a merger of any consolidated subsidiary of Cerro (where Preferred Stock is to be issued in connection therewith to acquire a minority interest), as any such entity existed on the date of the business combination of Cerro and Marmon, with or into Cerro-Marmon or any subsidiary thereof, (C) the issue of any shares of any class or series of stock ranking on a parity with the Series A Preferred Stock as to distribution of assets if after giving effect to such issuance the aggregate liquidation preference of such issue shall exceed 115% of the amount or value of the aggregate proceeds received or to be received by the Corporation in respect of such issuance or (D) any Acquisition in which the holders of Preferred Stock would be required to accept cash before the date on which the Series A Preferred Stock may be redeemed, or cash in an amount less than the redemption price per share (plus accrued unpaid dividends).

Limitations have been provided with respect to the matters referred to in the preceding two paragraphs in the voting rights of Preferred Stock of any series held by GL and its affiliates when GL or an affiliate also holds Cerro-Marmon Common Stock.

Non-Cumulative Voting. The holders of Series A Preferred Stock and Common Stock will have non-cumulative voting rights, which means that the holder of the shares of Common Stock can elect all the directors if it chooses to do so (subject to the voting rights of the holders of the Series A Preferred Stock in the event of certain dividend or sinking fund payment defaults, as described above).

Pre-emptive Rights. The holders of the Preferred Stock will not be entitled to pre-emptive rights.

Certain Restrictions Imposed by Long-Term Debt. The payment terms of the Cerro note agreement with institutional lenders to which Cerro-Marmon will be subject are set forth in Note 9 to the Financial Statements of Cerro. The provisions of such note agreement have been amended in contemplation of the business combination and will place financial restrictions upon the right of Cerro-Marmon to pay or declare dividends on any class of its stock, including the Preferred Stock, and will also restrict the right of Cerro-Marmon to redeem, purchase or otherwise acquire any shares of its stock, including the Preferred Stock. Cerro-Marmon under such note agreement, as amended, will be required to maintain working capital (as defined, which definition excludes the working capital of its subsidiaries) at not less than 125% of funded debt, as defined (at September 30, 1975 working capital was 191% of funded debt). At September 30, 1975 Cerro-Marmon would have had unrestricted retained earnings of approximately $35.9 million for the payment of dividends and sinking funds in respect of the Preferred Stock. Cerro-Marmon will not be able to pay dividends or make sinking fund payments unless, after giving effect thereto, working capital (as defined) is in excess of $125 million. Such amount was increased from the $90 million requirement to which Cerro is presently subject. At September 30, 1975, for purposes of the note agreement Cerro-Marmon would have had working capital of approximately $147 million, after giving effect to the $25 million capital contribution to be made to Marmon as discussed under "The Business Combination—Capital Contribution to Marmon." Under this more restrictive limitation, Cerro-Marmon would have had available at September 30, 1975 approximately $22 million for dividend and sinking fund payments in respect of the Preferred Stock. Available dividend capacity will vary under this latter limitation from time to time in accordance with changes in current assets and current liabilities of Cerro-Marmon.

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The loan agreement to which Marmon is a party relates to indebtedness in the principal amount of $68 million (to be reduced to $43 million as a result of the capital contribution by Cerro-Marmon to Marmon after the business combination) and requires, commencing in November 1976, semi-annual principal payments of $4 million and could require, commencing April 1, 1977, annual principal prepayments not to exceed $6 million applied to installments in the inverse order of their maturity equal to the sum of (a) 50% of its consolidated net earnings after taxes in excess of $8 million for the previous calendar year and/or (b) 50% of the amount paid by Marmon to GL pursuant to the GL-Marmon tax sharing agreement described above under "Tax Sharing Agreement and Related Contingent Liabilities" and, in addition, will prohibit payments, including dividends, by Marmon to Cerro-Marmon in excess of $6 million per year on a non-cumulative basis. Accordingly, although Marmon would be entitled to pay up to $6 million per year in dividends to Cerro-Marmon, from assets legally available for their payment, the substantial payments required by the loan agreement, during its term, may substantially reduce its cash and thereby restrict its ability to pay dividends. See Note 7 to the Financial Statements of Marmon for other terms of the loan agreement. See also Marmon's Consolidated Statement of Changes in Financial Position. Marmon's bank loan agreement has been amended in contemplation of the business combination. Such amendment, which will become effective upon consummation of the business combination, provides that the minimum amount of tangible net worth Marmon will be required to maintain will be reduced from $55 million, as currently stated in the loan agreement, to $35 million. At September 30, 1975, Marmon's tangible net worth was approximately $43 million, after giving effect to the proposed cancellation of the Cerro common stock held by Marmon and the proposed $25 million capital contribution from Cerro-Marmon. The $25 million prepayment of the long-term bank debt with funds to be obtained from Cerro-Marmon, as discussed under "The Business Combination—Capital Contribution to Marmon", will be applied to reduce the latest maturities of such debt.

RIGHTS OF DISSENTING STOCKHOLDERS OF CERRO

The following is a summary of Section 623 of the New York Business Corporation Law which provides the manner by which stockholders of Cerro who wish to dissent from the merger of Cerro into Cerro-Marmon and receive payment for their Cerro common stock must assert their rights to dissent. Such summary is qualified in its entirety by reference to the applicable provisions thereof which are attached hereto as Exhibit D.

Such shareholder of Cerro must, prior to the vote on the Merger Agreement, file with Cerro a written objection to the merger, including a statement that he intends to demand payment for his shares of Cerro common stock if the Merger Agreement is consummated. If the merger is authorized by the required vote of Cerro shareholders, written notice to that effect will be given within 10 days to any shareholder who has filed the foregoing written objection and who has not voted in favor of the Merger Agreement and such shareholder must, if he intends to dissent from the merger, within 20 days of the giving of such notice, file with Cerro an election to dissent stating his name and residence address and demanding payment of the fair value of his shares, without regard to any appreciation or depreciation in consequences of the merger. As set forth under "Introductory Statement—Voting on the Business Combination" in the absence of any contrary direction proxies will be voted in favor of the adoption of the Merger Agreement and the Exchange Agreement (and the business combination contemplated thereby) and the holders of shares represented by such proxies will not be entitled to appraisal rights with respect to such shares unless such proxies are revoked prior to the voting thereof. A vote against the business-combination will not satisfy the statutory requirement of written objection thereto. However, if the required written objection is filed, failure to vote against the merger will not constitute a waiver of appraisal rights. Upon filing a notice of election to dissent, a shareholder shall cease to have any rights of a shareholder except the right to receive fair value for his shares. A shareholder may not dissent as to less than all of the shares of Cerro common stock, as to which he has a right to dissent

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held by him of record, that he owns beneficially. A nominee or fiduciary may not dissent on behalf of any beneficial owner as to less than all of the shares of such owner as to which such nominee or fiduciary has a right to dissent, held of record by such nominee or fiduciary.

At the time of the filing of a notice of election to dissent or within one month thereafter the dissenting shareholder shall submit the certificate representing his shares of Cerro common stock to the Surviving Corporation (Cerro-Marmon) for the purpose of its noting thereon that such a notice of election has been filed. Within seven days after the expiration of the period during which a dissenting shareholder must file a notice of election to dissent, or within seven days after the effectiveness of the merger, whichever is later, the Surviving Corporation will make a written offer to the dissenting shareholders who have filed notices of election to dissent to pay to such shareholders for their shares of Cerro common stock a price which the Surviving Corporation considers to be the fair value of such shares without regard to any appreciation or depreciation in consequence of the merger. Section 623 provides for judicial determination of such fair value of the Cerro common stock in the event that the Surviving Corporation and any dissenting shareholder fail to agree upon such fair value within thirty days after the making by the Surviving Corporation of its offer.

EFFECT OF REINCORPORATION IN DELAWARE

Cerro is a New York corporation. Accordingly, with respect to matters that are determined by the laws of the state of its incorporation, New York law presently governs Cerro's internal affairs and delineates the rights of its stockholders.

As stated elsewhere herein, one of the effects of the business combination is that Cerro would become a Delaware corporation under the name Cerro-Marmon Corporation, and its internal affairs as well as the rights of its stockholders, including the holders of the Series A Preferred Stock, would be governed by and be subject to the laws of the state of Delaware, to the extent that the laws of the state of incorporation of Cerro-Marmon are applicable to such matters.

While the corporation laws of the states of New York and Delaware are generally consistent with each other, there are several significant differences between the laws of such states which may be applicable to holders of the Series A Preferred Stock.

Voting Rights

The provisions of the New York Business Corporation Law require that a higher proportion of the outstanding shares entitled to act thereon be voted in favor of such matters involving New York corporations as mergers, consolidations and sales of all or substantially all of the assets of such corporations than is required under the laws of the state of Delaware. GL as the sole holder of the common stock of Cerro-Marmon entitled to an 82% voting interest would have under either New York law or Delaware law sufficient voting interest to effect such actions; however, the holders of the Series A Preferred Stock will be entitled by the terms of the Series A Preferred Stock, to a class vote on such actions, under certain limited circumstances, including actions which would result in the Series A Preferred Stockholders being required to accept cash in an amount less than the redemption price per share (plus accrued dividends) or securities which are not substantially similar to the Series A Preferred Stock to be surrendered.

Indemnification of Directors and Officers

The provisions of the Delaware law allow indemnity payments to directors and officers in some instances not covered by the indemnity provisions in Cerro's by-laws or permissable under New York law. The pending legal proceedings discussed under the headings "Management of Cerro—Change of Man-

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agement-Litigation" and "Management of Cerro—Other Litigation" are presently subject to indemnification under Cerro's by-laws and the laws of the state of New York; such legal proceedings will, if the business combination is effected, be subject to the more liberal provisions of Delaware [illegible] Cerro has purchased from Continental Casualty Company and Midland Insurance Company insurance covering the liability of directors and officers. The insurance applies to the directors and principal officers of Cerro and two subsidiaries. The premiums paid by Cerro for this insurance aggregate $158,822 for the period from September 26, 1973 to September 26, 1976.

Dissenters' Rights

Under New York law, in general, any stockholder voting against the sale, lease or exchange of all or substantially all the assets of a corporation, or the merger or consolidation of a corporation, is entitled to dissent and demand the fair cash value of his shares. Under Delaware law, no appraisal rights are granted to stockholders who dissent to a sale, lease or exchange of all or substantially all of the assets of a corporation. Dissenting stockholders under Delaware law have no appraisal rights in the event of a merger or consolidation for which a stockholders' vote is required, if the shares of the class of stock in question are registered on a national securities exchange or are held of record by 2,000 or more stockholders, unless the stockholders are required under the merger or consolidation to accept for their stock anything except stock, or stock and cash in lieu of fractional shares, of either (i) the corporation surviving or resulting from the merger or consolidation or (ii) of any other corporation registered on a national securities exchange or held of record by 2,000 or more stockholders. With respect to sales of assets, mergers and consolidations, holders of the Series A Preferred Stock have been granted the right to a class vote in certain circumstances where their securities may be exchanged. In addition, without a class vote the holders of the Preferred Stock can not be required to accept cash in an amount less than the redemption price or cash if the Preferred Stock could not be redeemed. See "Description of Capital Stock of Cerro-Marmon—Voting Rights."

Miscellaneous

Under Delaware law, the situs of stock of a Delaware corporation for all purposes, including attachment and sequestration proceedings commenced in Delaware, is deemed to be in that state. The Delaware courts have thus held that an action against the holder of capital stock of a Delaware corporation may be commenced by the provisional remedies of attachment or sequestration, without physical possession of the certificates representing such securities.

AUDITORS AND AUDIT COMMITTEE

Price Waterhouse & Co. were the Independent Accountants of Cerro for the fiscal year 1974. It is expected that representatives of such firm will be present at the special meeting and will be provided the opportunity to make a statement if they desire to do so. It is also expected that representatives of Price Waterhouse & Co. will be available to respond to appropriate questions at the meeting.

The members of the Audit Committee of the Board of Directors of Cerro are Thomas F. Githens and G. Willing Pepper.

EXPERTS

The Consolidated Balance Sheet of Cerro Corporation and Consolidated Subsidiaries as of December 31, 1974, and the Consolidated Statements of Earnings (Loss), Retained Earnings, Paid-In Capital and Changes in Financial Position for the two years then ended included in this Prospectus have been so included in reliance on the report of Price Waterhouse & Co., independent accountants, and on their authority as experts in auditing and accounting.

The consolidated financial statements of The Marmon Group, Inc. (Michigan) included in this Proxy Statement (Prospectus) have been examined by Arthur Young & Company, certified public

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accountants, to the extent set forth in their report appearing elsewhere herein. Such report as to the 1974 consolidated financial statements is based in part on the report of Price Waterhouse & Co., independent accountants, on the consolidated financial statements of Cerro Corporation. The report of Price Waterhouse & Co. is qualified in certain respects as set forth therein and the report of Arthur Young & Company is qualified as to the effects, if any, of uncertainties related to Cerro Corporation's real estate inventories on the 1974 consolidated financial statements of The Marmon Group, Inc. (Michigan). Such consolidated financial statements of The Marmon Group, Inc. (Michigan) are included in reliance upon such reports of these firms and upon the authority of such firms as experts.

The Statement of Earnings for the year ended December 31, 1972, included in this Prospectus, has been examined by Coopers & Lybrand, independent certified public accountants, to the extent set forth in their report elsewhere in this Prospectus. With respect to such Statement of Earnings of Cerro and Consolidated Subsidiaries, Coopers & Lybrand (whose report is qualified in certain respects as set forth therein) relied, with respect to Leadership Housing, Inc., upon the examination and report of Price Waterhouse & Co., independent accountants, as set forth in their report appearing elsewhere in this Prospectus. The Statement of Earnings for the year 1972 is included in this Prospectus in reliance upon the report of Coopers & Lybrand, contained in this Prospectus and upon their authority as experts in accounting and auditing.

Information appearing herein relative to the coal reserves of Fetterolf is based upon a study by Gates Engineering Company, independent mining consultants and engineers, and has been included herein upon the authority of said firm as experts.

Information appearing herein relative to the coal reserves of Stott is based upon a study by John T. Boyd Company, independent mining consultants and engineers, and has been included herein upon the authority of said firm as experts.

MISCELLANEOUS

The management of Cerro does not know of any matters to be presented at the meeting, other than consideration of and action upon the matters set forth in the Notice of Special Meeting. If any other matters properly should come before the meeting, or any adjournment or adjournments thereof, the persons appointed by the accompanying proxy intend to vote such proxy in accordance with their best judgment.

In addition to the use of the mails, proxies for the meeting may be solicited by certain employees and directors of Cerro and its subsidiaries, personally or by telephone, telegraph, cable and personal interview. As is customary, Cerro will reimburse brokerage firms, banks, trustees, nominees and other persons for their out-of-pocket expenses in forwarding proxy materials to their principals. Cerro has also retained D. F. King & Co., Inc. to aid in the solicitation of proxies. D. F. King & Co., Inc. will solicit proxies by mail, telephone, telegraph and personal interview and may request brokers, dealers and other nominee stockholders to forward proxy material to beneficial owners, and will receive a fee from the surviving corporation (or from Cerro if the merger is not consummated) estimated to be approximately $8,500 (plus disbursements) for its services.

All information contained in this Proxy Statement with respect to Marmon and GL has been furnished by Marmon and GL, respectively.

By Order of the Board of Directors

KENNETH D. ARCHER
Vice President and Secretary

Chicago, Illinois
January . ., 1976

LS 001024

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MARGRP CDA dm - 1316

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of Cerro Corporation

We have examined the accompanying balance sheet of Cerro Corporation and Consolidated Subsidiaries as of December 31, 1974 and the related consolidated statements of retained earnings, paid-in-capital and changes in financial position, together with the consolidated statement of earnings (loss) appearing elsewhere in this Proxy Statement for the two years then ended. We also examined the consolidated statement of earnings of Cerro Corporation and Consolidated Subsidiaries (not presented separately herein) for the five months ended December 31, 1974. 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.

As described in Note B to the consolidated statement of earnings (loss), in 1973 the accounting profession changed the criteria for determining the types of items to be reported as extraordinary items, and accordingly, the company has reflected these changes in its consolidated statement of earnings (loss).

In August 1975 management stated its intention to substantially reduce the business, operations and debt levels of Leadership Housing, Inc., a real estate subsidiary, through an orderly liquidation of inventories designed to minimize losses. Uncertainties are created from the intention to liquidate such inventories because the amount and timing of the ultimate realization of these inventories and of the asset, "Future Income Tax Benefit", are not known. These matters are more fully described in Note D to the consolidated statement of earnings (loss).

In our opinion, subject to the effects of such adjustments, if any, which might have been required had the uncertainties referred to in the preceding paragraph existed and their outcome been known at the date the financial statements originally were issued, the financial statements examined by us present fairly the financial position of Cerro Corporation and Consolidated Subsidiaries at December 31, 1974, the results of their operations for the two years and the five months then ended and the changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles consistently applied during the period and on a basis consistent with the preceding year, except for the change, with which we concur, referred to in the second paragraph.

PRICE WATERHOUSE & CO.

New York, New York

February 25, 1975
(except as to the fourth paragraph of Note 14 the date of which is April 7, 1975, the first through fourth paragraphs of Note D to the consolidated statement of earnings (loss) the date of which is August 13, 1975, Note 13 the date of which is November 18, 1975, and the fifth paragraph of Note D to the consolidated statement of earnings (loss) and the sixth paragraph of Note 6(a) to Note 15 the date of which is January 20, 1976)

LS 001026

MARGRP CDA dm - 1317

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Cerro Corporation

We have examined the consolidated balance sheet of Cerro Corporation and consolidated subsidiaries as of December 31, 1972 (not shown separately herein) and the related consolidated statements of earnings (loss), retained earnings, paid-in capital and changes in financial position for the year then ended included in this Prospectus.

Our examination was 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. We did not examine the financial statements of the subsidiary, Leadership Housing, Inc., which statements reflect total assets constituting 22% of consolidated assets, and revenues constituting 18% of consolidated revenues [including revenues of Cerro de Pasco Corporation and Industrias de Cobre S.A. (Indeco)]. These statements were examined by other certified public accountants whose report thereon was furnished to us. Our opinion expressed herein insofar as it relates to the amounts included for such subsidiary is based upon such report.

In our opinion, based upon our examination and the report (appearing herein) of other certified public accountants, and subject to the realization of the Corporation's investments in Northwest Iron Co., Ltd. and Chile and its net assets in Peru, all of which may be affected by governmental and other actions, and subject to the possible necessity to satisfy certain guaranteed obligations of Northwest Iron Co., Ltd., the aforementioned financial statements (of which the balance sheet is not shown separately herein) present fairly the consolidated financial position of Cerro Corporation and consolidated subsidiaries at December 31, 1972 and the consolidated results of their operations and of changes in financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our aforementioned opinion on the consolidated financial statements for the year ended December 31, 1972, of Cerro Corporation and consolidated subsidiaries, submitted under date of March 19, 1973, was expressed against the background of conditions and circumstances as they existed as of such date. We have not examined the consolidated financial statements of Cerro Corporation and consolidated subsidiaries subsequent to December 31, 1972. However, we have reviewed the restatement of the 1972 consolidated financial statements of Cerro Corporation and consolidated subsidiaries which gave effect to the following matters. As a result of the expropriation on January 1, 1974, by the Government of Peru of Cerro de Pasco Corporation's business in Peru, Cerro's consolidated financial statements have been restated to reflect (a) the deconsolidation of Cerro de Pasco, (b) the adoption of the equity method of accounting for Cerro's investment, and (c) presentation of Cerro's equity in the earnings, before an extraordinary item, of Cerro de Pasco as a discontinued operation. In addition, the 1972 financial statements have been restated (1) to deconsolidate Indeco and account for Cerro's investment therein on the equity method of accounting, (2) to present Cerro's equity (50% owned) in the earnings, before an extraordinary item, of Atlantic Cement Company, Inc. as a discontinued operation since Cerro sold Atlantic in 1973, and (3) to reflect the adoption, effective January 1, 1973, of the first-in, first-out method of cost determination for metal inventories at one of Cerro's domestic copper fabricating plants which previously utilized the last-in, first-out method. This latter change was made in order to provide a uniform valuation method throughout Cerro's operating units and to coincide with a change made for federal income tax purposes designed to maximize the benefits of U. S. source income. In our opinion, the above-described restatement has been made in accordance with generally accepted accounting principles.

COOPERS & LYBRAND

New York, New York

March 19, 1973, except as to the restatement of the 1972 financial statements, as to which the date is March 12, 1974

LS 001027

MARGRP CDA dm - 1318

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
of Leadership Housing, Inc. (a majority-
owned subsidiary of Cerro Corporation)

In our opinion, the consolidated balance sheet and the related consolidated statements of operations, changes in stockholders' equity and changes in financial position (not presented separately herein) present fairly the financial position of Leadership Housing, Inc. and its subsidiaries at December 31, 1972, and the results of their operations, changes in stockholders' equity and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of accounting for multi-family projects as described in Note B to the financial statements, which is set forth in relevant part below. Our examination of these statements was 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.

PRICE WATERHOUSE & CO.

Miami, Florida
March 16, 1973

Note B—Business Combination (In Part)

Late in 1971 Leadership Housing Systems, Inc. entered into 11 transactions involving the sales of multi-family projects to be constructed. Because of substantial uncertainties in ascertaining the costs and expenses relating to these 11 projects, especially with respect to cash flow and rent guarantees, revenues and profits from these projects were deferred. At December 31, 1971, these transactions had been given effect to in the financial statements of Leadership Housing Systems, Inc. by the recording of gross notes receivable and receipts of $45,605,000 with the offsetting credit to deferred sales proceeds which was reduced by $6,378,000 of costs incurred to December 31, 1971, resulting in net sales proceeds of $39,227,000. Interest received on these notes receivable to December 31, 1971 was included as income from the dates of the transactions.

As of September 30, 1972, the Company changed its method of recognizing revenues and profits on sales of multi-family projects to more closely conform accounting practices with those principles under discussion by the Real Estate Accounting Committee of the American Institute of Certified Public Accountants. The resultant effect was to record costs and expenses of the projects under construction as inventory and eliminate the notes receivable and deferred sales proceeds. Interest recognized as income during the construction period was reversed. Amounts received from multi-family project purchasers are accounted for as customer deposits until such time as construction is approximately 50% complete and the uncertainties can be reasonably quantified, at which time revenue and profit recognition commences. The effect of the change was significant with respect to the balance sheet but was not material on comparative period results of operations; accordingly, the 1971 consolidated balance sheet and statement of changes in financial position of Leadership Housing Systems, Inc. (not presented separately herein) have been restated.

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MARGRP CDA dm - 1319

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

September 30, 1975 and December 31, 1974
($ in Thousands)

ASSETS

	September 30, 1975 (Unaudited)	December 31, 1974
Current Assets:		
Cash	$ 9,151	$ 22,181
Time and certificates of deposit (includes $104,000 of restricted deposits in 1974 and $1,500 in 1975 —Notes 3 and 4)	47,510	117,382
Marketable securities (principally commercial paper) at cost, less reserves of $1,718 in 1975 and $2,069 in 1974—approximately market	37,164	41,843
Accounts receivable, less allowance of $1,673 in 1975 and $1,096 in 1974 for doubtful accounts		
Trade	51,572	53,987
Chile (Note 6)	3,437	4,859
Other	6,271	4,588
Inventories (Note 5)	100,897	90,769
Prepaid expenses	3,604	2,248
Total current assets	259,606	337,857
Realty assets (Notes 14, 15 and D)	184,234	212,127
Notes due from Chile (Note 6)	15,286	25,251
Future income tax benefit (Notes D and E)	35,654	38,297
Investments (Note 4)	15,423	16,297
Property, plant and equipment, net (Note 7)	151,023	119,612
Operating rights and goodwill, net of amortization	18,271	15,148
	$679,497	$764,589

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Notes payable to banks (Note 9)	$ 4,800	$ —
Long-term debt due within one year (Note 9)	7,039	14,679
Accounts payable (Note 3)	40,425	101,095
Accrued liabilities (Notes 8 and 12)	35,039	38,542
Total current liabilities	87,303	154,316
Realty liabilities (Notes 14, 15 and D)	145,230	152,624
Long-term debt (Note 9)	94,803	96,801
Deferred income	1,440	1,196
Minority interest (Note 2)	7,204	6,553
Total liabilities	335,980	411,490
Commitments and contingencies (Notes 4, 9, 12, 13, 14 and 15)	—	—
Shareholders' Equity (Notes 9, 10, 11 and 13):		
Common stock, par value $3.33⅓ per share, authorized 15,000,000 shares, issued 8,779,654 shares	29,265	29,265
Paid-in capital	178,186	178,218
Retained earnings (Note 9)	152,385	161,935
	359,836	369,418
Treasury stock, at cost, 868,387 common shares	(16,319)	(16,319)
Total shareholders' equity	343,517	353,099
	$679,497	$764,589

See Notes to Financial Statements (numeric references) and
Notes to Consolidated Statement of Earnings (Loss) (alphabetic references).

LS 001029

MARGRP CDA dm - 1320

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
($ in Thousands)

	Nine Months Ended September 30, 1975 (Unaudited)	Year Ended December 31, 1974	1973	1972(A)
Balance at beginning of period	$161,935	$154,323	$103,939	$ 90,750*
Add:				
Reappraisal surplus (Note 11)	—	—	52,959	—
Consolidation adjustments related to minority shareholders' equity in Leadership Housing, Inc.	—	—	—	503
Net earnings (loss)	(2,430)	15,927	3,611	17,764
Cash dividends	(7,120)	(8,315)	(6,186)	(5,078)
Balance at end of period	$152,385	$161,935	$154,323	$103,939

CONSOLIDATED STATEMENT OF PAID-IN CAPITAL
($ in Thousands)

	Nine Months Ended September 30, 1975 (Unaudited)	Year Ended December 31, 1974	1973	1972(A)
Balance at beginning of period	$178,218	$178,218	$178,084	$178,084
Payments, net of tax, under Alternate Stock Option Plan of 1971 (Note 10)	(32)	—	—	—
Excess of cash received over par value of common stock issued upon exercise of stock options (15,407 shares)	—	—	134	—
Balance at end of period	$178,186	$178,218	$178,218	$178,084

*Includes FIFO adjustment relating to years prior to 1972.

See Notes to Financial Statements (numeric references) and Notes to Consolidated Statement of Earnings (Loss) (alphabetic references).

LS 001030

MARGRP CDA dm - 1321

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
($ in Thousands)

SOURCES OF FUNDS

	Nine Months Ended September 30, 1975 (Unaudited)	Year Ended December 31, 1974	1973	1972(A)
Earnings (loss) from continuing operations	$(2,430)	$ 15,927	$ 15,378	$ 9,062
Continuing operations not (providing) or requiring funds:				
Income taxes—not payable due to expropriation loss (Cerro de Pasco)	2,643	26,503	—	—
Realty (earnings) losses not included in consolidated funds (including write-off of goodwill of $8,040 in 1975)	24,658	13,606	(11,884)	(5,609)
Investment reserves	250	290	8,205	—
Depreciation, depletion and amortization	9,305	8,444	6,535	4,990
Deferred income taxes, net	—	(10,273)	385	9,776
Minority interest, equity and dividends, net	651	711	330	1,644
Total funds from continuing operations	35,077	55,208	18,949	19,863
Earnings from discontinued operations	—	—	33,783	10,626
Discontinued operations not (providing) or requiring funds:				
Equity in unconsolidated subsidiaries, net of dividends	—	—	(1,556)	(2,373)
Loss from Stereo Tape Club	—	—	—	4,583
Total funds from discontinued operations	—	—	32,227	12,836
Extraordinary items	—	—	(45,550)	(1,924)
Extraordinary items not (providing) or requiring funds:				
Book value of investment in Cerro de Pasco Corp., net of tax	—	—	64,897	—
Loss on write-off of Stereo Tape Club	—	—	—	6,082
Investment reserves	—	—	—	1,650
Equity in Atlantic Cement extraordinary item	—	—	—	(1,245)
Total funds from extraordinary items	—	—	19,347	4,563
Funds from other sources:				
Collection of receivable from U.S. Government	—	10,000	—	—
Reduction of long-term portion of notes due from Chile	9,965	10,423	—	—
Book value portion of proceeds on sale of Atlantic Cement	—	—	36,374	—
Return of capital dividends from Atlantic Cement	—	—	—	5,500
Long-term borrowing	400	40,692	23,262	10,256
Sale of property, plant and equipment	3,581	1,105	1,157	1,634
Reduction of investment in Cerro de Pasco	—	—	—	2,635
Other, net	2,731	(1,630)	(1,421)	2,905
Total funds from other sources	16,677	60,590	59,372	22,930
Total sources of funds	$51,754	$115,798	$129,895	$60,192

See Notes to Financial Statements (numeric references) and Notes to Consolidated Statement of Earnings (Loss) (alphabetic references).

LS 001031

MARGRP CDA dm - 1322

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
($ in Thousands)

USES OF FUNDS

	Nine Months Ended September 30, 1975 (Unaudited)	Year Ended December 31, 1974	1973	1972(A)
Acquisitions of companies (excluding net current assets):				
Property, plant and equipment	$ 14,721	$ 48,668	$ —	$ 9,717
Long-term debt assumed or incurred	(8,326)	(19,418)	—	(3,918)
Other, net (principally goodwill, minority interest and operating rights in 1975, 1974 and 1972, respectively)	3,428	(3,992)	—	15,219
	9,823	25,258	—	21,018
Purchase of Tamarac Utilities Inc. net non-current assets from Leadership Housing, Inc.	13,630	—	—	—
Investment in real estate operations, net	4,159	15,437	4,864	25,814
Purchase of property, plant and equipment	17,536	17,455	9,077	4,515
Purchase of treasury stock	—	561	8,296	—
Cash dividends	7,120	8,315	6,186	5,078
Reduction of long-term debt	10,724	37,800	18,240	16,456
Total funds used	62,992	104,826	46,663	72,881
Increase (decrease) in working capital	$(11,238)	$ 10,972	$ 83,232	$(12,689)

INCREASE (DECREASE) IN WORKING CAPITAL

Cash and marketable securities	$(87,581)	$ 88,953	$ 50,120	$(18,292)
Receivable from Peruvian Government	—	(30,415)	30,415	—
Accounts receivable, less allowances	(2,154)	2,798	3,015	13,181
Inventories	10,128	23,095	10,548	3,231
Deferred income taxes	—	—	(10,990)	8,400
Prepaid expenses	1,356	709	29	(3,071)
	(78,251)	85,140	83,137	3,449
Notes payable to banks	(4,800)	—	—	—
Long-term debt due within one year	7,640	(9,587)	12,754	(7,224)
Accounts payable	60,670	(49,553)	(17,507)	(3,844)
Income taxes	—	—	8,707	(473)
Accrued liabilities	3,503	(15,028)	(3,859)	(4,597)
	67,013	(74,168)	95	(16,138)
Net increase (decrease) in working capital	$(11,238)	$ 10,972	$ 83,232	$(12,689)

See Notes to Financial Statements (numeric references) and Notes to Consolidated Statement of Earnings (Loss) (alphabetic references).

LS 001032

MARGRP CDA dm - 1323

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(Information with respect to September 30, 1975 and September 30, 1974 is unaudited)

1. Summary of Accounting Policies

Accounting principles followed by Cerro and its operating units are generally consistent with their respective industry practices. Significant accounting policies are as follows:

Principles of Consolidation; Investments

The consolidated financial statements include the accounts of all significant domestic subsidiaries; material intercompany transactions have been eliminated.

Operating results of foreign subsidiaries, in the years in which such subsidiaries are included in the Consolidated Statement of Earnings (Loss), are translated to U.S. dollars at average exchange rates in effect during the respective years, except for depreciation and depletion which are translated at the rates in effect when the underlying assets were acquired.

The investment in Southern Peru Copper Corporation, a 22¼%-owned affiliate, is carried at cost, as are all other investments; income from these affiliates is recognized only upon receipt of dividends. The cost method is used because all significant affiliates are domiciled outside the United States in countries with histories of political instability and significant foreign exchange restrictions.

Inventories

Inventories are recorded at the lower of cost or market with cost computed on a First-In, First-Out (FIFO) basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Gain or loss on retirement is included in earnings. Maintenance and repairs are expensed; renewals and betterments are capitalized. Depreciation of plant and equipment is based on the estimated service lives of the assets using primarily the straight-line method. Depletion of mining properties is charged based on units of production.

Income Taxes

Deferred taxes are provided to account for the differences for accounting and tax purposes in the recognition of certain income and expense items. Principally these consist of the excess of accelerated tax depreciation over book depreciation, the use of the installment sales method for tax purposes with respect to certain real estate transactions which are recorded on the accrual basis for financial reporting purposes, and expenses and income recognized in different years for tax purposes than for accounting purposes.

The investment tax credit is accounted for as a reduction of the current provision for U.S. income taxes.

See Note E to the Consolidated Statement of Earnings (Loss) for the Company's accounting policy with respect to future tax benefits.

Intangibles

Operating rights, franchises and permits obtained through the purchase of ICX Industries, Inc. and the excess of cost of investments over the fair value of assets acquired in purchase transactions (goodwill) are being amortized on a straight-line basis over 40 years. Operating rights acquired prior to October 31, 1970 ($3,400,000) are not being amortized since, in the opinion of management, there has been no diminution in their value.

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MARGRP CDA dm - 1324

Exploration, Research and Product Development

Exploration expenses incurred in the search for new mining properties and research and development expenses for new or existing products are charged to earnings as incurred. Development costs of bringing new mineral properties into production are capitalized and amortized over the anticipated life of the ore reserve when production begins.

Pensions

Cerro has several pension plans covering most of its employees. Pension costs, actuarially determined and funded as accrued, include, as to certain of the plans, amortization of prior service costs over periods not exceeding 30 years.

2. Business Combinations

See Note H to the Consolidated Statement of Earnings (Loss) contained elsewhere herein.

3. Restricted Deposits

In December 1974, Cerro entered into copper sales agreements under which it received approximately $65,000,000 in advance. Of that amount $50,000,000 was placed in time deposits. In addition, Cerro had deposited approximately $54,000,000 in nonnegotiable certificates of deposit with a financial institution. The $104,000,000 of deposits, which matured in March 1975, are shown in Cerro's December 31, 1974 balance sheet as restricted. Cerro's accounts payable at December 31, 1974 include obligations to customers amounting to approximately $65,000,000 for copper which was delivered in March 1975.

At September 30, 1975, Cerro had restricted time deposits of $1,500,000 including $1,000,000 pledged in connection with a loan to Northwest Iron Co., Ltd. (see Note 4).

4. Investments

Cerro investments, at cost, are summarized below.

	Equity %	September 30, 1975	December 31, 1974
		($ in Thousands)	
Southern Peru Copper Corporation	22¼	$13,375	$13,375
Northwest Iron Co., Ltd.	24	1,950	1,950
Peruvian affiliates	—	5,553	5,709
Mining and manufacturing ventures (principally foreign)	—	4,784	5,408
Reserve for investments	—	(10,239)	(10,145)
		$15,423	$16,297

Southern Peru Copper Corporation

Cerro's 22¼% equity interest in Southern Peru's book value was $69,129,000 and $68,566,000 as of December 31, 1974 and September 30, 1975 which exceed its investment by $55,754,000 and $55,191,000, respectively. Despite the fact that Cerro owns 22¼% of Southern Peru, Cerro recognizes earnings only to the extent dividends are received. If the equity method had been used, Cerro's earnings from continuing operations would have been increased by $1.05 a share in 1974 and decreased by $.07 a share in the nine months ended September 30, 1975.

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MARGRP CDA dm - 1325

Southern Peru's net income (loss) for 1974 and the first nine months of 1975 was $40,480,000 and $(2,533,000). However, no dividends were paid to shareholders. In the last half of 1972, dividends were suspended as Southern Peru used its earnings to aid in financing the development of the Cuajone Mine.

Pursuant to Peruvian law the mining community, made up of Southern Peru's employees, may eventually receive 50% of the ownership in Southern Peru. As the interest of the mining community increases, Cerro's interest will decline proportionately.

Northwest Iron Co., Ltd.

Cerro's interest in a Tasmanian iron ore joint venture is held through its 24% ownership of Northwest. Cerro and another owner of Northwest have agreed to advance sufficient funds to maintain working capital, as defined, at $500,000 until certain outstanding indebtedness aggregating $18,800,000 at September 30, 1975 is repaid; such repayment is scheduled for 1983. Under this arrangement, Cerro is obligated to advance one-third of the funds necessary to maintain working capital at this level. Cerro was not required to advance funds to Northwest for this purpose in 1974.

In July, 1975, Cerro pledged $1,000,000 principal amount of marketable debt instruments owned by it to a lending institution as partial security for an interim loan in the amount of $3,000,000 made to Northwest. On November 7, 1975, in connection with permanent financing arrangements and upon an increase in the loan to $6,000,000, Cerro increased the principal amount of pledged securities to $2,000,000.

In the event that Cerro and the principal owner would find it desirable to have the entire amount of indebtedness repaid rather than contribute to working capital, Cerro would be contingently liable for $6,300,000 based on the amount of indebtedness outstanding at September 30, 1975. There can be no assurance that the principal owner would concur in such judgment and agree to repay that portion of the indebtedness relating to its share of the obligation.

Cerro's 24% share of the reported profits (losses) of Northwest for the periods indicated is as follows:

For the six months ended September 30:	
1975	$(153,000)
1974	215,000 *
For the fiscal year ended March 31:	
1975	462,000 *
1974	471,000 *
1973	506,000 *

* Including Cerro's proportionate share of extraordinary credits from utilization of tax loss carryforwards in the amounts of $202,000, $223,000, $237,000 and $102,000 for the fiscal years ended March 31, 1975, 1974 and 1973 and the six months ended September 30, 1974, respectively.

Cerro has never received dividends from this affiliate and, in 1973 and 1974, fully reserved, exclusive of any contingent liability resulting from the agreement discussed above, the amount of its investment in Northwest.

5. Inventories

Inventories (excluding real estate inventories) entering into the determination of net earnings were as follows:

	September 30,		December 31,			
	1975	1974	1974	1973	1972	1971
			($ in Thousands)			
Refined metals and ores	$36,930	$ 8,541	$ 7,836	$ 8,798	$ 7,258	$ 6,211
Manufacturing finished goods, work in process and raw materials	60,995	94,565	80,221	57,039	48,260	46,288
Operating supplies	2,972	2,658	2,712	1,837	1,608	1,396
	$100,897	$105,764	$90,769	$67,674	$57,126	$53,895

6. Notes Due from Chile

In 1971, the former Government of Chile expropriated Compania Minera Andina, S.A. (Andina), a Chilean corporation 70% owned by Cerro. Andina is the owner and operator of the Rio Blanco copper mine in which Cerro had invested $35,674,000 in the form of equity, notes and accrued interest.

On March 12, 1974, Cerro Corporation signed a compensation agreement with the Government of Chile for $41,300,000 consisting of $2,700,000 of cash and $38,600,000 in seventeen year, 9.165% Series A and B Notes, which are exempt from Chilean taxes and guaranteed by the Central Bank of Chile. The notes and related interest are payable semi-annually. An amount of $500,000 was also received representing payment for commissions earned on shipments made by a Cerro subsidiary on behalf of Andina. The difference of $5,600,000 between the principal settlement of $41,300,000 and Cerro's book value at December 31, 1973 of approximately $35,700,000 represents primarily interest earned since the date of expropriation on loans made by Cerro to Andina in 1966 and 1968. This interest had not been reflected in prior years earnings of Cerro as there was no reasonable assurance at that time of collection. This interest will be reflected in earnings as and when the last $5,600,000 in collections on the notes is received.

In addition, an agreement was entered into on July 14, 1974 between Cerro and the Overseas Private Investment Corporation (OPIC), an agency of the U.S. government, whereby OPIC guarantees in the event of default by the Chilean government, the payment of a portion of the total face amounts of each of the Series B Notes. The amounts guaranteed under this provision of the agreement at December 31, 1974 and September 30, 1975 were approximately $11,000,000 and $8,900,000, respectively.

Cerro and the Government of Chile have an arrangement covering the purchase and resale of certain copper-bearing materials produced in Chile which cannot be processed there and which are outside normal Chilean production and exports. The proceeds from the resale of these materials are to be applied to prepayment of the notes, in inverse order of maturity. The proceeds from the resale of these materials has resulted in the prepayment of a substantial portion of the notes prior to their scheduled maturity. During 1974, Cerro received approximately $2,900,000 in principal prepayments and $900,000 of principal in September 1974 in accordance with the normal payment terms of the agreement. Through September 30, 1975 Cerro has further reduced the balances due on the notes by prepayment applications of $7,700,000 and regular payments of $2,900,000.

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7. Property, Plant and Equipment

Non-realty property, plant and equipment are summarized below:

	September 30, 1975	December 31, 1974
	($ in Thousands)	
Land and buildings	$ 44,025	$ 40,841
Machinery and equipment	104,892	84,474
Mining properties	33,729	31,966
Revenue equipment	21,365	21,194
Utility plant	12,021	—
Construction in progress	9,339	3,728
	225,371	182,203
Less: accumulated depreciation and depletion	74,348	62,591
	$151,023	$119,612

Depreciable lives of non-realty property, plant and equipment are:

	Years
Buildings	10-40
Machinery and equipment	4-25
Revenue equipment	5-7
Utility plant	40

8. Accrued Liabilities

Consist of the following:

	September 30, 1975	December 31, 1974
	($ in Thousands)	
Payroll	$ 7,214	$ 7,729
Income taxes	4,967	14,515
Interest	1,939	1,597
Pensions	4,519	4,848
Other	16,400	9,853
	$35,039	$38,542

9. Long-Term Debt

The following table gives the detail on Cerro's long-term debt (other than real estate debt):

	Interest Rate	Due	September 30, 1975	Dec. 31, 1974
		($ in Thousands)		
Promissory notes to institutions(a)	6⅜%	1975-1987	$ 24,000	$ 26,000
Promissory notes to an institution(b)	6%	1975-1981	10,500	10,500
Promissory notes to corporations(c)	9½%	1977-1987	35,000	35,000
Promissory notes to individuals(d)	5%	1976-1980	8,326	—
Promissory notes to banks(e)	110% Prime	1977	—	8,000
1st mortgage note payable(f)	10%	1975-1990	2,652	2,712
Subordinated debentures(g)	7%	1990	3,365	3,570
Subordinated promissory notes to an individual(h)	12%	1975-1984	8,330	11,468
Other(i)	5-15%	1975-1990	9,669	14,230
			101,842	111,480
Less current portion			7,039	14,679
			$ 94,803	$ 96,801

(a) Payable in annual installments of $2,000,000.

(b) Payable in annual installments of $1,500,000.

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(c) Payable in annual installments of $3,500,000 and secured by mining properties.

(d) Represents the balances due on the fixed purchase prices for the acquisitions of GM&W and Delta ($5,155,000) and Stott ($3,171,000) as discounted to an effective rate of 9%. The balances are to be paid as cash is generated from operations, with payments estimated to be made annually in equal amounts.

(e) Repaid on January 24, 1975. Accordingly the $8,000,000 has been reflected as a current payable at December 31, 1974.

(f) Secured by buildings and payable in monthly installments of $28,975 including interest.

(g) Redeemable at Company's option at prices ranging from 104.5% in 1975 to 100% in 1984; annual sinking fund payments of $325,000 are required beginning in 1976 with the option to make additional annual payments of $325,000 beginning in 1975 (such payments may be reduced by the principal amount of debentures acquired by the Company; as a result all of the 1976 and 1977 installments and all but $184,000 of the 1978 installment have been satisfied at September 30, 1975); debentures are convertible into common stock of Cerro's subsidiary (Golconda Corporation) at a conversion price of $10.67 per share (subject to anti-dilution provisions). These debentures were discounted to an effective interest rate of 10% upon acquisition of Golconda Corporation.

(h) Payable in annual installments of $1,207,000. On August 1, 1975, $1,931,000 of debt maturing in 1982-84 was paid.

(i) Other long-term debt includes payables by ICX at December 31, 1974 and September 30, 1975 of $10,288,000 and $6,096,000 respectively, of which $7,092,000 and $4,416,000 was secured by revenue equipment.

In the third quarter of 1975, a subsidiary entered into short-term lines of credit with two banks in the amounts of $5,000,000 each. Borrowings under the lines bear interest in one case at the bank's prime rate and in the other at ½ of 1% above the bank's prime rate. The subsidiary is expected to maintain average compensating balances, which may be withdrawn without restriction, of 10% of the amounts borrowed. Under one line, an additional compensating balance of 10% of the maximum available is necessary. Since the loans were negotiated, the maximum amounts borrowed totaled $7,000,000 with average borrowings of $5,100,000. Interest rates during the period averaged 8%.

Cerro had available unused bank lines of credit totaling $59,000,000 at December 31, 1974. Under the terms of these arrangements, Cerro maintained compensating balances of 10% of the commitment plus 10% of any borrowings. Cerro also maintained in 1974 a compensating balance of approximately $6,500,000 in connection with financing arrangements of its real estate operations, see Note 6(a) to Note 15. These arrangements were terminated in 1975.

The various note agreements impose certain restrictions on Cerro, including the payment of cash dividends and reacquisition of capital stock. Approximately $35,900,000 at September 30, 1975 and $28,700,000 at December 31, 1974 of retained earnings was not restricted.

Payments of long-term debt during the three months ending December 31, 1975 and the next five calendar years are as follows:

Three months ending December 31, 1975	$ 1,868,000
1976	7,060,000
1977	11,385,000
1978	11,333,000
1979	10,094,000
1980	9,003,000

Rentals due under various long-term leases for certain office space, equipment and freight terminals for periods after 1975 are as follows:

1976	$2,972,000
1977	2,371,000
1978	2,019,000
1979	1,693,000
1980	1,338,000
1981-1985	4,343,000
1986-1990	1,836,000
1991-1995	283,000

Sublease rentals are insignificant. Non-capitalized financing leases are immaterial.

10. Stock Options

At September 30, 1975 Cerro had two stock option plans in effect covering officers and key employees. The 1970 Plan is qualified and discontinued as to additional grants whereas the 1971 Plan (Alternate Stock Option Plan) is nonqualified. The 1964 Plan expired on November 21, 1974. The terms of options under the two current plans generally are five years from the date of grant.

Optionees are not entitled to exercise both the stock options under the 1970 Plan and the stock options under the 1971 Plan. In addition, since March 14, 1973, holders of the options under the 1971 Plan are not entitled to exercise such options but receive the equivalent in cash of the difference between the option price and fair market value at time of surrender of the option. No more than 50% of the shares covered by any option can be issued to any optionee in payment for such appreciation, with the balance payable in cash. At December 31, 1974 and September 30, 1975, 422,856 shares of common stock were reserved for issuance under the 1970 and 1971 Plans.

On March 15, 1974, the 1971 Plan was amended to provide that the option price per share of each option outstanding on May 14, 1974 and of each option granted thereafter, would be reduced by an amount equal to the aggregate cash dividends declared and paid on each share of common stock during the period beginning with the later of (a) May 14, 1974 or (b) the date of grant of the option and ending on the date the option is presented for exercise, subject to the limitation that in no event will the option price per share be reduced to less than 50% of the original option price per share or the then par value of each share, whichever is higher. The 1971 Plan is to remain in effect until terminated by the Board, but no options may be granted after February 23, 1980. On May 13, 1975 the Board of Directors directed that no shares of common stock will be issued in payment of the appreciated value of any option, but such appreciated value will be paid exclusively in cash.

The Board of Directors has the power to cancel all or any part of any outstanding option under the 1971 Plan in the event it determines that the ultimate federal income tax consequences or the financial accounting effects of the exercise of options under the plan would not be in the best interests of Cerro.

The option price under both Plans is 100% of the fair market value of the stock on the date of grant. In 1974, options were granted to purchase 34,750 shares under the Plans. No options were granted in 1975. In 1974 and 1975, options to purchase 317,712 and 31,919 shares expired, respectively. Options for 51,555 shares were cancelled in 1975. Details of other transactions for the years 1972, 1973 and 1974 and the nine months ended September 30, 1975 are as follows:

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

	No. of Shares(a)	Option Price Per Share(a)	Option Price Amount	Market Value Per Share(a)	Market Value Amount
Became Exercisable In:					
1972					
1961, 1964, 1970 Plans	30,968	$12.02 to $23.58	$ 528,000	$12.94 to $16.44(c)	$ 441,000
1971 Plan	34,013	12.94 to 17.25	545,000	12.94 to 16.44(c)	509,000
1973					
1961, 1964, 1970 Plans	41,978	12.94 to 25.24	709,000	13.50 to 16.19(c)	629,000
1971 Plan	66,851	12.94 to 17.25	1,062,000	13.50 to 16.19(c)	1,027,000
1974					
1970 Plan	46,944	12.94 to 25.24	864,000	11.62 to 18.94(c)	771,000
1971 Plan	88,360	12.56 to 18.13	1,369,000	11.62 to 18.94(c)	1,422,000
1975					
1970 Plan	17,142	13.19 to 17.25	279,000	10.88 to 16.94(c)	230,000
1971 Plan	38,485	11.41 to 17.03	559,000	10.88 to 16.94(c)	520,000
Exercised in:					
1972					
1961, 1964, 1970 Plans	None	None	None	None	None
1971 Plan	None	None	None	None	None
1973					
1961, 1964, 1970 Plans ..... (Granted 1963)	15,407	$12.02 to $12.03	$ 185,000	$13.94(d)	$ 215,000
1971 Plan	None	None	None	None	None
1974					
1964, 1970 Plans ..	None	None	None	None	None
1971 Plan ..... (Granted in 1971, 1972, 1973 & 1974)	59,345	12.69 to 17.25	921,000(f)	17.00 to 18.94(d)	1,078,000
1975					
1970 Plan	None	None	None	None	None
1971 Plan	13,879	12.41 to 15.85	197,000(f)	14.19 to 17.19(d)	213,000
Outstanding at:					
December 31, 1974					
1970 Plan ..... (Granted in 1970, 1971, 1972 & 1973)	106,975	$13.19 to $18.15	$1,793,000	$13.19 to 18.15(b)	$1,793,000
1971 Plan ..... (Granted in 1971, 1972, 1973 & 1974)	226,048	12.01 to 17.33(e)	3,385,000	12.56 to 18.13(b)	3,558,000
September 30, 1975					
1970 Plan	72,790	13.19 to 18.15	1,175,000	13.19 to 18.15(b)	1,175,000
1971 Plan	162,880	11.11 to 16.43(e)	2,240,000	12.56 to 18.13(b)	2,591,000

(See footnotes on following page.)

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(a) Adjusted for stock dividends and a stock split.
(b) At dates of grant.
(c) At dates options became exercisable.
(d) At dates exercised.
(e) Adjusted for cash dividends declared and paid subsequent to May 14, 1974.
(f) Optionees received in cash $157,000 and $16,000 for the year 1974 and the nine months ended September 30, 1975 representing the excess of market value at date of exercise over the option price. Shares available for future options under the 1971 Plan at December 31, 1974 and September 30, 1975 were 196,808 and 259,976 shares respectively.

11. Shareholders' Equity

On September 7, 1973, Cerro made a tender offer to purchase up to 500,000 shares of its common stock at $15.00 per share. A total of 419,029 shares, or 84% of the original offer, which expired October 15, 1973, was tendered. Cerro repurchased on the open market in 1974 and 1973, 36,600 and 112,400 of its shares, respectively. The shares purchased are being held as treasury stock. No shares have been reacquired in the nine months ended September 30, 1975.

Authorized preferred stock of 1,000,000 shares, without par value is unissued.

Reappraisal surplus ($52,959,000), which arose on the revaluation of Cerro's Peruvian mining properties in 1943 and 1951, has been transferred to retained earnings in 1973 to offset the charges to retained earnings for depletion and amortization of appraised values and the write-off of Peruvian assets.

12. Pensions

Cerro is in the process of estimating the impact of the Pension Reform Act of 1974 on net income for 1976, when the new law becomes fully effective, and the possibilities of increased funding requirements, administration expenses and unfunded vested benefits. Management believes that additional pension expense and funding requirements expected to result from any required amendments to the company's plans should not be material in relation to present expense for these plans. The unfunded vested benefits are expected to increase, but the amount of such increase will not be determinable until management decides how present vesting provisions may have to be amended to conform with the new law and regulations thereunder.

The actuarially computed value of vested benefits for certain plans as of December 31, 1974, the most recent date of available information, exceeded the respective pension funds assets and related balance sheet accruals by approximately $8,000,000. At that date unfunded past service costs totalled approximately $20,000,000.

13. Litigation

In April and May 1975, several lawsuits were commenced against various defendants including Cerro. A class action alleges (1) that certain transactions between Cerro and a former officer of Cerro were entered into solely to permit Marmon and Marmon's parent company and its principal stockholders to obtain control of Cerro and (2) that efforts were made by certain of the defendants to depress the market value of Cerro's common stock in order to effectuate a merger between Cerro and Marmon on terms unfavorable to the Cerro stockholders, other than Marmon, in violation of the anti-fraud provisions of the federal securities laws and in violation of their fiduciary duties to Cerro. The relief sought includes compensation for damages sustained by the class as a result of the matters alleged in the complaint and an injunction for a period of at least five years against the voting of shares of Cerro common stock owned by Marmon. No relief is sought from Cerro. A series of shareholders' derivative actions, alleges, among other things, that there occurred in connection with a 1974 agreement between Cerro and a former officer of Cerro, violations of the anti-fraud provisions of the federal securities law and

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breaches of the defendants' fiduciary duties to Cerro pursuant to an alleged plan among the defendants to permit Marmon and the principal stockholders of Marmon's parent company to acquire control of Cerro. These complaints demand that the defendants account for any profits realized by them and any losses and damages sustained by Cerro as a result of the matters alleged therein.

One additional suit, in which Cerro, certain of its present and former directors, and Cerro's independent accountants are defendants, alleges that Cerro's financial reporting practices for 1972-74 had not accurately reflected the difficulties of certain subsidiaries, including Leadership Housing, Inc. and Cerro de Pasco Corporation, Cerro's former Peruvian mining subsidiary. In the opinion of counsel for Cerro the ultimate outcome of this action will not have a materially adverse effect on Cerro.

See the discussion of lawsuits under "Management of Cerro—Change of Management—Litigation—Other Litigation" on p. 71.

14. Real Estate Operations

Cerro's real estate operations are conducted through Leadership Housing, Inc. ("Leadership"), a wholly owned subsidiary. Leadership's operations have resulted in losses for the year 1974 and the first nine months of 1975, as shown in the condensed Statement of Operations (Note 15).

During 1974 and the first quarter of 1975, Cerro provided Leadership with a total of approximately $19.9 million in the form of advances and made an additional capital investment in Leadership of $2.5 million. In addition, during 1974 Cerro deposited $6.5 million with Leadership's principal lenders in connection with a compensating balance requirement of Leadership under its revolving credit-term loan agreement (the "Loan Agreement") pursuant to which Leadership borrowed $42,500,000 during 1973 and 1974. Such deposits were not available to satisfy any liabilities of Leadership. Leadership's lenders have (i) waived, as of December 31, 1974 all defaults under the Loan Agreement and (ii) modified those covenants with which Leadership has not been able to comply in such a manner as to cause Leadership to be in compliance during the first quarter of 1975. Leadership still required additional funds for working capital purposes.

As of March 27, 1975 negotiations were in process to arrange the necessary additional financing under the Loan Agreement but a definitive arrangement had not been reached. If adequate financing arrangements were not made it was the intention of Cerro's management at that time not to provide further financial support to Leadership except to the extent required by existing legally binding commitments. At that time the only material legally binding commitment of Cerro in respect of Leadership was in connection with surety bonds aggregating $39.4 million guaranteeing Leadership's performance under certain construction contracts. It was anticipated that Leadership, without additional financing, would not have been able to survive as an on-going business in which event Cerro's maximum exposure would have been the loss of its entire investment in Leadership which at March 27, 1975 was approximately $65 million plus the cost of performance, if any, under the surety bonds. As of March 27, 1975, the opinion of Cerro's independent accountants, Price Waterhouse & Co., on the consolidated financial statements of Cerro for the year ended December 31, 1974 was qualified subject to the effect, if any, on the financial statements of the ultimate resolution of the uncertainty with respect to Leadership arranging suitable financing.

On April 7, 1975, letters of intent were received from Leadership's principal lenders agreeing in principle to a financing plan (see Note 6 to Note 15 hereof for a description of the Amended and Restated Loan Agreement entered into on June 18, 1975 and dated as of April 1, 1975). At that time it was the opinion of Cerro's management that such financing plan would provide adequate support to Leadership for the foreseeable future and, on April 7, 1975 Cerro indicated its intention in any event to support the operations of Leadership at least during 1975. Based upon such letters of intent and Cerro's agreement to support Leadership during 1975, Price Waterhouse & Co. removed the above noted qualification in its report with respect to Cerro's 1974 financial statements.

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On August 13, 1975, Cerro management stated its intention to reduce substantially the activities of Leadership through an orderly liquidation of its inventories designed to minimize losses. In addition, although Cerro financially supported the operations of Leadership during 1975, no decision has been reached as to how long Cerro will continue its support if Leadership's current operating losses continue and the new financing plan noted above does not provide adequate support during the orderly liquidation period, or the principal lenders withdraw their support. See Note D of Cerro's Notes to Consolidated Statement of Earnings (Loss) for further information including current uncertainties as to the realization of Leadership's inventories.

Events of Default exist under certain of the covenants in the Amended and Restated Loan Agreement of Leadership (see Note 6 to Note 15—Condensed Real Estate Financial Statements). However, Leadership has been notified by a letter dated January 20, 1976 from the agent bank that an agreement has been reached in principle, which has been approved in principle by several of the Participating Banks, to effect certain modifications in the provisions of the Loan Agreement which would have the result of eliminating all such existing Events of Default. Such agreement in principle is subject to receipt by the agent bank of satisfactory documentation and to its receiving formal approval of such documentation from the Participating Banks. So long as the Loan Agreement is not so amended, such Events of Default may continue to exist and upon notification from the principal lenders, the debt covered thereby would become due and payable.

15. Condensed Real Estate Financial Statements

Presented below are the condensed financial statements of the real estate operations ("Leadership Housing, Inc."), together with related footnotes. Intercompany transactions, including interest charges, have been eliminated from these financial statements. See Note D to the Consolidated Statement of Earnings (Loss) of Cerro Corporation for subsequent events which create uncertainties, including uncertainties as to the estimated net realizable value of real estate inventories.

LEADERSHIP HOUSING, INC.

STATEMENT OF OPERATIONS

($ In Thousands)

	Nine Months Ended September 30,		Year Ended December 31,	
	1975	1974	1974	1973
	(Unaudited)			
Sales:				
Single family housing	$ 20,321	$ 63,921	$ 81,098	$ 84,611
Multi-family housing	—	2,952	8,968	32,712
Land sales	670	2,431	2,942	30,071
Other	2,919	2,048	2,998	12,555
	23,910	71,352	96,006	159,949
Other revenue including interest income of $4,656, $4,980, $6,751 and $5,685, and equity in joint venture income (loss) of $(395) and $2,134, $2,214 and $4,252, respectively	3,653	7,261	9,055	10,465
	27,563	78,613	105,061	170,414
Cost of Sales	25,941	67,917	92,767	139,495
Writedowns of inventories and other charges (Note 1):				
Single family housing	700	1,700	1,700	—
Land	3,800	1,200	3,600	—
	30,441	70,817	98,067	139,495
	(2,878)	7,796	6,994	30,919
Selling and administrative expenses	7,849	9,264	12,740	13,789
Write-off of goodwill	8,040	--	—	—
Interest cost accrued (Note 8)	11,400	12,008	16,321	11,208
Less interest capitalized	(5,509)	(6,376)	(8,461)	(5,962)
Income (loss) before income taxes	$(24,658)	$ (7,100)	$(13,606)	$ 11,884

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

LEADERSHIP HOUSING, INC.

BALANCE SHEET
($ in Thousands)

ASSETS

	September 30, 1975 (Unaudited)	Dec. 1974
Cash (Note 6)	$ 1,746	$ 4,688
Notes and other receivables (Notes 2 & 6)	38,175	46,885
Inventories (Notes 3, 6, D & K)	125,958	118,262
Investments in joint ventures (Notes 4 & 6)	10,921	11,278
Property, plant and equipment, net (Notes 5 & 6)	3,990	17,951
Goodwill, less amortization of $687 (Note D)	—	8,262
Other assets	3,444	4,801
	$184,234	$212,127

LIABILITIES AND SHAREHOLDER'S EQUITY AND ADVANCES

Notes payable (Note 6 and D)	$116,626	$115,682
Accounts payable	3,240	9,062
Accrued liabilities	6,057	6,786
Customer deposits	5,647	6,219
Rent guarantee reserves	2,673	2,757
Estimated cost to complete property sold	373	479
Deposits on property subject to repurchase (Note 7)	7,236	7,236
Deferred income	3,378	4,403
	145,230	152,624
Shareholder's equity and advances (Note 6)	39,004	59,503
	$184,234	$212,127

Numerical note references are to the Notes to the Condensed Financial Statements of Real Estate Operations; alphabetical note references are to the Consolidated Statement of Earnings (Loss) of Cerro Corporation and Consolidated Subsidiaries.

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REAL ESTATE OPERATIONS (LEADERSHIP HOUSING, INC.)

(Information with respect to September 30, 1975 and September 30, 1974 is unaudited)

Note 1—Summary of Accounting Policies:

The major accounting principles and methods used by Leadership are described below.

Recognition of Revenue

Sales of single family houses and condominiums are recorded when escrow closes and title has passed to the buyer, at which time cash has been received for substantially the full sales price. At that time, land costs, allocated site development costs, specific construction costs, related capitalized interest and real estate taxes are relieved from inventory and charged to cost of sales along with a provision for sales commissions and estimated miscellaneous warranty costs. Customer down payments and payments of specified amounts at certain stages of construction prior to closing are recorded as customer deposits.

Sales of recreational facilities and developed and undeveloped land are recorded at the time escrow closes and the Company has received the required cash down payment and all other conditions necessary for profit recognition have been satisfied.

Revenues and profits on sales of land which the Company is required to develop are recognized over the development period in the ratio of costs incurred to estimated total costs at completion providing future costs can be reasonably quantified.

Sales of land whereby the Company intends or is obligated to repurchase such property are treated as financing arrangements and are not recorded as sales. Costs of land and improvements applicable to such sales are included in inventory and cash received from the buyer is recorded as deposits on property subject to repurchase. Notes receivable on such transactions have not been recorded in the balance sheet. Interest received on such unrecorded notes is recorded as additional deposits on property subject to repurchase.

Multi-family projects are generally sold to investors subject to physical construction and minimum cash flow guarantees. Where minimum cash flow guarantees exist, a sale is not recorded until the project achieves a cash flow sufficient to provide for all operating expenses and guarantee requirements. Once this level of operation is achieved, profits are recognized in the ratio of costs incurred to date to estimated total costs at completion over the period of performance including the guarantee period. Costs include anticipated operating expenses of the property during the guarantee period. Anticipated gross rental income during the guarantee period is reduced by an appropriate margin and is recorded as additional rent guarantee reserve. Costs of land and improvements on multi-family projects which have not satisfied all conditions for income recognition are included in inventory, amounts of investors' payments are reflected as deposits and the related notes receivable secured by all-inclusive trust deeds are not recorded on the balance sheet. Certain profits from projects sold in years prior to 1972 which have continuing seller involvement or cash flow guarantees over extended periods up to 30 years have been deferred and included as additional rent guarantee reserve in the accompanying balance sheet.

Inventories

Inventories are carried at cost or estimated net realizable value whichever is lower. The estimated net realizable value of inventories is evaluated based on disposition of inventories in the normal course of business under existing and anticipated market conditions. The evaluation takes into consideration the current status of the property, various restrictions, carrying costs, debt service requirements, and any other circumstances which may affect net realizable value including management plans for the property. Due to the large acreage of certain land holdings, disposition in the normal course of business may extend over a number of years. The Company has announced a plan whereby it intends to reduce total assets, of which inventories are the significant portion, to approximately one-half of the December 31,

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1974 amount, as more fully explained in Note D to the Consolidated Statement of Earnings (Loss). To the extent this reduction results in the disposition of inventories other than in the normal course of business and during a period in which adverse market conditions prevail, the estimated net realizable value may be adversely affected by an undeterminable amount. Land is carried at average cost plus interest and real estate taxes. Site development is at average cost and construction is at specific cost. Single and multi-family inventory consists of land, land improvements, construction costs and other capitalizable costs including interest and real estate taxes for projects currently under development. Land and improvements applicable to single family construction and multi-family projects are transferred to such inventory captions when construction commences.

Consistent with the above method of valuing inventories, the Company has provided for reductions of inventories to their estimated net realizable values where appropriate.

Property, Plant and Equipment

Property, plant and equipment is carried at cost and is depreciated by the straight-line method over the estimated useful lives of the assets. Costs of additions and major improvements are capitalized and expenditures for maintenance and repairs are expensed. When property or equipment is retired or sold, any profit or loss on the transaction is recognized currently.

The estimated useful lives of property, plant and equipment are indicated below:

	Years
Buildings and structures	25
Utility system	40
Leasehold improvements	Term of Lease
Machinery and equipment	4
Furniture and fixtures	6

Goodwill

The excess of the price paid by Cerro over the book value of Leadership was allocated 50% to land and 50% to goodwill. The amount included in land is charged to cost of sales when land is sold and amounted to $1,040,000 in 1974, $601,000 in 1973 and $108,000 and $823,000 for the nine months ended September 30, 1975 and 1974, respectively. Goodwill amortization was over forty years commencing in 1972 and amounted to $443,000 in 1974, $139,000 in 1973 and $222,000 and $333,000 for the nine months ended September 30, 1975 and 1974, respectively.

The unamortized balance of goodwill of $8,040,000 at June 30, 1975 was charged to operations at that date after the determination that there was no continuing benefit. See Note D to Consolidated Statement of Earnings (Loss).

Deferred Income

Deferred income consists of interest, which is amortized into income over a specified term; deferred profit, which is amortized into income over the construction and guarantee period of multi-family projects; and deferred profit on a sale of land recorded on the installment method.

Income Taxes

The real estate operations are included in Cerro's consolidated tax return. See Note E to Consolidated Statement of Earnings (Loss) and Note 1 to Financial Statements for additional information.

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REAL ESTATE OPERATIONS (LEADERSHIP HOUSING, INC.)

Note 2—Receivables:

Notes and other receivables consist of the following:

	September 30, 1975	Dec. 31, 1974
	($ in Thousands)	
Notes:		
First trust deeds	$ 18,163	$ 18,807
Secured by all-inclusive trust deeds, net	9,378	9,351
Second trust deeds	5,808	13,153
	$ 33,349	$ 41,311
Other receivables (including $1,456 and $1,687 due from Pritzker Trusts*) less allowance for uncollectibility of $489 and $833 respectively	$ 4,826	$ 5,574
	$ 38,175	$ 46,885

* The beneficiaries of the Pritzker Trust are members of the Pritzker family, including Mr. J. A. Pritzker (Chairman of the Board of Directors of Cerro) and Mr. R. A. Pritzker (President of Cerro).

First trust deed notes receivable arise from the sale of land and recreational facilities which mature within 10 years for land and 30 years for recreational facilities. Such receivables are secured by the related land and recreational facilities.

Notes receivable secured by all-inclusive trust deeds less underlying trust deed notes payable are due in annual instalments of up to 30 years.

Second trust deeds arise primarily from the sales of single family residences and certain sales of land. Receivables due from single family home sales, which are subordinated to first trust deeds held by financial institutions, generally bear interest by their terms at 8% and are due in monthly instalments of principal and interest for periods averaging nine years. The Company has imputed interest on these receivables arising from single-family home sales to provide 12% effective interest yield.

Notes and other receivables mature by their terms in varying instalments of up to 30 years. At December 31, 1974 and September 30, 1975, the net amount due within one year is $7,143,000 and $5,418,000, respectively.

At December 31, 1974 and September 30, 1975, there are unrecorded notes receivable aggregating $12,365,000 ($2,989,000 from Pritzker Trusts) and $16,515,000 ($2,989,000 from Pritzker Trusts), respectively, which resulted from sales treated as financing arrangements and sales of multi-family projects which have not satisfied all conditions for income recognition. The portion of these notes due within one year aggregates $1,347,000 and $1,345,000, respectively. Certain unrecorded notes have been pledged as collateral securing the Company's bank loans.

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REAL ESTATE OPERATIONS (LEADERSHIP HOUSING, INC.)

Note 3—Inventories:

Inventories, substantially all of which are pledged, were comprised of the following:

	September 30, 1975	Dec. 31, 1974
	($ in Thousands)	
Land and improvement costs	$ 79,494	$ 67,494
Single family construction	29,453	40,291
Multi-family projects	13,209	6,675
Land subject to repurchase from Pritzker Trusts (Note 7)	3,802	3,802
	$125,958	$118,262

Certain trust deeds plus unpaid accrued interest secured only by real estate are reclassified to inventories when the note is in default, the Company has determined that payment will not be received, and legal action to recover the property has been instituted. Such notes are carried at the lower of the note balance plus unpaid accrued interest or estimated net realizable value. There were no such notes receivable in inventories at December 31, 1974 and $6,845,000 at September 30, 1975.

See Note D to the Consolidated Statement of Earnings (Loss) of Cerro Corporation for subsequent events which create uncertainties, including uncertainties as to the estimated net realizable value of real estate inventories.

Note 4—Investments in Joint Ventures:

The investments in joint ventures consist of the following:

	September 30, 1975	Dec. 31, 1974
	($ in Thousands)	
Equity in net earnings	$ 6,198	$ 6,466
Note receivable due in annual installments of principal and interest through 1977	4,723	4,812
	$ 10,921	$ 11,278

The accounting policies and principles followed by the joint ventures, insofar as they relate to revenue and profit recognition, are the same as those followed by the Company.

The Company is a participant in two joint ventures with the Pritzker Trusts each of which provides for participation in 50% of profits and losses. At December 31, 1974 and September 30, 1975 these two ventures, which hold unimproved property, have not made any sales. In addition the Company is a participant in another joint venture, which is developing and selling property, in which the Company participates in 50% of profits only (not losses) for approximately 40% of the unsold property at September 30, 1975 being developed and 50% of profits and losses for the other 60% of the property. In all three of these ventures, the Company has no obligation to make any capital contributions. However, to the extent the other participants make such contributions, preference will be made as to ultimate distributions for such contributions as well as an interest factor thereon.

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REAL ESTATE OPERATIONS (LEADERSHIP HOUSING, INC.)

Note 5—Property, Plant and Equipment:

At December 31, 1974 and September 30, 1975 the major classifications of property, plant and equipment (at cost) are as follows:

	September 30, 1975	Dec. 31, 1974
	($ in Thousands)	
Land and land improvements	$ 995	$ 1,359
Buildings and structures	390	994
Utility system	—	15,060
Machinery, equipment, etc.	1,030	1,266
Golf course and related facilities	2,189	1,042
	$ 4,604	$19,721
Less accumulated depreciation	614	1,770
	$ 3,990	$17,951

Depreciation amounted to $514,000 and $552,000 for the years ended December 31, 1974 and 1973 and $320,000 and $383,000 for the nine months ended September 30, 1975 and 1974 respectively.

On June 18, 1975, and in connection with the banking arrangement made on that date as described in Note 6, below, the utility system was sold to Cerro Corporation.

Note 6—Notes Payable:

	September 30, 1975	Dec. 31, 1974
	($ in Thousands)	
Obligations to banks (a):		
Notes payable—bank	$ 44,375	$ 42,500
Other (b):		
6% to prime plus 6% real estate mortgages payable in installments through 2011	69,229	68,989
6-10% unsecured notes payable in installments through 1982	3,022	4,193
	$116,626	$115,682

(a) On October 4, 1973, as amended November 1, 1974, the Company entered into an agreement with a group of banks providing for a one year line of credit aggregating $42,500,000, to become payable in eight quarterly installments beginning January 1976 and to bear interest at the Bank's Alternate Base Rate (a rate which approximates the prime rate) plus 1¼% over such rate until October 1, 1975 and 1½% over such rate thereafter, payable quarterly. Based on an understanding with the banks the Company agreed to maintain compensating balances equal to 10% of the aggregate commitment plus 10% of the principal amount borrowed. In 1974, Cerro deposited $6,500,000 with the banks on behalf of Leadership. Cerro charged the Company interest for this amount at approximately 9%. The compensating balance arrangements were terminated in 1975.

The credit line was secured by mortgage receivables and the utility system having a collateral value equal to 125% of the aggregate commitment. The Company paid a commitment fee equal to ½ of 1% per annum on the average daily portion of the unused commitment.

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REAL ESTATE OPERATIONS (LEADERSHIP HOUSING, INC.)

On June 18, 1975, Leadership and certain of Leadership's subsidiaries collectively referred to as the "Borrowers" entered into an Amended and Restated Loan Agreement dated as of April 1, 1975 (the "Restated Agreement") with First National City Bank (the "Bank") acting for itself and as representative for others. The Restated Agreement amends and restates the Loan Agreement, dated as of October 4, 1973, as amend[illegible] [illegible], among other things, for the making of additional loans by the Bank (and Cerro) to the Borrowers from time to time in an aggregate amount not to exceed $12,000,000. Such loans (both those existing as of June 18, 1975 and the additional loans to be made pursuant to the Restated Agreement) are evidenced by two promissory notes. As explained below, the Bank's note is in the principal amount of $44,500,000 and Cerro's note is in the principal amount of $10,000,000. Both notes have a maturity date of April 1, 1977, subject to acceleration as provided in the Restated Agreement.

Of the $12,000,000 in additional loans, the participating banks will furnish $2,000,000 and Cerro will furnish the other $10,000,000, in accordance with the procedures set forth below. The Bank is not required to make advances in any quarter in an aggregate amount in excess of 120% of the Borrowers' projected cash-flow deficit for such quarter, as defined. Cerro may, however, authorize additional advances in any quarter in excess of the 120% referred to above, but not more than 140% of such projected quarterly cash-flow deficit. Any such advances in excess of 120% of such projected quarterly cash-flow deficit shall be provided solely by Cerro. Advances are to be allocated 41.1765% to the Bank and 58.8235% to Cerro until the Bank has advanced $2,000,000; thereafter, Cerro is to be allocated 100% of each advance until it has advanced $10,000,000.

In connection with the amendment of the loan agreement, on June 18, 1975, Cerro purchased the utility system formerly operated by Leadership for an approximate aggregate purchase price of $15,750,000 of which $12,000,000 was paid in cash and the balance of $3,750,000 was paid by issuance of a Cerro note, payable $93,750 quarterly plus interest at the Bank's Alternate Base Rate until October 1, 1980 when the final payment of $1,875,000 is due.

The restated agreement provides among other things for maintenance of minimum tangible net worth and limitations on indebtedness, inventory, the purchase of real estate, the sale of certain assets and investments in new properties or joint ventures. In addition, Leadership is required to maintain certain collateral coverage ratios and meet specified cash flow objectives (based on quarterly projections) which, if not met, could be deemed events of default by the Bank. Events of Default exist under certain of the covenants in the Restated Agreement of Leadership. However, Leadership has been notified by a letter dated January 20, 1976 from the agent bank that an agreement has been reached in principle, which has been approved in principle by several of the Participating Banks, to effect certain modifications in the provisions of the Loan Agreement which would have the result of eliminating all such existing Events of Default. Such agreement in principle is subject to receipt by the agent bank of satisfactory documentation and to its receiving formal approval of such documentation from the Participating Banks. So long as the Loan Agreement is not so amended, such Events of Default may continue to exist and upon notification from the principal lenders, the debt covered thereby would become due and payable.

The Bank's $44,500,000 note bears interest at the rate of 1¼% above the Bank's Alternate Base Rate, as defined above in this note. 2% of such interest is payable monthly in cash and the difference between the 2% and the 1¼% over the Bank's Alternate Base Rate shall be accrued until the total accrued interest equals $5,000,000, after which Leadership shall pay to the Bank in cash the full 1¼% above the Bank's Alternate Base Rate. The balance of the accrued interest shall be paid at maturity.

Borrowings from Cerro under the "Restated Agreement" will bear interest at the rate of 1¼% above the Bank's Alternate Base Rate, which interest shall be paid on the maturity date of April 1,

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1977. Generally, the loans under the Restated Agreement, the existing loans as well as the additional loans, are secured by the assignment of notes, mortgages and deeds of trust; a pledge of the capital stock of one of Leadership's wholly owned subsidiaries; the granting to the Bank of a first mortgage on most of the Borrowers' unencumbered real estate; an agreement to assign notes and mortgages acquired after the closing date; an agreement to grant first mortgages on real estate acquired after the closing date; the assignment of Leadership's beneficial interest in two land trusts; an agreement to assign its interest in a joint venture and its right to cash distributions from its other two joint ventures (see Note 4 to Note 15); the assignment of the Excess Cash Proceeds, as defined, if any, from any future sale of Tamarac Utilities, Inc. by Cerro to third parties; and the assignment to the Bank of all of Leadership's rights to receive the proceeds from Cerro pursuant to the terms of a Tax Allocation Agreement dated July 31, 1972, between Cerro and Behring Corporation (a predecessor of Leadership). In addition, Leadership has assigned the $3,750,000 purchase money note issued by Cerro in connection with the acquisition of the utility system, with all principal prepayments thereon to be applied to the Bank's note.

Cerro was required under the terms of the loan agreement to subordinate amounts owing to it from Leadership (other than the $10 million to be advanced under the loan agreement and $5 million evidenced by two notes which are pari passu to the lending banks' claims under the loan agreement) to the claims of the lending banks. Such subordination covers past advances only.

No advances were made by the Bank or Cerro until the third quarter of 1975. Any amounts advanced by Cerro will be included in the real estate financial statements as increases in shareholder's equity and advances in accordance with accounting principles applicable to transactions between a parent and its subsidiary that are to be reflected in the financial statements of the subsidiary.

(b) The Company has additional notes payable secured by multi-family projects, which amounts have been deducted from notes receivable secured by all-inclusive trust deeds on those projects. The principal remedy in the event of default, under such notes, is recourse solely against the property secured thereby through a trustee's sale under provisions of the trust deed. In relatively rare instances, the statutory provisions allowing a deficiency judgment to be obtained through judicial processes are utilized in lieu of the rights under the sale provision of the trust deed. Such judicial processes are rarely used by lenders inasmuch as they may take several years and are subject to a right of redemption by the property owner following a judgment.

Notes payable mature in varying installments; however, acceleration of payments may be required to release mortgaged property sold. At December 31, 1974 notes payable of $610,000 were due to the Pritzker Trusts. This balance was paid prior to June 30, 1975.

(c) The following is a debt repayment schedule for each of the twelve months ending September 30:

1976	$22,027,000	1979	$ 5,257,000
1977	74,927,000	1980	5,939,000
1978	2,441,000		

Note 7—Commitments and Contingencies:

The Company is liable for obligations in the normal course of business for the completion of contracts relating to construction of houses, purchases of land, improvements of property sold and guarantees to purchasers of apartment projects. In addition, the Company is a defendant in lawsuits arising in the normal course of business which in the opinion of management and counsel will not have a material effect upon the Company. (See the discussion of lawsuits under "Pending Legal Proceedings" on p. 61). The Company is obligated for annual rentals under long term leases which in the aggregate are not material.

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REAL ESTATE OPERATIONS (LEADERSHIP HOUSING, INC.)

In connection with a sale of land in 1972 to the Pritzker Trusts (treated as a financing arrangement for financial statements purposes) the Company is obligated to repurchase such land (see Note 3) over a six-year period which began in 1973 at a repurchase price consisting of the Company's selling price, the buyers' develop[illegible] costs and a premium. During 1973 and 1974, the Company repurchased land zoned for 779 and 991 units for $1,849,000 and $2,848,000, respectively, which included $592,000 and $753,000, respectively, representing a portion of the premium. The premium remaining to be paid on land not yet repurchased aggregates approximately $2,850,000 at September 30, 1975. Deposits on property subject to repurchase, amounting to $7,236,000 at December 31, 1974 and September 30, 1975 were made by the Pritzker Trusts in connection with the sale of land in 1972, which were subject to an obligation by the Company to repurchase a portion of the property.

In connection with the two joint ventures with the Pritzker Trusts (Note 4), the Company was contingently liable for approximately $21,000,000 of the notes payable by the joint ventures at December 31, 1974 and $20,000,000 at September 30, 1975. The Company, however, would have recourse to its partners for 50% thereof.

Note 8—Interest Capitalization:

It has been the Company's historical practice to capitalize interest relating to obligations incurred in connection with land, construction and land improvements. Management believes this policy results in the most appropriate matching of costs and revenues. Had the Company followed the policy of expensing all interest as incurred, income (loss) before income taxes would have been as follows:

	Income (Loss) Before Income Taxes
	($ in Thousands)
Nine months ended September 30:	
1975	$(29,563)
1974	(11,150)
Year ended December 31:	
1974	(18,867)
1973	8,765

Interest applicable to other obligations including the revolving and term loan agreement has been expensed as incurred.

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REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Marmon Group, Inc. (Michigan)

We have examined the accompanying consolidated balance sheet of The Marmon Group, Inc. (Michigan) at December 31, 1974, the consolidated statement of earnings for the five years then ended, the consolidated statement of stockholder's equity for the three years then ended and the consolidated statement of changes in financial position for the four years then ended. 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. With respect to the Company's investment in and equity in the net earnings of Cerro Corporation ("Cerro") (see Notes 5 and F), we have received the report of other independent accountants, included elsewhere herein, on their examination of the consolidated financial statements of Cerro. Our opinion expressed herein insofar as it relates to amounts included for Cerro, to the extent that they were derived from financial statements of Cerro, is based solely on the report of the other independent accountants.

The report of other independent accountants referred to above is qualified as to the effects of such adjustments, if any, which might have been required had the uncertainties relating to Cerro's real estate inventories and its asset "Future income tax benefit" existed and their outcome been known at the date the financial statements originally were issued. Such uncertainties and the effect on Marmon's consolidated financial statements, if any, of any adjustments of Cerro's consolidated financial statements resulting from resolution of the uncertainties are discussed in Note 5. As set forth therein, any adjustments of Cerro's consolidated financial statements relating to the uncertainty as to "Future income tax benefit" will have no effect on Marmon's consolidated financial statements and the effects, if any, of any adjustments of Cerro's consolidated financial statements resulting from the uncertainties relating to Cerro's real estate inventories are not presently determinable.

In our opinion, based on our examinations and, in 1974, the report of other independent accountants referred to in the first paragraph above, and subject to the effects of such adjustments, if any, to the 1974 consolidated financial statements, as might have been required had the uncertainties relating to Cerro's real estate inventories referred to in the preceding paragraph existed and the outcome been known at the date the consolidated financial statements originally were issued, the statements mentioned above present fairly the consolidated financial position of The Marmon Group, Inc. (Michigan) at December 31, 1974, the consolidated results of operations for the five years then ended and the consolidated changes in financial position for the four years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR YOUNG & COMPANY

Chicago, Illinois

May 16, 1975, except for the matters referred to in the second paragraph above as to which the date is August 13, 1975, the third and fourth paragraphs of Note 9 as to which the date is November 13, 1975, Note 10 as to which the date is November 19, 1975 and the third through fifth paragraphs of Note 5 as to which the dates are August 13, 1975 and January 20, 1976.

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THE MARMON GROUP, INC. (MICHIGAN)

CONSOLIDATED BALANCE SHEET

(In thousands of dollars)

ASSETS

	September 30, 1975 (Unaudited)	Dec. 31, 1974
Current assets:		
Cash and commercial paper (Note 2)	$ 7,501	$ 459
Receivables—primarily trade, less allowances of $1,445 in 1975 and $1,087 in 1974	39,567	38,577
Inventories (Notes 1c and 3)	51,291	55,098
Refundable income taxes (Notes 1f and 4)	1,027	1,882
Deferred income taxes (Notes 1f and 4)	1,561	1,280
Prepaid expenses	642	1,508
Total current assets	101,589	98,804
Investment in Cerro Corporation (Notes 1d and 5)	77,161	70,165
Other investments and assets (Note 6):		
Long-term receivables	2,677	3,012
Property and equipment held for sale or lease, less accumulated depreciation of $2,364 in 1975 and $2,408 in 1974	457	757
Cash restricted for construction	202	2,072
Other investments and advances (Note 1d)	1,583	1,612
Other assets and deferred charges	501	538
Total other investments and assets	5,420	7,991
Property, plant and equipment (Note 1e):		
Land and improvements	1,721	1,610
Buildings and improvements	19,668	17,983
Machinery and equipment	34,118	31,012
Construction in progress	3,089	5,713
	58,596	56,318
Less accumulated depreciation	22,764	20,294
Net property, plant and equipment	35,832	36,024
	$220,002	$212,984

See accompanying notes.

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THE MARMON GROUP, INC. (MICHIGAN)

CONSOLIDATED BALANCE SHEET

(In thousands of dollars except per share amount)

LIABILITIES AND STOCKHOLDER'S EQUITY

	September 30, 1975 (Unaudited)	Dec. 31, 1974
Current liabilities:		
Notes payable to bank (Note 2)	$ 11,000	$ 10,000
Current maturities of long-term debt and lease-purchase obligations	855	1,697
Accounts payable—primarily trade	15,339	24,762
Income taxes (Note 4)	1,670	2,311
Accrued liabilities (Note 2)	10,341	11,636
Total current liabilities	39,205	50,406
Long-term debt (Note 7)	69,035	69,015
Lease-purchase obligations (Note 7)	15,305	15,591
Other noncurrent amounts	1,428	1,419
Commitments and contingent liabilities (Notes 4, 6, 7 and 9)		
Stockholder's equity (Notes 1, 7, 9 and 10):		
Common stock, $1 par value; 1,000 shares authorized and issued	1	1
Other paid-in capital	12,027	11,962
Retained earnings	83,001	64,590
Total stockholder's equity	95,029	76,553
	$220,002	$212,984

See accompanying notes.

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THE MARMON GROUP, INC. (MICHIGAN)

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

(In thousands of dollars)

	Par value of common stock issued	Additional paid-in capital	Retained earnings	Total
Balance at January 1, 1972	$ 1	$11,360	$31,007	$42,368
Contributed companies (Note B)		58		58
Benefits from tax loss carryforwards of contributed companies (Note E)		204		204
Reorganization adjustment (Note 9)			(50)	(50)
Net income			6,439	6,439
Balance at December 31, 1972	1	11,622	37,396	49,019
Benefits from tax loss carryforwards of contributed companies (Note E)		179		179
Reorganization adjustment (Note 9)			(38)	(38)
Net income			9,476	9,476
Balance at December 31, 1973	1	11,801	46,834	58,636
Benefits from tax loss carryforwards of contributed companies (Note E)		161		161
Reorganization adjustment (Note 9)			(2)	(2)
Net income			17,758	17,758
Balance at December 31, 1974	1	11,962	64,590	76,553
Benefits from tax loss carryforwards of contributed companies (Note E) (unaudited)		65		65
Net income (unaudited)			18,411	18,411
Balance at September 30, 1975 (unaudited)	$ 1	$12,027	$83,001	$95,029

See accompanying notes.

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THE MARMON GROUP, INC. (MICHIGAN)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	Nine Months Ended September 30,		Year Ended December 31,			
	1975	1974	1974	1973	1972	1971
	(Unaudited)					
Sources of working capital:						
Operations—						
Net income	$18,411	$ 13,064	$17,758	$ 9,476	$ 6,439	$ 5,789
Charges (credits) not involving working capital:						
Depreciation	4,172	2,921	4,165	3,278	2,903	2,405
Equity in undistributed net earnings of Cerro Corporation	(6,996)	(166)	(2,319)			
Other—net	589	14	262	(107)	(24)	(316)
Total from operations	16,176	15,833	19,866	12,647	9,318	7,878
Issuance of long-term notes payable	200	946	68,961			1,731
Proceeds from lease-purchase obligations		5,575	5,575	4,265		2,200
Disposition of property, plant and equipment	1,343	132	366	417	374	126
Decrease (increase) in cash restricted for construction—net	1,870	(788)	1,433	(3,505)		
Decrease (increase) in long-term receivables—net	307	30	126	(240)	530	(1,609)
Total working capital provided	19,896	21,728	96,327	13,584	10,222	10,326
Dispositions of working capital:						
Investment in Cerro Corporation (Note 5)		67,846	67,846			
Additions to property, plant and equipment	5,022	13,538	19,639	5,479	4,721	5,510
Reductions in long-term notes payable and lease-purchase obligations	466	1,440	1,858	826	875	1,019
Reorganization adjustments (Note 9)		1	2	38	50	4,480
Other—net	422	580	549	574	168	149
Total working capital used	5,910	83,405	89,894	6,917	5,814	11,158
Increase (decrease) in working capital	$13,986	($61,677)	$ 6,433	$ 6,667	$ 4,408	$ (832)
Changes in elements of working capital:						
Increase (decrease) in current assets—						
Cash and temporary investments	$7,042	$ (692)	$ (799)	$ 977	$(2,006)	$(4,167)
Receivables—net	990	9,567	8,138	7,969	4,401	1,223
Inventories	(3,807)	12,084	20,266	3,887	1,671	2,783
Deferred and refundable income taxes	(574)	2,925	1,839	(869)	1,397	(625)
Prepaid expenses	(866)	(411)	599	314	129	105
	2,785	23,473	30,043	12,278	5,592	(681)
Decrease (increase) in current liabilities—						
Notes payable and current maturities of long-term notes and lease-purchase obligations	(158)	(78,956)	(10,872)	2,541	(2,316)	3,640
Accounts payable and accrued liabilities	10,718	(7,654)	(13,951)	(5,553)	(1,010)	(1,525)
Income taxes	641	1,460	1,213	(2,599)	2,142	(2,266)
	11,201	(85,150)	(23,610)	(5,611)	(1,184)	(151)
Increase (decrease) in working capital	13,986	(61,677)	6,433	6,667	4,408	(832)
Working capital at beginning of period	48,398	41,965	41,965	35,298	30,890	31,722
Working capital (deficiency) at end of period	$62,384	$(19,712)	$48,398	$41,965	$35,298	$30,890

See accompanying notes.

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THE MARMON GROUP, INC. (MICHIGAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information pertaining to the nine month periods ended September 30, 1974 and September 30, 1975 is unaudited)

(Alphabetical note references are to notes to The Marmon Group, Inc. (Michigan) consolidated statement of earnings included elsewhere herein)

1. Statement of accounting policies

The Marmon Group, Inc. (Michigan) ("Marmon") is a wholly owned subsidiary of GL Corporation ("GL").

(a) Consolidation policy—

The consolidated financial statements include the accounts of Marmon (see Note 9 as to a 1971 reorganization) and all subsidiaries. All significant intercompany transactions, profits and balances have been eliminated. Deferred credits from pre-1970 acquisitions are being amortized on the straight line method over 10-year periods.

(b) Foreign currency translations—

The accounts of the foreign subsidiaries (in the aggregate not material), principally Canadian and British companies, are translated into U. S. dollars based generally on (1) current exchange rates for current assets and liabilities, (2) historical exchange rates for noncurrent assets, liabilities and allowances, and (3) average exchange rates during the year for revenues, cost and expenses (other than depreciation), and income taxes. The resulting gains and losses, not material in amount, are included in net income.

(c) Inventories—

Inventories are valued at the lower of cost or market. The cost of inventories comprising 82% of consolidated inventories at December 31, 1974 and September 30, 1975 are determined under the last-in, first-out ("LIFO") method. Cost of the remaining inventories represents current cost (standard, average or first-in, first-out).

(d) Investments—

The investment in Cerro Corporation ("Cerro"), which was acquired in August 1974 and consists of a 45.33% investment in Cerro's outstanding common stock, is accounted for on the equity method. Marmon's equity in Cerro's net earnings is adjusted to reflect the effects of the difference between Marmon's cost and its equity in the net assets of Cerro at the date of acquisition (Notes F and 5). Other investments, including immaterial investments in other affiliated (20% to 50% owned) companies, are carried at cost less allowances.

(e) Property, plant and equipment and property and equipment held for sale or lease—

Property, plant and equipment and property and equipment held for sale or lease are carried at cost less accumulated depreciation. Depreciation is provided principally on accelerated methods over estimated useful lives.

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Depreciation rates used during the three years and the nine months ended September 30, 1975, were as follows:

Land improvements	3% to 15%
Buildings and improvements*	2% to 20%
Machinery and equipment	10% to 25%
Automotive equipment	20% to 50%
Property held for sale or lease	10%
Equipment held for sale or lease	10% to 20%

* Leasehold improvements are depreciated over the lesser of the term of the lease or useful life of the asset.

Expenditures for maintenance and ordinary repairs are charged to expense as incurred. Expenditures of major amounts for renewals or betterments are capitalized.

Gains on property dispositions are included in income as realized and provisions are made for possible losses when it is determined that losses may be incurred. Rental income from property leased is reflected under the operating method.

(f) Income taxes—

Marmon and its domestic subsidiaries filed a consolidated federal income tax return for 1970 and have been included in the consolidated federal income tax returns of GL subsequent to 1970 (Note 4). Pursuant to a formal income tax sharing agreement with GL, federal income taxes of Marmon are determined, in general, as if Marmon and its domestic subsidiaries filed a separate consolidated federal income tax return. Federal income taxes so determined are paid periodically to GL; amounts accrued but not yet paid or payments in excess of amounts accrued are included as income taxes or refundable income taxes in the consolidated balance sheet. Interest at 115% of a bank's prime rate is paid or received by Marmon on differences between payments made and payments due.

Deferred income taxes are provided on nonpermanent differences between financial statement and taxable income. Such differences relate principally to allowances for expenses and possible losses which are currently not deductible for income tax purposes and the undistributed equity in the net earnings of Cerro. Deferred income taxes on the undistributed equity in the net earnings of Cerro are determined as if such equity was distributed as a dividend, giving recognition to the 85% dividends received exclusion.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise (flow-through method).

(g) Pension, profit sharing and bonus expenses—

Pension expenses under Marmon's various pension plans, in general, are accrued in amounts equal to normal costs of the various plans (including interest on the unfunded actuarial liabilities) plus amortization of prior service costs over periods of not more than 40 years. Amounts accrued are generally contributed to the various pension trusts. Pension expense also includes amounts contributed to various pension trusts based on hours worked by certain hourly paid employees under provisions of collective bargaining agreements.

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Amounts, determined annually by the Board of Directors, are accrued for contributions to be made to a profit sharing trust for the benefit of the employees of various participating divisions and subsidiaries.

Bonuses for various officers and employees are accrued in amounts approved by the President.

2. Cash and commercial paper, notes payable and accrued liabilities

At December 31, 1974, cash and commercial paper consist principally of amounts held by certain foreign subsidiaries; checks outstanding ($989,000) in excess of cash balances are included in accounts payable.

The notes payable to the bank are due three months from issue and bear interest at 10.75% to 12% per annum (weighted average of 11.5%) at December 31, 1974 and 7.5% to 8.25% (weighted average of 7.7%) at September 30, 1975. Maximum short-term bank borrowings outstanding at any month end were $80,000,000 in 1974 and $12,000,000 in the nine months ended September 30, 1975. The daily average amount of short-term bank borrowings was $33,716,000 in 1974 and $11,842,000 in the nine months ended September 30, 1975 at a daily weighted average interest rate of 12.2% in 1974 and 8.9% in the nine months ended September 30, 1975.

On December 30, 1974, Marmon entered into a credit agreement with two banks, whereby $68,000,000 of previous short-term borrowings were refinanced into long-term borrowings (see Note 7). Effective with the issuance of the long-term notes, Marmon's line of credit with one of the banks participating in the long-term credit agreement was reduced from $80,500,000 to $12,500,000. This line of credit (of which $2,500,000 was unused at December 31, 1974 and $1,500,000 at September 30, 1975) expired on July 1, 1975 (informally extended to April 30, 1976) and provides that interest will be charged at ½% above the prime rate charged by such bank (10¼% at December 31, 1974 and 8% at September 30, 1975). Marmon, GL and certain other companies under common control maintain the majority of their cash in this bank and the other bank participating in the credit agreement. Marmon and these companies (Cerro is not included) have agreed informally to maintain compensating balances with these banks equal to (1) 10% of the total current bank lines of credit (including current borrowings), (2) 10% of certain long-term borrowings ($43,000,000 at December 31,1974 and September 30, 1975) and (3) 20% of certain other long-term borrowings ($25,000,000 at December 31, 1974 and September 30, 1975). Due to the participation of other companies in the agreement, it is not possible to determine the amount of Marmon's cash that is being used for such purposes.

Accrued liabilities at September 30, 1975 and December 31, 1974 consisted of:

	1975	1974
Salaries and wages	$ 3,251,000	$ 3,284,000
Pension and profit sharing	2,222,000	2,292,000
Interest	1,323,000	1,697,000
Taxes, other than income taxes	743,000	723,000
Other	2,802,000	3,640,000
	$10,341,000	$11,636,000

3. Inventories

The last-in, first-out ("LIFO") cost of inventories valued under this method was approximately $20.9 million at December 31, 1974 and $25.6 million at September 30, 1975 less than the approximate current cost (determined principally on the basis of standard costs) of these inventories.

The classification of inventories at December 31, 1974 and September 30, 1975 by stage of production is not readily available from Marmon's accounting records.

4. Income taxes

Refundable income taxes result from the excess of payments made to GL over the Company's estimated federal income tax liabilities. Amounts accrued for estimated federal income tax liabilities in certain prior years in excess of payments made to GL are included in income taxes in the consolidated balance sheet.

No amounts have been reflected for possible future income tax reductions which may result from utilization of operating loss carry-forwards of the foreign subsidiaries, which approximate $1,000,000 at December 31, 1974 and September 30, 1975.

Marmon's federal income tax liabilities have been settled through 1970. Management believes that adequate allowances have been established for all income tax liabilities relating to Marmon. GL has reported consolidated taxable losses in each of the last several years prior to 1975. Marmon, as a member of the GL consolidated federal income tax group, is contingently liable for federal income taxes attributable to other members of the group.

5. Investment in Cerro Corporation

Effective August 1, 1974, Marmon acquired 3,586,297 common shares of Cerro, representing 45.33% of the outstanding common shares of Cerro at that date (unchanged at December 31, 1974 and September 30, 1975), at a total cost of $67,846,000. Of the shares acquired, 813,100 shares were acquired from GL at GL's cost of $14,031,000 and the remaining shares were acquired pursuant to a cash tender offer. The shares acquired from GL were purchased by GL principally during the period February-May 1974. The market value of the Cerro shares owned, using the closing price of the Cerro common stock on the New York Stock Exchange on December 31, 1974 and September 30, 1975, which does not purport to represent amounts which might be received if Marmon disposed of its investment, was approximately $42,100,000 at December 31, 1974 and $54,243,000 at September 30, 1975.

Marmon's carrying value of the Cerro investment at September 30, 1975 and December 31, 1974 consists of the following:

	1975	1974
Cost	$67,846,000	$67,846,000
Equity in net earnings of Cerro (Note F)	14,516,000	4,292,000
Cash dividends received (Note F)	(5,201,000)	(1,973,000)
	$77,161,000	$70,165,000

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Reference should be made to the consolidated financial statements and notes thereto of Cerro Corporation and Consolidated Subsidiaries included elsewhere herein. Note D to such financial statements, captioned "Subsequent Events", reads as follows:

"On August 13, 1975, management stated its intention to reduce substantially the business, operations and debt levels of Leadership Housing, Inc. ("Leadership"), a real estate subsidiary, through an orderly liquidation of inventories designed to minimize losses. (See Note 15 of Notes to Financial Statements for Condensed Real Estate Financial Statements.) It is expected that, after this reduction is completed, the total assets of Leadership would be less than half of its total assets at December 31, 1974. As a result of the depressed condition of the real estate market existing in the United States generally, and in Florida in particular, an orderly liquidation of inventories designed to preserve corporate assets is likely to take several years. Based upon the information available, it is believed that this liquidation will take place while adverse market conditions prevail.

Because of the inventory liquidation program described above, it was determined that goodwill in the amount of $8,040,000, representing the unamortized excess of purchase price over the net assets of Leadership, had no continuing benefit to the company, and it was therefore written off as of June 30, 1975.

Cerro financially supported the operations of Leadership during 1975; however, no decision has been reached as to how long Cerro will continue its support if Leadership's current operating losses continue and the June 1975 financing plan (described in Note 6 to Note 15—Condensed Real Estate Financial Statements) does not provide adequate support during the orderly liquidation period described above, or the principal lenders withdraw their support. Cerro also has legally binding commitments in connection with surety bonds ($36,200,000 at September 30, 1975) guaranteeing Leadership's performance under certain construction contracts. A substantial amount of work has been performed under such contracts, but it is not possible to predict the cost to Cerro, if any, under the surety bonds.

The decision to reduce substantially the activities of Leadership creates uncertainties relating to the timing of and the amount ultimately to be realized from the orderly liquidation of the real estate inventories ($125,958,000 at September 30, 1975). Further, because of the potential for losses resulting from this liquidation, an uncertainty exists as to the realizable value of Cerro's asset, 'Future income tax benefit' ($35,654,000 at September 30, 1975). Since the amount of losses, if any, to be incurred upon realization of these assets is uncertain, no provision for loss has been made in the accompanying financial statements.

Events of Default exist under certain of the covenants in the Amended and Restated Loan Agreement of Leadership (see Note 6 to Note 15—Condensed Real Estate Financial Statements). However, Leadership has been notified by a letter dated January 20, 1976 from the agent bank that an agreement has been reached in principle, which has been approved in principle by several of the Participating Banks, to effect certain modifications in the provisions of the Loan Agreement which would have the result of eliminating all such existing Events of Default. Such agreement in principle is subject to receipt by the agent bank of satisfactory documentation and to its receiving formal approval of such documentation from the Participating Banks. So long as the Loan Agreement is not so amended, such Events of Default may continue to exist and upon notification from the principal lenders, the debt covered thereby would become due and payable."

Adjustments by Cerro, if any, to "Future income tax benefit" will have no effect on Marmon's financial statements as no purchase cost, other than an amount equal to Marmon's interest in the benefit realized in the five months ended December 31, 1974, was allocated to Marmon's proportionate interest in such asset.

Adjustments by Cerro, if any, for real estate inventory losses and write-downs will not adversely effect Marmon's financial statements unless Marmon's proportionate interest in such adjustments exceeds the reserve for losses on real estate sales and write-downs established as described below. The

effects on Marmon's consolidated financial statements, if any, of any adjustments of Cerro's consolidated financial statements resulting from the uncertainties relating to Cerro's real estate inventories discussed above are not presently determinable.

For equity accounting purposes, Marmon's proportionate share of Cerro's net assets at August 1, 1974 has been adjusted to reflect an allocation of Marmon's purchase cost of the Cerro stock. The effect of such allocation is to increase significantly the amount reflected by Marmon as its equity in the net earnings of Cerro (Note F). Details of the allocation are summarized below.

	Marmon's proportionate interest (45.33%) in Cerro's net assets at August 1, 1974		
	As reported by Cerro	Adjustment to allocate Marmon's cost	Basis for determining Marmon's equity in Cerro's net earnings
		(In millions)	
Current assets	$125.7	$	$125.7
Current liabilities	(41.7)		(41.7)
Working capital	84.0		84.0
Realty assets less related liabilities(a)	26.8	(25.9)	.9
Notes receivable	12.0		12.0
Future income tax benefit	18.8	(17.4)	1.4
Investments	7.8	(7.8)	
Property and equipment—net	35.2	(35.2)	
Operating rights	6.9	(6.9)	
	191.5	(93.2)	98.3
Long-term debt	(26.7)	1.2	(25.5)
Other	(3.5)	(1.5)	(5.0)
Net assets	$161.3	$(93.5)	$ 67.8
(a) Realty assets less related liabilities:			
Cash and receivables	$ 22.8	$	$ 22.8
Inventories	53.9	(10.6)*	43.3
Other assets	20.4	(16.4)	4.0
Total assets	97.1	(27.0)	70.1
Notes payable	(54.8)		(54.8)
Other	(15.5)	1.1	(14.4)
Net realty assets	$ 26.8	$(25.9)	$ .9

* The current value of Cerro's realty inventories was not determinable due to the depressed conditions in the real estate markets in which Cerro operates. Therefore, no adjustment was made to Marmon's equity in Cerro's carrying value of its realty inventories to state such inventories at current value. Rather, the balance of the total adjustment required to allocate Marmon's cost that remained after all other adjustments shown above was established as a reserve for losses from realty inventory write-downs and sales. This reserve will be increased by Marmon's equity in "Future income tax benefit" as such is realized, and will be reduced by Marmon's equity in inventory write-downs and direct losses incurred on realty sales (direct losses being determined before all selling and administrative expenses, other than direct commissions on sales, and income taxes). Any balance remaining in the reserve after the real estate market returns to normal conditions will be amortized to income over an appropriate period.

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6. Other investments and assets

Long-term receivables at September 30, 1975 and December 31, 1974 consist of the following:

	1975	1974
Convertible note, due in 1988	$1,590,000	$1,613,000
Land sales contracts, less allowances of $456,000 in 1974		1,126,000
Other	1,087,000	273,000
	$2,677,000	$3,012,000

Prior to 1974, the convertible note, which had a face value of $2,000,000, was carried at cost ($1,500,000) plus accumulated discount. In 1974, the issuer (1) replaced the previous note with a new note having a face value of $1,200,000, (2) increased the interest rate from 5% to 11% and (3) revised the conversion terms. As a result of this exchange, the difference ($419,000) between the previous carrying value and the $1,200,000 face value will be charged to "interest income" over the remaining life of the issue.

In 1974, land sales contracts, relating to receivables sold at face value to an affiliated company in 1971 and guaranteed by a subsidiary of Marmon, were purchased, for cash, at their face value of $722,000. These receivables were sold in 1975 in connection with the disposition of the related business (Note B).

Other investments and advances consist principally of (1) investments in a 50% owned Australian corporation and a 50% owned domestic corporation and (2) an approximate 15% interest in a publicly owned Australian corporation. Marmon, under certain circumstances, may be obligated to acquire the balance of the stock in the domestic corporation at book value (estimated at approximately $700,000). The carrying value of the investments, after an allowance of $100,000 provided in a prior year for possible loss, is not materially different than Marmon's equity in the unaudited net assets of these companies.

7. Long-term borrowings, lease-purchase obligations and rental commitments

Long-term borrowings, less current amounts due, at September 30, 1975 and December 31, 1974 consist of the following:

Bank notes (Note 3):	1975	1974
At ½% above bank's prime rate	$40,000,000	$40,000,000
At 1% above bank's prime rate	28,000,000	28,000,000
	68,000,000	68,000,000
9% mortgage note, due to 1980	148,000	
6% note, due to 1980	680,000	784,000
7% mortgage note, due to 1984	193,000	199,000
Other, 6% to 8%	14,000	32,000
	$69,035,000	$69,015,000

The bank notes are payable in ten equal semiannual instalments, beginning on November 15, 1976, of $4,000,000 and a final payment of $28,000,000 due November 15, 1981. In addition, Marmon is required, beginning on April 1, 1977, to make aggregate annual prepayments of the principal balance equal to the sum of (a) 50% of its consolidated net earnings after taxes in excess of $8,000,000 for the previous calendar year and/or (b) 50% of the amount paid by Marmon to GL pursuant to their presently existing tax sharing agreement (Note 1f), provided, however, such required prepayment in any calendar year will not exceed $6,000,000.

The credit agreements relating to the bank notes impose certain restrictions on Marmon including limitations on (1) future borrowings, (2) additional investments, (3) property, plant and equipment

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dispositions, (4) distributions to its stockholders (dividends, stock purchases and other distributions, other than payments pursuant to Marmon's tax sharing agreements, are restricted to $6,000,000 per year), and (5) mergers with or into another entity, and require Marmon to maintain consolidated net current assets as defined, and tangible net worth in excess of stated amounts.

Lease-purchase obligations, less current amounts due, at September 30, 1975 and December 31, 1974 are summarized as follows:

	1975	1974
3.5% and 6%, due to 1980	$ 214,000	$ 245,000
4% to 6.8%, due to 1988	4,496,000	4,546,000
5.25% to 9.5%, due to 1993	5,285,000	5,305,000
5% to 7.5%, due to 1994	5,310,000	5,495,000
	$15,305,000	$15,591,000

Calendar year maturities with respect to long-term notes and lease-purchase obligations, exclusive of any required prepayments of the bank notes as described above, are $4,961,000 in 1976, $8,982,000 in 1977, $9,014,000 in 1978, $9,042,000 in 1979 and $9,041,000 in 1980.

Certain buildings, offices and equipment are leased. Maximum annual rental commitments, after reduction for applicable sublease rentals of approximately $200,000 in 1975, $100,000 in each of the years 1976 through 1980 and $36,000 in 1981, under noncancellable long-term leases are approximately $500,000 for each of the years 1975 and 1976, $400,000 for each of the years 1977 and 1978, $300,000 for 1979, a total of $800,000 for the period 1980-1984, and nominal amounts for several years thereafter. Noncapitalized financing leases are not material.

8. Retirement plans

Several retirement plans, including profit sharing plans for certain salaried and hourly paid employees, are in effect. In addition, contributions based on hours worked are made under provisions of collective bargaining agreements covering certain hourly paid employees.

At December 31, 1974, the latest date for which data is available, the actuarially determined prior service pension costs were approximately $7,500,000 (including $4,200,000 relating to vested benefits) greater than the market value of the assets of the related retirement funds plus amounts accrued in the consolidated balance sheet.

The Employee Retirement Income Security Act of 1974 is not expected to increase significantly the Company's pension expense, vested benefits, or contributions in future years.

9. Litigation

On November 2, 1971, a predecessor corporation, referred to as Old Marmon, was merged into an inactive corporation (a wholly owned subsidiary of GL), now The Marmon Group, Inc. (Michigan). In connection with the merger, all outstanding common stock of Old Marmon owned by stockholders other than GL (approximately 9% of the outstanding stock) was called for redemption at $12 per share (total of $4,480,000). The liability ($170,000 at September 30, 1975 and December 31, 1974) as to the unredeemed shares of Old Marmon is included in accrued liabilities in the consolidated balance sheet. Differences ($2,000 in 1974, $38,000 in 1973 and $50,000 in 1972) between amounts paid on redemption and the liability established therefore in 1971 have been charged to retained earnings.

A legal action, purporting to be a class action, against "The Marmon Group, Inc." and certain former and present directors, was filed on October 27, 1972. This action requests (a) rescission of the 1971 merger described above and of a 1970 merger; (b) an accounting to Marmon for profits received by the defendants and for losses caused to Marmon by reason of the acts and wrongdoings alleged; (c) if the mergers cannot be rescinded, an award to the plaintiffs of $10,220,000 or such sum as the Court may find due; and (d) reimbursement of certain costs of the plaintiff. Discovery in this

action is close to completion. Counsel for Marmon is presently of the opinion that the action has no merit and that Marmon has, in any event, substantial meritorious defenses. Counsel is of the opinion that the probable outcome of the action will be favorable to Marmon and will have no material impact on Marmon's consolidated financial statements.

A consolidated amended complaint, which encompasses five actions filed in April and May 1975 has been filed against several defendants, including Marmon, and alleges a derivative claim for violations of the federal securities laws, a common law derivative claim, a class action claim under the federal securities laws and a common law class claim. The consolidated complaint alleges, among other things, that (1) there was a failure by defendant GL to disclose that at the time of the tender for effective control of Cerro, a merger was planned to give certain other defendants through GL, or otherwise, 100% ownership of Cerro, (2) the employment agreement with a former officer of Cerro (also named as defendant) was executed for the purposes of purchasing this individual's acquiescence in GL's purchase of effective control of Cerro, (3) the market price of Cerro stock was depressed through false earnings reports and (4) the failure to disclose all of the foregoing, among other things, in the tender offer circulars and related documents were violations of certain sections of the Securities Exchange Act of 1934 and also comprised a common law fraud. The relief sought includes, among other things, that (1) the defendants jointly and severally account to Cerro for amounts paid by Cerro to the former officer under the employment agreement mentioned above, (2) Marmon and other defendants be enjoined from voting Cerro common shares acquired in connection with the tender for a period of at least five years and (3) the plaintiff and the class be awarded compensatory damages "as have been sustained" in addition to plaintiff's costs, disbursements, fees, and such other relief as the court might deem appropriate. Extensive discovery is presently ongoing. Counsel for Marmon is presently of the opinion that the actions against Marmon have no merit and Marmon has, in any event, substantial meritorious defenses. Counsel is of the opinion that the probable outcome of the action will be favorable to Marmon and will ultimately have no material impact on the Marmon consolidated financial statements.

In September 1975 an action was commenced against several defendants, including Marmon, alleging that the 1974 tender offer for and the acquisition of certain shares of Cerro by GL was attributable to an alleged 1971 introduction, by the plaintiff, of a former officer of Cerro and a present director of Marmon, GL and Cerro. The complaint seeks judgment against the defendants, including Marmon, in the amount of $750,000. Discovery has commenced and answers have been filed on behalf of the defendants denying the substantive allegations of the complaint. In the opinion of counsel for the Company, the action is without merit and in any event the Company has substantial meritorious defenses. Counsel is of the opinion that the probable outcome of the action will be favorable to the Company and the case will ultimately have no material impact on the Marmon consolidated financial statements.

In addition to the matters discussed above, certain lawsuits against Marmon are being contested. Management believes that adequate allowances have been established for any liabilities which may result from these latter actions.

10. Proposed business combination

Cerro and Marmon have announced a proposed transaction pursuant to which Marmon will become a wholly owned subsidiary of Cerro-Marmon Corporation (which will be a subsidiary of GL). Pursuant to the proposed terms of the transaction, Marmon's stockholder's equity would be significantly reduced as the net result of the cancellation of the Cerro common stock held by Marmon (Notes F and 5) and a proposed capital contribution to Marmon by Cerro-Marmon of $25,000,000. Completion of the proposed transaction is subject to various approvals and conditions. See discussion under "The Business Combination" included elsewhere herein.

EXHIBIT A

AGREEMENT AND PLAN OF MERGER, dated as of January 15, 1976, by and between CERRO-MARMON CORPORATION, a Delaware corporation ("Cerro-Marmon"), and CERRO CORPORATION, a New York corporation ("Cerro"), originally formed under the name CERRO DE PASCO COPPER CORPORATION, said two corporations being hereinafter collectively referred to as the Constituent Corporations.

Simultaneously with the execution and delivery of this Agreement and Plan of Merger, Cerro-Marmon, The Marmon Group, Inc. (Michigan), a Delaware corporation ("Marmon"), GL Corporation, a Delaware corporation ("GL") and Cerro are entering into an Exchange Agreement, dated as of January 15, 1976 (the "Exchange Agreement"), setting forth certain representations, warranties and covenants in connection with the merger of Cerro into Cerro-Marmon pursuant to this Agreement and Plan of Merger ("the merger").

The authorized stock of Cerro consists of (a) 1,000,000 shares of Preferred Stock, without par value, none of which is outstanding, and (b) 15,000,000 shares of Common Stock, par value $3.33⅓ per share, of which at December 15, 1975, 7,911,267 shares were issued and outstanding and entitled to one vote per share, 868,387 shares were held in the treasury of Cerro and 45,184 shares were reserved for the exercise of stock options granted pursuant to stock option plans of Cerro. The number of outstanding shares of Common Stock of Cerro is subject to change prior to the effective date of the merger by reason of the issuance of shares upon the exercise of such stock options.

The authorized stock of Cerro-Marmon consists of (a) 10,000,000 shares of Preferred Stock, $1.00 par value per share, none of which is issued and outstanding and (b) 10,000,000 shares of Common Stock, $1.00 par value per share, none of which is issued and outstanding; however, prior to the effective time of the merger, the number of outstanding shares of Common Stock of Cerro-Marmon will be 5,000,000 shares by reason of the issuance to GL of 5,000,000 shares of Common Stock of Cerro-Marmon in exchange for all of the outstanding capital stock of Marmon as provided in the Exchange Agreement.

The respective Boards of Directors of Cerro-Marmon and Cerro deem the transactions contemplated herein and the Exchange Agreement desirable and in the best interests of their respective stockholders. The respective Boards of Directors of Cerro-Marmon and Cerro have, by resolutions duly adopted, approved and adopted this Agreement and Plan of Merger and the Exchange Agreement and directed that they be submitted to a vote of the respective stockholders of said two corporations.

In consideration of the premises and the mutual covenants and agreements herein contained, and for the purpose of prescribing the terms and conditions of the merger, the mode of carrying the same into effect, the manner and basis of converting or exchanging the shares of each of the Constituent Corporations into or for shares of Cerro-Marmon (sometimes hereinafter referred to as "the Surviving Corporation"), and such other details and provisions as are deemed necessary or desirable, the parties hereto have agreed and do hereby agree, subject to the terms and conditions hereinafter set forth, as follows:

ARTICLE I

In accordance with the provisions of the General Corporation Law of the State of Delaware and the Business Corporation Law of the State of New York, Cerro shall be merged with and into Cerro-Marmon, which shall be, and is herein referred to as, the Surviving Corporation and the name of which shall continue to be Cerro-Marmon Corporation.

ARTICLE II

Except as herein specifically set forth, the identity, existence, purposes, powers, objects, franchises, privileges, rights and immunities of Cerro-Marmon shall continue unaffected and unimpaired

by the merger and the corporate franchises, existence and rights of Cerro shall be merged into Cerro-Marmon and Cerro-Marmon shall, as the Surviving Corporation, be fully vested therewith. The separate existence and corporate organization of Cerro, except insofar as they may be continued by statute, shall cease when the merger shall become effective.

This Agreement and Plan of Merger and the merger shall not become effective until, and shall become effective at, the time of the close of business of Cerro-Marmon on the day in which the taking of the following actions shall have been completed: (i) the certificate of merger required by Section 907 of the Business Corporation Law of the State of New York in connection with the merger shall have been signed and verified on behalf of each of the Constituent Corporations and such certificate of merger, so signed and verified, with the consent to the merger of the New York State Tax Commission attached thereto, shall have been filed by the Department of State of the State of New York and (ii) this Agreement and Plan of Merger, shall have been adopted, certified, executed, acknowledged and filed in accordance with the General Corporation Law of the State of Delaware. The time when this Agreement and Plan of Merger and the merger shall become effective as aforesaid is herein called the effective time of the merger.

ARTICLE III

At the effective time of the merger the Certificate of Incorporation of Cerro-Marmon, the Surviving Corporation, shall continue to be its Certificate of Incorporation until changed as provided by law.

ARTICLE IV

Each share of the Common Stock, par value $3.33⅓ per share, of Cerro which shall be outstanding immediately prior to the effective time of the merger (except any shares of such Common Stock which shall then be held in the treasury of Cerro and except any shares of Common Stock which shall be held by Marmon) shall, by virtue of the merger and without any action on the part of the holder thereof, be converted into and exchanged for one share of the $2.25 Cumulative Series A Preferred Stock of Cerro-Marmon ("Series A Preferred Stock"). Each holder of any of such shares of the Common Stock of Cerro shall, after the effective time of the merger, be entitled on the surrender by such holder to Cerro-Marmon for cancellation of the certificate or certificates representing the share or shares thereof held by such holder to receive in exchange therefor a certificate or certificates representing the same number of shares of the Series A Preferred Stock of Cerro-Marmon. Until so surrendered, each such outstanding certificate which immediately prior to the effective time of the merger represented shares of the Common Stock of Cerro shall be deemed for all corporate purposes, subject to the provisions of this Article IV, to evidence the ownership of the shares of the Series A Preferred Stock of Cerro-Marmon for which such shares shall have been so exchanged. Unless and until any such certificate shall be so surrendered, dividends payable to the holders of record of shares of the Series A Preferred Stock of Cerro-Marmon shall not be paid to the holder of such certificate in respect of the shares of such Series A Preferred Stock represented thereby, but in the case of each such certificate which shall be surrendered as aforesaid there shall be paid to the record holder of the certificate for shares of the Series A Preferred Stock of Cerro-Marmon issued in exchange therefor (a) the amount of the dividends which theretofore shall have become payable with respect to the number of shares of the Series A Preferred Stock represented by the certificate issued in exchange upon such surrender, such amount to be paid on the surrender of such certificate, but without interest, and (b) the amount of any dividend with respect to such number of shares, the record date for the determination of the stockholders entitled to which shall be prior to the surrender of such certificate but the payment date of which shall be subsequent to such surrender, such amount to be paid on such payment date.

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At the effective time of the merger all shares of the Common Stock of Cerro that shall then be held by Cerro in its treasury and all shares of the Common Stock of Cerro held by Marmon immediately prior to the effective time of the merger shall cease to exist and all certificates representing such shares shall be canceled.

Each share of Common Stock, par value $1.00 per share, of Cerro-Marmon which shall be outstanding at the effective time of the merger shall remain unchanged and unaffected by the merger and shall continue as one share of Common Stock, par value $1.00 per share, of Cerro-Marmon, the Surviving Corporation.

ARTICLE V

At the effective time of the merger all and singular the rights, privileges, powers and franchises, as well of a public as of a private nature, and all the property, real, personal and mixed, of each of the Constituent Corporations, and all debts due to either of them on whatever account, including subscriptions to shares and all other things in action, or belonging to either of them, shall be taken and deemed to be transferred to, and shall be vested in, the Surviving Corporation without further act or deed; and all property, rights, privileges, powers and franchises and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the Constituent Corporations, and the title to any real estate, whether vested by deed or otherwise in either of the Constituent Corporations, shall not revert or be in any way impaired by reason of the merger; but the Surviving Corporation shall thenceforth be liable for all debts, liabilities, obligations, duties and penalties of each of the Constituent Corporations, and all said debts, liabilities, obligations, duties and penalties shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities, obligations, duties and penalties had been incurred or contracted by it. No liability or obligation due at the effective time of the merger, or then to become due, or any claim or demand for any cause then existing against either of the Constituent Corporations, or any shareholder, officer or director thereof, shall be released or impaired by the merger, and all rights of creditors and all liens upon property of either of the Constituent Corporations shall be preserved unimpaired.

ARTICLE VI

Each option which has been granted under Cerro's Stock Option Plan of 1970 or Cerro's Alternate Stock Option Plan of 1971, as amended, and which shall be in effect immediately prior to the effective time of the merger shall continue in effect upon the merger becoming effective, subject to the provisions of the Plan under which it was issued, except that such option shall, upon the merger becoming effective, cover a number of shares of the Series A Preferred Stock of Cerro-Marmon equal to the number of shares of the Common Stock of Cerro covered by such option immediately prior to the effective time of the merger.

ARTICLE VII

Upon the effective time of the merger, the assets, liabilities, reserves and accounts of the Constituent Corporations shall be entered on the books of the Surviving Corporation at the amounts at which they shall then be carried on the respective books of the Constituent Corporations subject to such adjustments, if any, as may be required to give effect to the merger, and, subject to such action as may be taken by the Board of Directors of the Surviving Corporation in accordance with generally accepted accounting principles.

ARTICLE VIII

From time to time, as and when requested by the Surviving Corporation, or by its successors or assigns, Cerro shall execute and deliver or cause to be executed and delivered all such deeds and other instruments, and shall take or cause to be taken all such further or other action, as the Surviving

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Corporation, or its successors or assigns, may deem necessary or desirable in order to vest in and confirm to the Surviving Corporation, and its successors and assigns, title to and possession of all the property, rights, privileges, powers and franchises referred to in Article V hereof and otherwise to carry out the intent and purposes of this Agreement and Plan of Merger.

ARTICLE IX

(a) Subject to the provisions of this Article IX, this Agreement and Plan of Merger shall be submitted to the stockholders of Cerro, at a meeting of the stockholders of Cerro to be held promptly, and, if adopted by the vote of the stockholders of Cerro required by statute and by the Exchange Agreement, shall be made effective as soon as practicable thereafter in the manner provided in Article II hereof.

(b) Subject to the provisions of this Article IX, this Agreement and Plan of Merger shall be submitted to the stockholder of Cerro-Marmon and if adopted by such stockholder as required by law shall be made effective as soon as practicable thereafter in the manner provided in Article II hereof.

(c) This Agreement and Plan of Merger may be terminated by action of the Board of Directors of either of the Constituent Corporations at any time prior to the time (the "Filing Time") when the certificate of merger referred to in Article II hereof shall be filed by the Department of State of the State of New York or when this Agreement and Plan of Merger shall be filed with the Secretary of State of the State of Delaware, whichever shall first occur, if

(1) the Exchange Agreement shall be abandoned in accordance with its terms; or

(2) the merger shall not have become effective by March 31, 1976, or by such later date (not later than April 30, 1976) as shall have been approved by the Boards of Directors of both the Constituent Corporations.

(d) This Agreement and Plan of Merger may be terminated at any time prior to the Filing Time by action of the Board of Directors of Cerro-Marmon, if

Cerro shall fail to comply in any material respect with any of its agreements contained herein or in the Exchange Agreement, any of the representations or warranties of Cerro contained in the Exchange Agreement shall be false in any material respect, or any condition for the benefit of Cerro-Marmon, in the Exchange Agreement shall not have been satisfied.

(e) This Agreement and Plan of Merger may be terminated at any time prior to the Filing Time by action of the Board of Directors of Cerro, if

Cerro-Marmon shall fail to comply in any material respect with any of its agreements contained herein, or Cerro-Marmon, Marmon or GL shall fail to comply in any material respect with any of their respective agreements contained in the Exchange Agreement, any of the representations or warranties of Cerro-Marmon, Marmon or GL contained in the Exchange Agreement shall be false in any material respect, or any condition, for the benefit of Cerro, in the Exchange Agreement shall not have been satisfied.

(f) This Agreement and Plan of Merger may be terminated at any time prior to the Filing Time by mutual consent of the Constituent Corporations, expressed by action of their respective Boards of Directors.

ARTICLE X

For the convenience of the parties hereto and to facilitate the filing and recording of this Agreement and Plan of Merger, any number of counterparts hereof may be executed, and each such counterpart shall be deemed to be an original instrument.

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At any time prior to the Filing Time the parties hereto may, by written agreement, (a) extend the time for the performance of any of the obligations or other acts of the parties hereto, (b) waive any inaccuracies in the representations and warranties contained in this Agreement and Plan of Merger or in the Exchange Agreement or in any document delivered pursuant to either such agreement, (c) waive compliance with any of the covenants or agreements contained in this Agreement and Plan of Merger or in the Exchange Agreement and (d) change any of the provisions hereof in such manner as may be required in order to obtain the ruling of the Internal Revenue Service referred to in the Exchange Agreement. Any agreement on the part of either party hereto for any such extension, waiver or change shall be validly and sufficiently authorized for the purposes of this Agreement and Plan of Merger if set forth in an instrument in writing signed on behalf of such party.

This Agreement and Plan of Merger shall be governed by and construed in accordance with the laws of the State of Delaware except insofar as the internal law of the State of New York shall mandatorily apply to the merger.

This Agreement and Plan of Merger cannot be altered or amended except pursuant to an instrument in writing signed on behalf of the parties hereto.

IN WITNESS WHEREOF each of the Constituent Corporations has caused this Agreement and Plan of Merger to be signed in its corporate name by its Chairman of the Board or President or one of its Vice Presidents and its Secretary or one of its Assistant Secretaries and its corporate seal to be affixed hereto, all as of the date first above written.

CERRO-MARMON CORPORATION

By JAY A. PRITZKER
Chairman of the Board

[CORPORATE SEAL]

By KENNETH D. ARCHER
Secretary

CERRO CORPORATION

By JAY A. PRITZKER
Chairman of the Board

[CORPORATE SEAL]

By KENNETH D. ARCHER
Secretary

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STATE OF NEW YORK
COUNTY OF NEW YORK } ss.:

BE IT REMEMBERED that on this 21st day of January, 1976, personally came before me JAY A. PRITZKER and KENNETH D. ARCHER, the Chairman of the Board and Secretary, respectively, of CERRO-MARMON CORPORATION, one of the corporations that is a party to the foregoing Agreement and Plan of Merger, known by me personally to be such, and acknowledged that they signed said Agreement and Plan of Merger, that said Agreement and Plan of Merger was the act, deed and agreement of CERRO-MARMON CORPORATION and that the facts stated therein in respect of CERRO-MARMON CORPORATION are true.

GIVEN under my hand and seal of office the day and year aforesaid.

EILEEN M. WARD

[NOTARIAL SEAL]

EILEEN M. WARD
Notary Public, State of New York
No. 31-4518764
Qualified in New York County
Commission Expires March 30, 1976

STATE OF NEW YORK
COUNTY OF NEW YORK } ss.:

BE IT REMEMBERED that on this 21st day of January, 1976, personally came before me JAY A. PRITZKER and KENNETH D. ARCHER, the Chairman of the Board and Secretary, respectively, of CERRO CORPORATION, one of the corporations that is a party to the foregoing Agreement and Plan of Merger, known by me personally to be such, and acknowledged that they signed said Agreement and Plan of Merger, that said Agreement and Plan of Merger was the act, deed and agreement of CERRO CORPORATION and that the facts stated therein in respect of CERRO CORPORATION are true.

GIVEN under my hand and seal of office the day and year aforesaid.

EILEEN M. WARD

[NOTARIAL SEAL]

EILEEN M. WARD
Notary Public, State of New York
No. 31-4518764
Qualified in New York County
Commission Expires March 30, 1976

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EXHIBIT B

EXCHANGE AGREEMENT

THIS AGREEMENT, dated as of January 15, 1976, among GL CORPORATION, a Delaware corporation ("GL"), THE MARMON GROUP, INC., (Michigan), a Delaware corporation ("Marmon"), CERRO CORPORATION, a New York corporation ("Cerro") and CERRO-MARMON CORPORATION, a Delaware corporation ("Cerro-Marmon").

WITNESSETH:

ARTICLE I

AGREEMENT TO EFFECT TRANSACTIONS AND OTHER MATTERS

SECTION 1.1. Subject to the terms and conditions of this Agreement and of the other agreements referred to herein, the parties agree to complete the following transactions (collectively the "Transactions" or singly the "Transaction") in as close a sequence as possible and as soon as practicable, and agree that the first Transaction set forth in Section 1.1(a) shall be completed prior to the completion of the second Transaction set forth in Section 1.1(b):

1.1(a) *Exchange of Stock.* Cerro-Marmon will issue and deliver to GL 5,000,000 shares of Cerro-Marmon Common Stock in exchange for all of the outstanding capital stock of Marmon, as a result of which Marmon will become a wholly owned subsidiary of Cerro-Marmon.

1.1(b) *Merger of Cerro Into Cerro-Marmon.* Cerro will merge with and into Cerro-Marmon pursuant to the Agreement and Plan of Merger (the "Merger Agreement") dated the date hereof between Cerro and Cerro-Marmon at the date and time therein specified subject to the terms and conditions of the Merger Agreement and this Agreement.

SECTION 1.2. Cerro-Marmon's Board of Directors will have adopted prior to completion of the Transactions resolutions substantially in the form of Appendix 2 attached hereto, to be effective upon the effectiveness of the merger of Cerro into Cerro-Marmon (the "merger"), and providing for a series of Preferred Stock of Cerro-Marmon in accordance with Article Fourth of its Certificate of Incorporation, as the same will have been amended prior to completion of the transactions in the form attached hereto as Appendix 1, to be known as its $2.25 Cumulative Series A Preferred Stock (the "Series A Preferred Stock") and will duly file and record a certified copy of such resolutions in accordance with the General Corporation Law of the State of Delaware.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

SECTION 2.1. Marmon and Cerro each represents and warrants to the other that (except as contemplated or permitted by this Agreement) at the time of execution and delivery of this Agreement and continuously until the completion of the Transactions:

2.1(a) *Organization, Good Standing and Qualification to do Business.* It is and will be a corporation validly organized, legally existing and in good standing under the laws of its state of incorporation with full power and authority to own and lease its properties and to conduct its business as it is being conducted, and is and will be legally qualified to transact business as a foreign corporation in good standing in each other jurisdiction in which its properties are such as to require that it be so qualified. Subject to the approval required of its stockholders it has and will have full corporate power and authority to enter into and perform this Agreement and, in the case of Cerro, the Merger Agreement and to carry out the Transactions to which it is a party.

2.1(b) *Capital Stock.* Its authorized, issued, outstanding and treasury shares as of September 30, 1975, were as follows:

	Authorized	Issued	Outstanding	Treasury
In the case of Marmon				
Common Stock, $1.00 par value	1,000	1,000	1,000	None
In the case of Cerro				
Common Stock, $3.33⅓ par value	15,000,000	8,779,654	7,911,267	868,387
Preferred Stock, no par value	1,000,000	None	None	None

All of its outstanding shares are legally issued, fully paid and non-assessable and no personal liability will attach to the holders thereof, except that in the case of Cerro the laws of the State of New York impose personal liability on the ten largest shareholders, under certain circumstances not now existing, for employees' wages under Section 630 of the Business Corporation Law of the State of New York. As of September 30, 1975 there were no outstanding warrants, options or other rights to acquire from it any of its shares except options outstanding pursuant to employee stock option plans for not more than 45,184 shares of Common Stock in the case of Cerro.

2.1(c) *Valid Existence of Subsidiaries.* Each of its subsidiaries (which for the purposes of this Agreement is defined as a corporation which owns property or conducts business and 50% or more of the outstanding capital stock of which is owned, directly or indirectly, by it), is and will be a corporation validly organized, legally existing and in good standing under the laws of its jurisdiction of incorporation with full power and authority to own and lease its properties and to conduct its business as it is being conducted, and each of its domestic subsidiaries is and will be legally qualified to transact business as a foreign corporation in good standing in each other jurisdiction in which its properties are such as to require that it be so qualified.

2.1(d) *Ownership of Subsidiaries' Stock.* Except with respect to certain real estate and coal mining corporations, in the case of Cerro, all the issued and outstanding capital stock of each of its subsidiaries owned by it directly or indirectly is owned free and clear of any liens, encumbrances, claims or equities; all of the outstanding capital stock of each of its subsidiaries is legally issued, fully paid and non-assessable (except for any applicable constitutional or statutory liability for wage or similar claims); and except in the case of Cerro's subsidiary, ICX Industries, Inc., there are no outstanding warrants, options or other rights to acquire from it or such subsidiary any of the shares of any subsidiary.

2.1(e) *Financial Statements.* Its historical financial statements, including the consolidated statement of earnings (loss) for the five years and nine months ended September 30, 1975, and the consolidated balance sheets as of December 31, 1974 and September 30, 1975, and the related notes to all of said financial statements which will be contained in Cerro's definitive proxy statement, which will form a part of Cerro-Marmon's Registration Statement on Form S-14 (on the effective date thereof), regarding the Transactions (the "Proxy Statement") will present fairly the consolidated financial position of it and its consolidated subsidiaries and the consolidated results of their operations as of and for the periods ended on the dates specified in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods covered except as otherwise stated therein or in the reports of the independent accountants included in the Proxy Statement.

2.1(f) *No Material Change.* Except in the case of Cerro's wholly owned subsidiary, Leadership Housing, Inc., since the date of its latest historical consolidated financial statements contained in the Proxy Statement (the "Latest Financial Statements") and except as contemplated or permitted by this Agreement, or as set forth in writing to the other party, there has not and shall not have been:

(i) Any change in the condition, financial or otherwise, of it and its subsidiaries taken as a whole, other than changes which have occurred in the ordinary course of business and have not been materially adverse;

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(ii) Any sale or other disposition by it or any of its subsidiaries of its assets other than sales or other dispositions in the ordinary course of business, which, in the aggregate, are not material;

(iii) Any event, or any transaction, contract or obligation entered into or incurred by it or any of its subsidiaries, other than those in the ordinary course of business which, in the aggregate, are not material;

(iv) Any declaration or payment of any dividend or other distribution on its shares except, in the case of Cerro, regular quarterly cash dividends, at the annual rate of $1.20 per share of Common Stock of Cerro;

(v) Any disposition or acquisition by it of, or any grant by it, of any warrant, option or other right to acquire, any of its shares, and

(vi) Any damage, destruction or loss (whether or not insured) materially and adversely affecting the assets, business or prospects of it and its subsidiaries taken as a whole.

2.1(g) *Taxes.* It and its subsidiaries have filed all income tax returns required to be filed, and have paid all taxes shown by such returns to be payable. The final results of examinations of such income tax returns are adequately reflected in the financial statements referred to in Section 2.1(e). The provisions for all income taxes reflected in its Latest Financial Statements are adequate to cover all of its and its consolidated subsidiaries' unpaid liabilities for income taxes accrued through the date of its Latest Financial Statements.

2.1(h) *Information in Proxy Statement.* None of the information relating to it which has been or is to be furnished by or on behalf of it or its management for inclusion in the Proxy Statement to be furnished the stockholders of Cerro in connection with the Transactions is or will be false or misleading in any material respect or omits or will omit to state any material fact necessary to make the statements therein not misleading in any material respect.

2.1(i) *Litigation.* Except as otherwise disclosed in the Proxy Statement, there is no suit, proceeding or investigation pending or, to its knowledge, threatened against it or any of its subsidiaries in which an unfavorable decision is, in the opinion of Cerro or Marmon, likely to (a) affect materially and adversely the business, operations or prospects of it and its subsidiaries taken as a whole, or (b) result in an unfavorable judicial determination with respect to the validity of this Agreement or any of the Transactions or of any action taken or to be taken in accordance with or in connection with this Agreement or any of the Transactions.

2.1(j) *Franchises, Etc.* It and each of its subsidiaries has all franchises, concessions, permits, licenses, orders or approvals of any Federal, state, local or foreign governmental regulatory body required in order to permit it or such subsidiary to carry on its business as presently conducted; all such franchises, concessions, permits, licenses, orders and approvals are in full force and effect and no suspension or cancellation of any of them is threatened; and except as otherwise disclosed to the other party in writing the consummation of the Transactions will not affect the validity or effectiveness of, and will not require the consent or approval of any party to, or any other person or governmental agency having jurisdiction of, any such franchise, concession, permit, license, order or approval.

2.1(k) *Compliance.* The Transactions have been duly authorized by its board of directors, and subject to the necessary approval by its stockholders, the completion of the Transactions will not result in a breach of, or constitute a default or result in an acceleration of an obligation under its Certificate of Incorporation or By-laws, or any agreement, indenture, loan agreement, lease, license, other instrument, judgment, decree, rule or order to or by which it or any of its subsidiaries is a party or is bound or to which any of its or their assets is subject, which breach, default or acceleration would have a materially adverse effect upon the financial condition, business or pros-

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pects of it and its subsidiaries taken as a whole. Upon completion of the Transactions neither it nor any subsidiary nor, to its knowledge, any other party thereto, will have breached, or will be in default in any material respect under any agreement, indenture, loan agreement, lease, license or other instrument, which breach or default would have a materially adverse effect upon the financial condition, business or prospects of it and its subsidiaries taken as a whole.

2.1(l) *Employee Benefit Plans.* Neither it nor any of its subsidiaries is or will be a party to or bound by any pension, retirement, profit sharing, deferred compensation, stock option, stock or cash bonus or similar plan for the benefit of any of its officers or employees except the plans referred to in the Proxy Statement or otherwise heretofore disclosed in writing to the other, and neither it nor any of its domestic consolidated subsidiaries is or will be a party to any contracts of employment with directors or officers other than (i) oral contracts which may be terminated by the employer without penalty on not more than 30 days notice, (ii) contracts referred to in the Proxy Statement and (iii) contracts heretofore disclosed in writing to the other.

2.1(m) *Liability for Finders' Fees.* No agent or broker or other person acting pursuant to its authority will be entitled to make any claims against any party to this Agreement for any finders' fee or, similar fee in connection with the Transactions.

SECTION 2.2. GL represents and warrants to Cerro and Cerro-Marmon that, at the time of execution and delivery of this Agreement and except as provided in Section 2.2(e) below, continuously until the completion of the Transactions:

2.2(a) *Organization, Good Standing and Qualification to do Business.* It is and will be a corporation validly organized, legally existing and in good standing under the laws of its state of incorporation. Subject to the approval required of its stockholders, it has and will have full corporate power and authority to enter into and perform this Agreement and to carry out the Transaction to which it is a party.

2.2(b) *Capital Stock of Marmon.* All of the shares of Marmon which are to be transferred to Cerro-Marmon pursuant to Section 1.1(a) hereof are and will be owned by GL free and clear of any liens, encumbrances, claims or equities, and are and will be legally issued, fully paid and non-assessable, and there are and will then be no outstanding warrants, options or other rights to acquire from GL or Marmon any shares of stock of Marmon or any securities convertible into such stock.

2.2(c) *Compliance.* The Transactions have been duly authorized by its Board of Directors, and, subject to the approval of its stockholders, the completion of the Transactions will not result in a breach of or constitute a default under or result in an acceleration of an obligation under its Certificate of Incorporation or By-laws, or any agreement, indenture, loan agreement, lease, license, other instrument, judgment, decree, rule or order to or by which it or any of its subsidiaries is a party or is bound or to which any of its or their assets is subject.

2.2(d) *Information in Proxy Statement.* None of the information relating to it which has been or is to be furnished by or on behalf of it or its management for inclusion in the Proxy Statement is or will be false or misleading in any material respect or omits or will omit to state any fact necessary to make the statements therein not misleading in any material respect.

2.2(e) *Representations and Warranties of Marmon.* The representations and warranties of Marmon contained in Section 2.01 hereof are in all material respects true and correct. The representation and warranty of GL contained in this Section 2.2(e) shall, notwithstanding the provisions of this Agreement, survive the completion of the Transactions for a period of one year.

2.2(f) *Liability for Finders' Fees.* No agent or broker or other person acting pursuant to its authority will be entitled to make any claims against any party to this Agreement for any finders' fee or similar other fee in connection with the Transactions.

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SECTION 2.3. Cerro-Marmon represents and warrants to GL and Marmon that:

2.3(a) *Organization, Good Standing and Qualification to do Business.* At the time of execution and delivery of this Agreement and continuously until the completion of the Transactions and will be a corporation validly organized, legally existing and in good standing under the laws of Delaware with full power and authority to own and lease its and Cerro's properties and to conduct its and Cerro's business as such are being conducted, and is and will be legally qualified to transact business as a foreign corporation in good standing in each other jurisdiction in which its business and properties are such as to require that it be so qualified and will use its best efforts to qualify to do business in each and every jurisdiction in which Cerro is so qualified. Subject to the approval required of its stockholder, it has and will have full corporate power and authority to enter into and perform this Agreement and the Merger Agreement and to carry out the Transactions to which it is a party.

2.3(b) *Capital Stock.* Immediately prior to consummation of the first Transaction its authorized, issued, outstanding and treasury shares will be as follows:

	Authorized	Issued	Outstanding	Treasury
Common Stock, $1.00 par value	10,000,000	None	None	None
Preferred Stock, $1.00 par value	10,000,000	None	None	None

2.3(c) *Compliance.* The Transactions have been duly authorized by its Board of Directors, and, subject to the approval of GL, as the sole stockholder of Cerro-Marmon after the first Transaction, the completion of the Transactions will not result in a breach of, or constitute a default or result in an acceleration of an obligation under its Certificate of Incorporation or By-laws, or any agreement, indenture, loan agreement, lease, license, other instrument, judgment, decree, rule or order to or by which it is a party or is bound or to which any of its assets is subject.

ARTICLE III

COVENANTS

SECTION 3.1. Cerro hereby agrees that:

3.1(a) *Meeting of Cerro Stockholders.* Cerro shall duly call a special meeting of its stockholders to be held at the earliest practicable date for the purpose of voting on and adopting this Agreement and the Merger Agreement.

3.1(b) *Stock Exchange Listing.* Cerro shall cause Cerro-Marmon promptly to use its best efforts to obtain an opinion of eligibility for listing from the American Stock Exchange, to make application for, and to use its best efforts to obtain, the listing on the American Stock Exchange, upon notice of issuance, and to make application for the registration under the Securities Exchange Act of 1934, of the shares of the Series A Preferred Stock to be issued in connection with the merger and the shares of such Stock to be issuable on the exercise of the options granted under the Stock Option Plans of Cerro.

3.1(c) *Registration Under Securities Act of 1933.* The shares of Series A Preferred Stock issuable pursuant to the Merger Agreement will be registered by Cerro-Marmon under the Securities Act of 1933.

SECTION 3.2. GL and Marmon hereby agree that:

3.2(a) *Vote by Marmon on the Merger.* At the meeting referred to in Section 3.1(a) hereof, Marmon shall vote all of the shares of Cerro Common Stock held by it in favor of the adoption of the Transactions only if a majority of the other shares of Cerro Common Stock voted

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at such meeting are voted in favor of the adoption thereof. A representative of Marmon will be present at such meeting for quorum purposes and will be duly authorized to vote all of the shares of Cerro Common Stock held by Marmon as provided in this Section 3.2(a).

SECTION 3.3. The parties hereto mutually agree that:

3.3(a) *Conduct of Business.* From and after the execution and delivery of this Agreement and until the completion of the Transactions, neither Marmon nor Cerro or their respective subsidiaries shall, without the prior written consent of the other, engage in any activities or transactions which shall be outside the ordinary course of their respective businesses as conducted at the date hereof and which in the aggregate shall be material to them as a group.

3.3(b) *Ownership of Cerro Common Stock.* Immediately prior to the Filing Time (as defined in the Merger Agreement, hereinafter referred to as the "Filing Time") Marmon shall own not less than 3,586,297 shares of Cerro Common Stock.

3.3(c) *Notice.* Marmon and Cerro shall each give prompt notice to the other of (*i*) any notice of, or other communcation relating to, a default or an event which with notice or lapse of time or both would become a default if received by Marmon or Cerro or any of either's subsidiaries subsequent to the date of this Agreement and prior to the completion of the Transactions under any indenture, instrument or agreement to which Marmon or Cerro or any of either's subsidiaries is a party or by or to which Marmon or Cerro or any of either's subsidiaries is bound or subject, (*ii*) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement or the Merger Agreement, and (*iii*) any matter which, if it had occurred prior to the date hereof, would have been required to be set forth in this Agreement or disclosed to Marmon or Cerro.

3.3(d) *Capital Stock.* Between the date hereof and completion of the Transactions, unless the prior written consent of the other is first obtained, neither Marmon nor Cerro nor any of their subsidiaries will (*i*) make any change in its authorized capital stock, (*ii*) issue any stock options, warrants, or other rights calling for the issue, transfer, sale or delivery of its capital stock or other securities, (*iii*) declare or pay any stock dividend or effect any recapitalization, split-up, combination, exchange of shares or other reclassification in respect of its outstanding shares of capital stock, (*iv*) issue, transfer, sell or deliver any shares of its capital stock (or securities convertible into or exchangeable, with or without additional consideration, for such capital stock) except upon the exercise of stock options previously granted, (*v*) purchase or otherwise acquire for a consideration any outstanding shares of its capital stock, or (*vi*) declare, pay or set apart for payment in respect of its capital stock any dividends or other distribution or payments except cash dividends by Cerro on its Common Stock at a rate not greater than $.30 per shares per quarter.

3.3(e) *Exchange of Information.* Until the completion of the Transactions or until the abandonment of the Transactions as permitted by this Agreement, each party will give to the other and its representatives full access, during normal business hours and upon reasonable notice, to all properties, operations, books, contracts, documents and records of it and its subsidiaries, and will furnish to the other party such financial and other information concerning it and its subsidiaries as a party or its representatives may from time to time reasonably request, provided, however, that such other party will hold in confidence all non-public documents and information so furnished, and if the Transactions are abandoned for any reason, will thereafter maintain such confidence and upon request promptly return all of such documents.

3.3(f) *Approvals.* Each of the parties will comply with applicable securities laws and obtain such permits, orders and consents, if any, as in the opinion of counsel for a party may be necessary or proper in connection with the Transactions.

3.3(g) *Payment of Expenses.* If the Transactions shall be abandoned as permitted by this Agreement, each party will pay all of its own expenses incurred in connection with the Transactions to the time of abandonment.

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3.3(h) *Cancellation of Cerro Common Stock Owned by Marmon.* At the effective time of the merger (as defined in the Merger Agreement) all shares (and the certificates representing such shares) of the Common Stock of Cerro held by Marmon immediately prior to the effective time of the merger shall be canceled.

3.3(i) *Dividend on Consummation of the Transactions.* To compensate all the holders of Cerro common stock for the fact that, if the Transactions are consummated, Cerro stockholders will not receive a regular cash dividend for the quarter beginning January 1, 1976, Cerro-Marmon hereby agrees to pay to the stockholders of record of Cerro, or their assigns, on the date of consummation of the Transactions an amount equal to a quarterly dividend of $.30 per share for Cerro common stock pro rated from January 1, 1976 to the date of such consummation, on the basis of the actual number of days elapsed in the quarter ended March 31, 1976. Payment will be made to (a) Marmon as the record holder of Cerro common stock as soon as practical after consummation, (b) dissenters when they submit their certificates for shares of Cerro common stock to Cerro's transfer agent for notation pursuant to Section 623 of the New York Business Corporation Law and (c) the other holders of Cerro common stock upon surrender and exchange by such holder of certificates representing shares of Cerro common stock for certificates representing shares of Series A Preferred Stock (payment being made to the recipient of the Series A Preferred Stock).

ARTICLE IV

CONDITIONS

SECTION 4.1. None of the parties shall be obligated to complete the Transactions unless each of the following conditions shall have been fulfilled prior to the Filing Time:

4.1(a) *No Prior Breach of this Agreement.* All of the representations and warranties of the parties contained in this Agreement shall be true in all material respects at and as of the Filing Time, with the same force and effect as if they had been made at and as of such Time (except for changes contemplated or permitted by this Agreement), and each party shall have performed all of its agreements contained in this Agreement to be performed by it at or prior to such Time; immediately before the Filing Time, each party shall have received from the other party certificates dated that day and signed by the Chairman, the President or any Vice President of such party stating that as to such party the conditions set forth in this Section 4.1(a) have been satisfied.

4.1(b) *Stockholder Approval.* All approvals of the Transactions by the respective stockholders of the parties hereto as required by law shall have been obtained.

4.1(c) *Time Limit.* The Transactions shall have been completed not later than March 31, 1976, or such later date (not later than April 30, 1976) as shall have been agreed upon in writing by the parties hereto.

4.1(d) *Opinions.* The following legal opinions shall have been delivered to the parties:

(i) The opinion of Messrs. Alexander & Green, counsel to Cerro and Cerro-Marmon, in form and substance satisfactory to GL and Marmon, to the effect that:

(A) Cerro is a corporation validly organized, legally existing and in good standing under the laws of the State of New York, with full corporate powers and authority under the laws of such State to own its properties and conduct its business as it is then being conducted;

(B) the outstanding shares of Cerro are legally issued, fully paid and non-assessable, and no personal liability will attach to the holders thereof under the laws of the State of New York, except for personal liability of the ten largest stockholders, under certain conditions not now existing, for employees' wages under Section 630 of the Business Corporation Law of the State of New York;

(C) the Series A Preferred Stock and the Common Stock of Cerro-Marmon have been duly authorized and when certificates therefor have been duly executed and delivered

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by Cerro-Marmon in connection with the Transactions will have been legally and validly issued and will be fully paid and non-assessable, and no personal liability will attach to the holders of such shares under the laws of the State of Delaware;

(D) Cerro-Marmon is a corporation validly organized, legally existing and in good standing under the laws of the State of Delaware, with full corporate power and authority under the laws of such State to carry out the Transactions pursuant to this Agreement and to conduct its business as it will be conducted immediately after completion of the Transactions;

(E) all necessary corporate action has been taken by Cerro and Cerro-Marmon and their respective boards of directors and stockholders in connection with the Transactions; and this Agreement and the Merger Agreement have been duly authorized, executed and delivered by Cerro and Cerro-Marmon;

(F) to the best of such counsel's knowledge, the execution, delivery and performance by Cerro and Cerro-Marmon of this Agreement and the Merger Agreement and the completion of the Transactions will not result in a breach of or constitute an event of default or result in the acceleration of an obligation under any agreement or other document to which Cerro or Cerro-Marmon is a party or by which either is bound excluding, in all cases herein referred to, matters which in the aggregate will not have a materially adverse effect upon the financial condition of Cerro and its subsidiaries taken as a whole;

(G) except for the litigation heretofore disclosed to GL and Marmon in writing, or described in the Proxy Statement, there is no suit, proceeding, or investigation pending, or to the best of such counsel's knowledge threatened regarding Cerro or any of its subsidiaries or their properties which might have a materially adverse effect on the business, operations or prospects of it and its subsidiaries taken as a whole; and

(H) such counsel has no reason to believe that the Proxy Statement (other than matters pertaining to income and other taxes, financial statements and financial data as to which no opinion need be expressed) contains, as to Cerro or Cerro-Marmon, any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

In rendering their opinion, Messrs. Alexander & Green may rely, as to matters relating to Leadership Housing, Inc. and its subsidiaries, upon the opinion of T. Randolph Buck, Esq., General Counsel of Cerro's wholly owned subsidiary, Leadership Housing, Inc., as to matters of fact, may rely upon certificates of officers of Cerro and Cerro-Marmon, satisfactory in form and substance to such counsel, and as to matters involving the laws of any jurisdiction other than New York or the laws of the United States on such counsel as they deem appropriate. In rendering the opinion in clause (H) such counsel may assume the correctness and completeness of the information relating to Cerro and Cerro-Marmon included in the Proxy Statement without independent investigation or verification.

(ii) The opinion of Messrs. Wachtell, Lipton, Rosen & Katz, special counsel to Marmon, in form and substance satisfactory to Cerro and Cerro-Marmon, to the effect that:

(A) Marmon is a corporation validly organized, legally existing and in good standing under the laws of the State of Delaware, with full corporate power and authority under the laws of such State to carry out the Transactions pursuant to this Agreement and to conduct its business as it is conducted;

(B) the outstanding shares of Marmon are legally issued, fully paid and non-assessable, and no personal liability will attach to the holders thereof under the laws of the State of Delaware;

(C) all necessary corporate action has been taken by Marmon and its Board of Directors and its stockholder in connection with the Transactions, and this Agreement has been duly authorized, executed and delivered by Marmon;

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(D) to the best of such counsel's knowledge, the execution, delivery and performance by Marmon of this Agreement and the completion of the Transactions as to which Marmon is a party will not result in a breach of or constitute an event of default or result in the acceleration of an obligation under any agreement or other document to which Marmon is a party or by which it is bound excluding, in all cases herein referred to, matters which in the aggregate will not have a materially adverse effect upon the financial condition of Marmon and its subsidiaries taken as a whole; and

(E) such counsel has no reason to believe that the Proxy Statement (other than matters pertaining to income and other taxes, financial statements, financial data and litigation, as to which no opinion need be expressed) contains as to Marmon any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading. (In rendering said opinion in clause (E) said counsel may assume the correctness and completeness of the information relating to Marmon included in the Proxy Statement without independent investigation or verification.)

(iii) The opinion of Messrs. Hubachek, Kelly, Rauch & Kirby, in form and substance satisfactory to Cerro and Cerro-Marmon, covering the actions described in the Notes to Marmon's financial statements in the Proxy Statement to the effect that such actions will ultimately have no material impact on the business operations or prospects of it and its subsidiaries taken as a whole and to the effect that there is no other suit, proceeding or investigation pending or to the best of such counsel's knowledge threatened, regarding Marmon or any of its subsidiaries or their properties which might have a materially adverse effect on the business, operations or prospects of it and its subsidiaries taken as a whole.

(iv) The opinion of Alan M. Turner, Esq., General Counsel of GL, in form and substance satisfactory to Cerro and Cerro-Marmon to the effect that:

(A) GL is validly organized, legally existing and in good standing under the laws of the State of Delaware, with full corporate power and authority under the laws of such State to enter into this Agreement and to carry out those transactions required to be performed by it under this Agreement;

(B) The outstanding shares of Common Stock of GL are legally issued;

(C) All necessary corporate action has been taken by GL and its stockholders in connection with its performance of this Agreement and the completion of the transaction required to be performed by it under this Agreement; and this Agreement has been duly authorized, executed and delivered by GL and constitutes a legal, valid and binding obligation of GL in accordance with its terms;

(D) To the best of such counsel's knowledge, the execution, delivery and performance by GL of this Agreement and the completion of the Transactions as to which it is a party will not result in a breach of or constitute an event of default or result in the acceleration of an obligation under any agreement or other document to which GL is a party or by which it is bound excluding, in all cases herein referred to, matters which in the aggregate will not have a materially adverse effect upon the financial condition of GL and its subsidiaries taken as a whole; and

(E) Such counsel has no reason to believe that the Proxy Statement, (other than matters pertaining to income and other taxes, financial statements and financial data, as to which no opinion need be expressed) contains as to GL any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(v) An opinion of Messrs. Levenfeld, Kanter, Baskes & Lippitz, tax counsel, to the effect that the ruling applications, rulings, documents, agreements and instruments described in the Proxy Statement under the captions "Federal Income Tax Consequences," "Tax Sharing Agreement" and "Other Tax Matters" have been accurately and fairly described and such counsel has no reason to believe that the matters presented under those captions and under any other

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captions in the Proxy Statement or in notes to the financial statements describing matters presented or related to matters described under those captions, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or to make the statements therein not misleading.

In rendering their respective opinions, Messrs. Wachtell, Lipton, Rosen & Katz, Messrs. Hubachek, Kelly, Rauch & Kirby, Allen M. Turner, Esq., and Messrs. Levenfeld, Kanter, Baskes & Lippitz may rely as to matters of fact upon certificates of officers of GL or Marmon satisfactory in form and substance to such counsel and as to matters involving the laws of any jurisdiction other than the ones in which they are admitted to practice and the laws of the United States on such counsel as they deem appropriate.

4.1(e) *Letter from Arthur Young & Company.* Cerro shall have received from Arthur Young & Company a letter dated the Filing Time (as defined in the Merger Agreement) addressed to it stating that:

(i) they are independent accountants with respect to Marmon and its subsidiaries within the meaning of the Securities Act of 1933, and the applicable published rules and regulations thereunder;

(ii) in their opinion, the consolidated financial statements of Marmon and its subsidiaries included in the Registration Statement of Cerro-Marmon on Form S-14 (the "Registration Statement") and Proxy Statement and reported on therein by them comply as to form in all material respects with the applicable accounting requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934 respectively and of the published rules and regulations thereunder;

(iii) on the basis of certain specified procedures (but not an examination in accordance with generally accepted auditing standards) consisting of (A) a reading of the minutes of the meetings of the stockholders and Board of Directors of Marmon since December 31, 1974 as set forth in the minute books through a specified date not more than five days prior to the delivery of such letter, (B) a reading of the unaudited consolidated financial statements of Marmon and its subsidiaries included in the Registration Statement and Proxy Statement, (C) a reading of the latest available unaudited consolidated financial statements of Marmon and its subsidiaries for the current year and for the comparable period of the preceding year and (D) inquiries of officials of Marmon who have responsibility for financial and accounting matters and such other procedures as Cerro may reasonably request, nothing came to their attention that caused them to believe that (x) the unaudited consolidated financial statements of Marmon and its subsidiaries contained in the Registration Statement and Proxy Statement do not comply as to form in all material respects with the applicable accounting requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934 respectively and the published rules and regulations thereunder or, subject to the effect, if any, of uncertainties relating to Cerro's real estate inventories discussed in Note 5 to the consolidated financial statements of Marmon, are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements of Marmon and its subsidiaries contained in the Registration Statement and Proxy Statement or (y) at a specified date more than five days prior to the date of delivery of such letter, there was any change in the capital stock of Marmon, any change in consolidated long-term debt or any decrease in consolidated net current assets or consolidated stockholder's equity, all as compared with the amounts shown in the most recent consolidated balance sheet of Marmon and its subsidiaries included in the Proxy Statement;

(iv) on the basis of a review of the proposed form of the proposed combination of Cerro and Marmon, in their opinion, Accounting Principles Board Opinion No. 16 requires that such combination be accounted for as a purchase of Cerro by Marmon; and

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(v) on the basis of a reading of the unaudited pro forma condensed financial statements of Marmon and Cerro-Marmon contained in the Registration Statement and Proxy Statement, in their opinion, such pro forma condensed financial statements have been properly compiled on the basis described in the notes thereto.

In addition the letter of said accountants shall cover such other matters pertaining to Marmon's financial data that may reasonably be requested by Cerro.

4.1(f) *Letter from Price Waterhouse & Co.* Marmon shall have received a letter from Price Waterhouse & Co., dated the Filing Time addressed to it stating that:

(i) they are independent accountants with respect to Cerro and its subsidiaries within the meaning of the Securities Act of 1933 and the applicable published rules and regulations thereunder;

(ii) Accounting Principles Board Opinion No. 16 requires that the Transactions be accounted for as a purchase of the net assets of Cerro;

(iii) in their opinion the consolidated financial statements of Cerro and its subsidiaries included in the Registration Statement of Cerro-Marmon on Form S-14 (the "Registration Statement") and Proxy Statement and examined by them comply as to form in all material respects with the applicable accounting requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934 and the published rules and regulations thereunder; and

(iv) on the basis of a reading of the unaudited pro forma consolidated financial statements of Cerro contained in the Registration Statement and Proxy Statement the pro forma financial statements of Cerro have been compiled on the basis and the assumptions described in Note 3 to the pro forma financial statements.

In addition, the letter of said accountants shall include a statement with respect to Cerro to the same effect as clause (iii) under section 4.1(e) with respect to Marmon, and the letter of said accountants shall cover such other matters pertaining to Cerro's financial data that may reasonably be requested by Marmon.

4.1(g) *Tax Ruling.* There shall have been received a ruling from the Internal Revenue Service satisfactory to the parties hereto substantially to the effect that for federal income tax purposes:

(i) no gain or loss will be recognized by GL on the transfer of the capital stock of Marmon to Cerro-Marmon in exchange for the Common Stock of Cerro-Marmon;

(ii) the basis of the capital stock of Marmon in the hands of Cerro-Marmon will be the same as the basis of said stock in the hands of GL immediately before the exchange;

(iii) the holding period of the Marmon stock received by Cerro-Marmon pursuant to the exchange will include the period during which said stock was held by GL;

(iv) the basis of the Common Stock of Cerro-Marmon received by GL will be the same as the basis of the Marmon stock transferred in exchange therefor; and

(v) the holding period of the Cerro-Marmon Common Stock received by GL will include the period during which the Marmon Stock transferred in exchange therefor was held by GL;

(vi) neither gain nor loss will be recognized by Cerro or Cerro-Marmon upon the merger of Cerro into Cerro-Marmon;

(vii) the basis of the Cerro assets received by Cerro-Marmon will be the same as the basis of such assets in the hands of Cerro immediately prior to the merger;

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(viii) the holding period of the Cerro assets acquired by Cerro-Marmon will include the holding period of those assets in the hands of Cerro;

(ix) no gain or loss will be recognized by any stockholder of Cerro, except those stockholders who avail themselves of the appraisal rights described in the Proxy Statement under the heading "Rights of Dissenting Stockholders of Cerro" whose gain or loss will be treated as long-term capital gain if their Cerro Common Stock was a capital asset in their hands and was held for more than six months;

(x) the basis of the Preferred Stock received by the stockholders of Cerro will be the same as the basis of the Cerro Common Stock surrendered in exchange therefor;

(xi) the holding period of the Preferred Stock received by the stockholders of Cerro will include the period during which the Cerro Common Stock surrendered in exchange therefor was held;

(xii) the Preferred Stock received by the stockholders of Cerro will not be "Section 306" stock within the meaning of Section 306(c) of the Internal Revenue Code of 1954, as amended;

(xiii) neither gain nor loss will be recognized by Cerro-Marmon upon issuance of the Preferred Stock to the stockholders of Cerro.

For purposes of Clause (ix), a constructive dividend under Section 305 of the Internal Revenue Code shall not be deemed to affect the terms of said Clause (ix).

ARTICLE V

ABANDONMENT

SECTION 5.1. Both (and only both) of the Transactions may be abandoned, notwithstanding shareholder authorization, at any time before completion

(a) by mutual consent of the boards of directors of the parties hereto, or

(b) by the board of directors of any party hereto if any of the conditions specified in Article IV hereof shall not have been satisfied within the time contemplated by this Agreement, or

(c) by the Board of Directors of Cerro, Cerro-Marmon, Marmon or GL if the holders of more than four percent of the outstanding shares of Common Stock of Cerro elect to exercise appraisal rights in connection with the merger, or

(d) by the board of directors of any party hereto if (i) there shall have been any litigation or proceedings involving Cerro or Marmon or any of their subsidiaries which materially and adversely affect, or may so affect, the assets, business, results of operations or financial condition of any party hereto or any threat or institution of litigation or other proceedings involving any party hereto to restrain or prohibit, or which may otherwise prevent or hinder, the Transactions, or which in the judgment of the party involved or affected makes it inadvisable to proceed; (ii) the assets, business, results of operations or financial condition of any party hereto shall have been materially and adversely affected by any cause or for any reason; (iii) there shall have been proposed or adopted any federal, state, local or foreign legislation, or rule, regulation or order of any federal, state, local or foreign governmental or regulatory body, which materially and adversely affects, or may so affect, the business or assets of Cerro or Marmon or which may hinder or prevent the Transactions; (iv) the Merger Agreement shall be terminated; or (v) the transactions contemplated by the Exchange Agreement shall not be consummated on the day of the Filing Time.

SECTION 5.2. Any abandonment of the Transactions pursuant to this Article V shall automatically terminate this Agreement, without liability on the part of any party hereto or its directors, officers or shareholders.

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ARTICLE VI

OTHER PROVISIONS

SECTION 6.1. *Assignment.* No party hereto shall assign this Agreement or any part thereof without the written consent of each of the other parties hereto. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 6.2. *Waivers.* Any failure of accuracy of any representation or warranty, performance of agreement or fulfillment of condition in this Agreement or in the Merger Agreement by any party hereto may be expressly waived in writing by the other parties.

SECTION 6.3. *Amendments.* At any time prior to the completion of the Transactions the parties hereto may, by written agreement authorized by their respective boards of directors, change any of the provisions hereof.

GL CORPORATION

By ROBERT C. GLUTH
Vice President

THE MARMON GROUP, INC. (Michigan)

By ROBERT C. GLUTH
Vice President

CERRO CORPORATION

By KENNETH D. ARCHER
Vice President

CERRO-MARMON CORPORATION

By KENNETH D. ARCHER
Vice President

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EXHIBIT C

SMITH, BARNEY & CO.
INCORPORATED

1345 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10019
(212) 333-7200

To be dated the effective date
of the Registration Statement

Messrs. Lewis B. Harder, Robert P. Koenig,
Richard H. Lewin and G. Willing Pepper,
constituting the Business Combination Committee of Cerro Corporation
and the
Board of Directors of Cerro Corporation
39 South LaSalle Street
Chicago, Illinois 60603

Gentlemen:

The Business Combination Committee of Cerro Corporation ("Cerro") has requested our opinion as to the fairness from a financial viewpoint to the stockholders of Cerro, other than The Marmon Group, Inc. (Michigan) ("Marmon"), of the proposed business combination of Cerro and Marmon (the "business combination") under which the outstanding shares of common stock of Cerro ("Cerro Common Stock") owned by persons other than Marmon would be converted into an equal number of shares of Series A Preferred Stock (the "Preferred Stock") of Cerro-Marmon Corporation ("Cerro-Marmon"). The Registration Statement of Cerro-Marmon on Form S-14 (File No. 2-) which contains as a part thereof the Proxy Statement relating to the business combination and which sets forth the terms of the Preferred Stock, in the form in which it was made effective by the Securities and Exchange Commission on the date hereof, is hereinafter referred to as the "Registration Statement". The terms Cerro and Marmon as hereinafter used, unless otherwise indicated by the context, include each of such corporation's respective subsidiaries.

In analyzing the proposed business combination in order to form our opinion, we have studied financial information with respect to Cerro and Marmon and, to a limited extent, GL Corporation furnished to us by such companies, respectively. In addition, we have reviewed the Registration Statement and other information provided to us by Cerro and Marmon relating to their operations and investments described in the Registration Statement, discussed the businesses, operations and prospects of Cerro and Marmon with certain of the respective officers and representatives of, and counsel and auditors for, such companies, discussed with others certain of the operations and investments of Cerro, visited certain of the facilities of Cerro and Marmon, analyzed published information (including financial information) relating to the businesses of a number of other companies which appeared to us in certain respects comparable to certain of the operations conducted by Cerro, reviewed the historical price ranges of the Cerro Common Stock on the New York Stock Exchange from 1968 to date and reviewed such other information as we deemed relevant. We have also reviewed appraisals of certain assets of Cerro which, with the exception of appraisals relating to certain real estate assets held by Leadership Housing, Inc., were prepared primarily upon a replacement cost basis (and, as indicated by Cerro, in many cases for insurance purposes). The valuations contained in such appraisals were in the aggregate substantially higher than the depreciated cost of such assets as they appear on Cerro's books. In addition, in connection with our valuation of the Preferred Stock, we have reviewed the terms of the Preferred Stock

as set forth in the Registration Statement, the terms of, and yields available on, certain other industrial preferred stock issues, yields available on certain recently issued non-industrial preferred stock issues and reviewed such other financial considerations relating to Cerro-Marmon as we deemed relevant.

As part of our analysis, we have also considered possible net values which might be realized in a hypothetical liquidation of each of the operating businesses of Cerro and of the other, non-operating, assets of Cerro over an assumed period not exceeding two years. The analysis of the liquidation of the operating businesses was considered both in terms of possible sales as on-going businesses and in terms of an orderly disposition of individual assets. This analysis, which was intended only as a reasonable estimate of the net proceeds which might be derived from such a liquidation if informed prospective buyers were available, resulted in a hypothetical liquidation value in the range of approximately $23.70 to $24.50 per Cerro Common Share. Such value might differ substantially from the net proceeds per Cerro Common Share which would be derived from an actual liquidation because of market conditions existing at the time of sale, the underlying motivations and assumptions of a given buyer, and the uncertainties of national and international economic and political conditions. Such factors could result in net proceeds from any actual liquidation which would be significantly higher or lower than our above estimate.

In addition to the foregoing, we have made such other analyses and examinations as we have deemed necessary in arriving at our opinion expressed below. In connection with such opinion, we have considered the Preferred Stock to have a per share value in the range of $20.50 to $21.25 (which is not necessarily the range within which the Preferred Stock will initially or ultimately trade).

The foregoing is a summary of oral and written presentations to the Business Combination Committee including a detailed Report previously submitted to the Business Combination Committee and to the Board of Directors of Cerro. Such Report, although not containing all the information reviewed, nor describing all the factors which have influenced our opinion, set forth in detail the framework of our analysis.

In arriving at our opinion we have considered as significant the uncertainties and time involved in an asset liquidation. We did not make or obtain independent evaluations of the physical assets, mineral reserves or rights, or real properties of Cerro. Furthermore, because of the nature of many of the assets and investments of Cerro, data with respect to recent sales of similar properties was generally not available. We have not undertaken physical inspection of properties outside the United States and our inspection of other properties was limited by time and other factors. Although, as noted above, we have engaged in various discussions and other activities with respect to the business, operations and prospects of Cerro and Marmon, and we have made certain analyses, we have assumed the accuracy and completeness of the financial and other information furnished to us, including that contained in the Registration Statement, and of the other information used by us which we obtained from published and other sources. Our opinion herein is based upon circumstances existing as of the date hereof.

Based on the foregoing review and the considerations and assumptions stated herein, we are of the opinion that the terms of the proposed business combination are, from a financial viewpoint, fair to the stockholders of Cerro other than Marmon.

Very truly yours,

SMITH, BARNEY & CO.
INCORPORATED

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By ROBERT H. HOTZ
First Vice President

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EXHIBIT D

RIGHTS OF DISSENTING SHAREHOLDERS

UNDER THE BUSINESS CORPORATION LAW OF NEW YORK

§ 623. Procedure to enforce shareholder's right to receive payment for shares.

(a) A shareholder intending to enforce his right under a section of this chapter to receive payment for his shares if the proposed corporate action referred to therein is taken shall file with the corporation, before the meeting of shareholders at which the action is submitted to a vote, or at such meeting but before the vote, written objection to the action. The objection shall include a statement that he intends to demand payment for his shares if the action is taken. Such objection is not required from any shareholder to whom the corporation did not give notice of such meeting in accordance with this chapter or where the proposed action is authorized by written consent of shareholders without a meeting.

(b) Within ten days after the shareholders' authorization date, which term as used in this section means the date on which the shareholders' vote authorizing such action was taken, or the date on which such consent without a meeting was obtained from the requisite shareholders, the corporation shall give written notice of such authorization or consent by registered mail to each shareholder who filed written objection or from whom written objection was not required, excepting any who voted for or consented in writing to the proposed action.

(c) Within twenty days after the giving of notice to him, any shareholder to whom the corporation was required to give such notice and who elects to dissent shall file with the corporation a written notice of such election, stating his name and residence address, the number and classes of shares as to which he dissents and a demand for payment of the fair value of his shares. Any shareholder who elects to dissent from a merger under section 905 (Merger of subsidiary corporation) or paragraph (c) of section 907 (Merger or consolidation of domestic and foreign corporations) shall file a written notice of such election to dissent within twenty days after the giving to him of a copy of the plan of merger or an outline of the material features thereof under section 905.

(d) A shareholder may not dissent as to less than all of the shares, as to which he has a right to dissent, held by him of record, that he owns beneficially. A nominee or fiduciary may not dissent on behalf of any beneficial owner as to less than all of the shares of such owner, as to which such nominee or fiduciary has a right to dissent, held of record by such nominee or fiduciary.

(e) Upon filing a notice of election to dissent, the shareholder shall cease to have any of the rights of a shareholder except the right to be paid the fair value of his shares and any other rights under this section. A notice of election may be withdrawn by the shareholder at any time before an offer is made by the corporation, as provided in paragraph (g), to pay for his shares. After such offer, withdrawal of a notice of election shall require the written consent of the corporation. If a notice of election is withdrawn, or the proposed corporate action is abandoned or rescinded, or a court shall determine that the shareholder is not entitled to receive payment for his shares, or the shareholder shall otherwise lose his dissenter's rights, he shall not have the right to receive payment for his shares and he shall be reinstated to all his rights as a shareholder as of the filing of his notice of election, including any intervening preemptive rights and the right to payment of any intervening dividend or other distribution or, if any such rights have expired or any such dividend or distribution other than in cash has been completed, in lieu thereof, at the election of the corporation, the fair value thereof in cash as determined by the board as of the time of such expiration or completion, but without prejudice otherwise to any corporate proceedings that may have been taken in the interim.

(f) At the time of filing the notice of election to dissent or within one month thereafter the shareholder shall submit the certificates representing his shares to the corporation, or to its transfer agent,

which shall forthwith note conspicuously thereon that a notice of election has been filed and shall return the certificates to the shareholder or other person who submitted them on his behalf. Any shareholder who fails to submit his certificates for such notation as herein specified shall, at the option of the corporation exercised by written notice to him within forty-five days from the date of filing of such notice of election to dissent, lose his dissenter's rights unless a court, for good cause shown, shall otherwise direct. Upon transfer of a certificate bearing such notation, each new certificate issued therefor shall bear a similar notation together with the name of the original dissenting holder of the shares and a transferee shall acquire no rights in the corporation except those which the original dissenting shareholder had after filing his notice of election.

(g) Within seven days after the expiration of the period within which shareholders may file their notices of election to dissent, or within seven days after the proposed corporate action is consummated, whichever is later (but in no case later than ninety days from the shareholders' authorization date), the corporation or, in the case of a merger or consolidation, the surviving or new corporation, shall make a written offer by registered mail to each shareholder who has filed such notice of election to pay for his shares at a specified price which the corporation considers to be their fair value. If the corporate action has not been consummated upon the expiration of the ninety-day period after the shareholders' authorization date, the offer may be conditioned upon the consummation of such action. Such offer shall be made at the same price per share to all dissenting shareholders of the same class, or if divided into series, of the same series and shall be accompanied by a balance sheet of the corporation whose shares the dissenting shareholder holds as of the latest available date, which shall not be earlier than twelve months before the making of such offer, and a profit and loss statement or statements for not less than a twelve-month period ended on the date of such balance sheet or, if the corporation was not in existence throughout such twelve-month period, for the portion thereof during which it was in existence. If within thirty days after the making of such offer, the corporation making the offer and any shareholder agree upon the price to be paid for his shares, payment therefor shall be made within sixty days after the making of such offer or the consummation of the proposed corporate action, whichever is later, upon the surrender of the certificates representing such shares.

(h) The following procedure shall apply if the corporation fails to make such offer within such period of seven days, or if it makes the offer and any dissenting shareholder or shareholders fail to agree with it within the period of thirty days thereafter upon the price to be paid for their shares:

(1) The corporation shall, within twenty days after the expiration of whichever is applicable of the two periods last mentioned, institute a special proceeding in the supreme court in the judicial district in which the office of the corporation is located to determine the rights of dissenting shareholders and to fix the fair value of their shares. If, in the case of merger or consolidation, the surviving or new corporation is a foreign corporation without an office in this state, such proceeding shall be brought in the county where the office of the domestic corporation, whose shares are to be valued, was located.

(2) If the corporation fails to institute such proceeding within such period of twenty days, any dissenting shareholder may institute such proceeding for the same purpose not later than thirty days after the expiration of such twenty day period. If such proceeding is not instituted within such thirty day period, all dissenter's rights shall be lost unless the supreme court, for good cause shown, shall otherwise direct.

(3) All dissenting shareholders, excepting those who, as provided in paragraph (g), have agreed with the corporation upon the price to be paid for their shares, shall be made parties to such proceeding, which shall have the effect of an action quasi in rem against their shares. The corporation shall serve a copy of the petition in such proceeding upon each dissenting shareholder who is a resident of this state in the manner provided by law for the service of a summons, and upon each non-resident dissenting shareholder either by registered mail and publication, or in such other manner as is permitted by law. The jurisdiction of the court shall be plenary and exclusive.

(4) The court shall determine whether each dissenting shareholder, as to whom the corporation requests the court to make such determination, is entitled to receive payment for his shares. If the corporation does not request any such determination or if the court finds that any dissenting shareholder is so entitled, it shall proceed to fix the value of the shares, which, for the purposes of this section, shall be the fair value as of the close of business on the day prior to the shareholders' authorization date, excluding any appreciation or depreciation directly or indirectly induced by such corporate action or its proposal. The court may, if it so elects, appoint an appraiser to receive evidence and recommend a decision on the question of fair value. Such appraiser shall have the power, authority and duties specified in the order appointing him, or any amendment thereof.

(5) The final order in the proceeding shall be entered against the corporation in favor of each dissenting shareholder who is a party to the proceeding and is entitled thereto for the value of his shares so determined.

(6) The final order shall include an allowance for interest at such rate as the court finds to be equitable, from the shareholders' authorization date to the date of payment. If the court finds that the refusal of any shareholder to accept the corporate offer of payment for his shares was arbitrary, vexatious or otherwise not in good faith, no interest shall be allowed to him.

(7) The costs and expenses of such proceeding shall be determined by the court and shall be assessed against the corporation, except that all or any part of such costs and expenses may be apportioned and assessed, as the court may determine, against any or all of the dissenting shareholders who are parties to the proceeding if the court finds that their refusal to accept the corporate offer was arbitrary, vexatious or otherwise not in good faith. Such expenses shall include reasonable compensation for and the reasonable expenses of the appraiser, but shall exclude the fees and expenses of counsel for and experts employed by any party unless the court, in its discretion, awards such fees and expenses. In exercising such discretion, the court shall consider any of the following: (A) that the fair value of the shares as determined materially exceeds the amount which the corporation offered to pay; (B) that no offer was made by the corporation; and (C) that the corporation failed to institute the special proceeding within the period specified therefor.

(8) Within sixty days after final determination of the proceeding, the corporation shall pay to each dissenting shareholder the amount found to be due him, upon surrender of the certificates representing his shares.

(i) Shares acquired by the corporation upon the payment of the agreed value therefor or for the amount due under the final order, as provided in this section, shall become treasury shares or be cancelled as provided in section 515 (Reacquired shares), except that, in the case of a merger or consolidation, they may be held and disposed of as the plan of merger or consolidation may otherwise provide.

(j) No payment shall be made to a dissenting shareholder under this section at a time when the corporation is insolvent or when such payment would make it insolvent. In such event, the dissenting shareholder shall, at his opinion:

(1) Withdraw his notice of election, which shall in such event be deemed withdrawn with the written consent of the corporation; or

(2) Retain his status as a claimant against the corporation and, if it is liquidated, be subordinated to the rights of creditors of the corporation, but have rights superior to the non-dissenting shareholders, and if it is not liquidated, retain his right to be paid for his shares, which right the corporation shall be obliged to satisfy when the restrictions of this paragraph do not apply.

(3) The dissenting shareholder shall exercise such option under subparagraph (1) and (2) by written notice filed with the corporation within thirty days after the corporation has given him written

notice that payment for his shares cannot be made because of the restrictions of this paragraph. If the dissenting shareholder fails to exercise such option as provided, the corporation shall exercise the option by written notice given to him within twenty days after the expiration of such period of thirty days.

(k) The enforcement by a shareholder of his right to receive payment for his shares in the manner provided herein shall exclude the enforcement by such shareholder of any other right to which he might otherwise be entitled by virtue of share ownership, except as provided in paragraph (e), and except that this section shall not exclude the right of such shareholder to bring or maintain an appropriate action to obtain relief on the ground that such corporate action will be or is unlawful or fraudulent as to him.

(l) Except as otherwise expressly provided in this section, any notice to be given by a corporation to a shareholder under this section shall be given in the manner provided in section 605 (Notice of meetings of shareholders).

(m) This section shall not apply to foreign corporations except as provided in subparagraph (e)(2) of section 907 (Merger or consolidation of domestic and foreign corporations).

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APPENDIX 1

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is twenty million (20,000,000), of which ten million (10,000,000) shares are to be Preferred Stock (hereinafter called the "Preferred Stock"), of the par value of one dollar ($1) each, and ten million (10,000,000) shares are to be Common Stock (hereinafter called the "Common Stock"), of the par value of one dollar ($1) each.

1. Authority is hereby expressly granted to the Board of Directors from time to time to issue the Preferred Stock as Preferred Stock of one or more series and in connection with the creation of any such series to fix by the resolution or resolutions providing for the issue of shares thereof the designation, powers, preferences, and relative, participating, optional, or other special rights of such series, and the qualifications, limitations, or restrictions thereof. Such authority of the Board of Directors with respect to each such series shall include, but not be limited to, the determination of the following:

(a) the distinctive designation of, and the number of shares comprising, such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;

(b) the dividend rate or amount for such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or any other series of any class or classes of stock, and whether such dividends shall be cumulative, and if so, from which date or dates for such series;

(c) whether or not the shares of such series shall be subject to redemption by the Corporation and the times, prices, and other terms and conditions of such redemption;

(d) whether or not the shares of such series shall be subject to the operation of a sinking fund or purchase fund to be applied to the redemption or purchase of such shares and if such a fund be established, the amount thereof and the terms and provisions relative to the application thereof;

(e) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes, or of any other series of any class or classes, of stock of the Corporation and if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;

(f) whether or not the shares of such series shall have voting rights, in addition to the voting rights provided by law, and if they are to have such additional voting rights, the extent thereof;

(g) the rights of the shares of such series in the event of any liquidation, dissolution, or winding up of the Corporation or upon any distribution of its assets; and

(h) any other powers, preferences, and relative, participating, optional, or other special rights of the shares of such series, and the qualifications, limitations, or restrictions thereof, to the full extent now or hereafter permitted by law and not inconsistent with the provisions hereof.

2. All shares of any one series of Preferred Stock shall be identical in all respects except as to the dates from which dividends thereon may be cumulative. All series of the Preferred Stock shall rank equally and be identical in all respects except as otherwise provided in the resolution or resolutions providing for the issue of any series of Preferred Stock.

3. Whenever dividends upon the Preferred Stock at the time outstanding, to the extent of the preference to which such stock is entitled, shall have been paid in full or declared and set apart for payment for all past dividend periods, and after the provisions for any sinking or purchase fund or funds for any series of Preferred Stock shall have been complied with, the Board of Directors may declare and pay dividends on the Common Stock, payable in cash, stock, or otherwise, and the holders of shares of Preferred Stock shall not be entitled to share therein, subject to the provisions of the resolution or resolutions creating any series of Preferred Stock.

4. In the event of any liquidation, dissolution, or winding up of the Corporation or upon the distribution of the assets of the Corporation, all assets and funds of the Corporation remaining, after the payment to the holders of the Preferred Stock of the full preferential amounts to which they shall be entitled as provided in the resolution or resolutions creating any series thereof, shall be divided and distributed among the holders of the Common Stock ratably, except as may otherwise be provided in any such resolution or resolutions. Neither the merger or consolidation of the Corporation with another corporation nor the sale or lease of all or substantially all the assets of the Corporation shall be deemed to be a liquidation, dissolution, or winding up of the Corporation or a distribution of its assets.

5. Except as otherwise required by law or provided by a resolution or resolutions of the Board of Directors creating any series of Preferred Stock, the holders of Common Stock shall have the exclusive power to vote and shall have four votes in respect of each share of such stock held by them and the holders of Preferred Stock shall have no voting power whatsoever. Except as otherwise provided in such a resolution or resolutions, the number of authorized shares of the Preferred Stock may be increased or decreased by the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Corporation entitled to vote.

6. A holder of Preferred Stock or Common Stock of the Corporation shall not have any right as such holder (other than such right, if any, as the Board of Directors in its discretion may by resolution determine pursuant to this Article Fourth) to purchase, subscribe for or otherwise acquire any shares of stock of the Corporation of any class now or hereafter authorized, or any securities convertible into or exchangeable for any such shares, or any warrants or any instruments evidencing rights or options to subscribe for, purchase or otherwise acquire any such shares, whether such shares, securities, warrants or other instruments are now, or shall hereafter be, authorized, unissued or issued and thereafter acquired by the Corporation.

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RESOLVED that, pursuant to the authority expressly granted to and vested in the Board of Directors of Cerro-Marmon Corporation (the "Corporation") by the provisions of the Certificate of Incorporation of the Corporation, as amended, this Board of Directors hereby creates a series of the Preferred Stock, of the par value of one dollar ($1) each, of the Corporation (the "Preferred Stock") to consist of not more than 4,370,154 shares of the Preferred Stock, and this Board of Directors hereby fixes the designation and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of the shares of such series (in addition to the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, set forth in the Certificate of Incorporation of the Corporation, as amended, which are applicable to the Preferred Stock of all series) as follows:

(a) Designation of Series

1. The designation of the series of Preferred Stock created by this resolution shall be "$2.25 Cumulative Series A Preferred Stock" (the "Series A Preferred Stock").

(b) Cash Dividends on Series A Preferred Stock and Limitations on Dividends on Common Stock of the Corporation ("Common Stock") and any Class or Series of Stock Ranking Junior to the Series A Preferred Stock.

1. Out of the surplus or net profits of the Corporation legally available for dividends, the holders of the Series A Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, dividends at the per annum rate of $2.25 per share, and no more, payable quarterly on the first business day of April, July, October and January in each year (each such day being hereinafter called a dividend date and each quarterly period ending with a dividend date being hereinafter called a dividend period) to the holders of record on such respective dates as may be determined by the Board of Directors in advance of the payments of each particular dividend for the dividend periods, from the date of cumulation, as hereinafter in subdivision 4 of this paragraph (b) defined (provided, however, that, if the date of cumulation shall be a date less than thirty (30) days prior to a dividend date, the dividend that would otherwise be payable on such dividend date will be payable on the next succeeding dividend date), before any sum or sums shall be set aside pursuant to subdivision 2 of this paragraph (b) or paragraph (c) or otherwise for the purchase or redemption of Series A Preferred Stock or any class or series of stock ranking on a parity with the Series A Preferred Stock as to dividends or distribution of assets and before any dividend shall be declared or paid upon or set apart for, or any other distribution shall be ordered or made in respect of, or any payment shall be made on account of the purchase of, the Common Stock or of any class or series of stock ranking junior to the Series A Preferred Stock as to dividends or distribution of assets; and such dividends upon the Series A Preferred Stock shall be cumulative (whether or not in any dividend period or periods there shall be surplus or net profits of the Corporation legally available for the payment of such dividends), so that, if at any time dividends upon the outstanding Series A Preferred Stock at the per annum rate hereinabove specified from the date of cumulation to the end of the then current dividend period shall not have been paid or declared and a sum sufficient for the payment thereof set apart for such payment, the amount of the deficiency shall be fully paid, but without interest, or dividends in such amount declared and a sum sufficient for the payment thereof set apart for such payment, before any sum or sums shall be paid or set aside pursuant to subdivision 2 of this paragraph (b) or paragraph (c) or otherwise for the purchase or redemption of Series A Preferred Stock or any class or series of stock ranking on a parity with the Series A Preferred Stock as to dividends or distribution of assets and before any dividend shall be declared or paid upon or set apart for, any other distribution shall be ordered or made in respect of, or any payment shall be made on account of the purchase of, the Common Stock or of any class or series of stock ranking junior to the Series A Preferred Stock as to dividends or distribution of assets.

All dividends declared on the Series A Preferred Stock for any dividend period and on any class or series of stock ranking on parity with the Series A Preferred Stock as to dividends shall be declared

pro rata so that the amounts of dividends per share declared for such period on the Series A Preferred Stock and on any class or series of stock ranking on a parity with the Series A Preferred Stock as to dividends that were outstanding during such period shall in all cases bear to each other the same proportions that the respective dividend rates of such stock for such period bear to each other.

2. Out of any surplus or net profits of the Corporation legally available for dividends remaining after full cumulative dividends upon the Series A Preferred Stock then outstanding shall have been paid for all past dividend periods, and after or concurrently with making payment of, or declaring and setting apart for payment, full dividends on the Series A Preferred Stock then outstanding to the end of the then current dividend period and before any dividends shall be declared or paid upon or set apart for, or any other distribution shall be ordered or made in respect of, or any payment shall be made on account of the purchase of, the Common Stock or of any class of stock ranking junior to the Series A Preferred Stock as to dividends or distribution of assets, the Corporation shall set apart for payment on its books (or have paid), in respect of the sinking or purchase fund for the redemption or purchase of the Series A Preferred Stock provided for in paragraph (e) of these resolutions, the sum or sums required for all past periods by the terms of these resolutions as a sinking or purchase fund.

3. Out of any surplus or net profits of the Corporation legally available for dividends remaining after full cumulative dividends upon the Series A Preferred Stock then outstanding shall have been paid for all past dividend periods, and after or concurrently with making payment of, or declaring and setting apart for payment, full dividends on the Series A Preferred Stock then outstanding to the end of the then current dividend period and after the Corporation shall have complied with the provisions of the foregoing subdivision 2 of this paragraph (b) in respect of any and all amounts theretofore required to be set aside or applied in respect of the sinking or purchase fund mentioned in said subdivision 2 then and not otherwise, the holders of the Common Stock or of any class or series of stock ranking junior to the Series A Preferred Stock as to dividends or the distribution of assets, subject to the provisions hereof, shall be entitled to receive such dividends as may from time to time be declared by the Board of Directors; provided that the Corporation will not declare or pay any dividend or make any distribution on, or purchase or retire any Common Stock unless, after giving effect to the proposed dividend or distribution on, or purchase or retirement of, Common Stock, the aggregate of the amount of all dividends paid and distributions made on, and purchases and retirements of, Common Stock subsequent to December 31, 1975 shall not exceed the Consolidated Net Income of the Corporation earned after such date to the date of calculation less the aggregate amount of all dividends paid and distributions made on, after December 31, 1975, the capital stock of the Corporation (other than the Common Stock) to the date of calculation and less the aggregate amounts expended after December 31, 1975, to purchase or retire any such capital stock (other than Common Stock) to the date of calculation. For the purposes of this paragraph (b) dividends or distributions by the Corporation shall include all outstanding investments in and/or loans and advances (whether made by the Corporation or any of its subsidiaries) to any holder, affiliate thereof, or member of an affiliated group of holders of capital stock of the Corporation with voting power sufficient to exercise control of the Corporation, but shall not include (i) investments in and/or loans and advances to any direct or indirect subsidiary of the Corporation or any corporation in which such holder's or group of holders' interest is an indirect interest solely through the Corporation and its subsidiaries, (ii) any payments made, pursuant to any tax sharing agreement, to any entity with which the Corporation is included in a consolidated income tax return or (iii) dividends payable solely in shares of Common Stock of the Corporation or warrants or rights to subscribe for or purchase any security of the Corporation. Also for the purposes of this subdivision 3 of this paragraph (b) the term "Consolidated Net Income of the Corporation" shall mean the aggregate of the net income of the Corporation and its subsidiaries after eliminating all offsetting debits and credits between the Corporation and its subsidiaries and portions of earnings properly attributable to minority interests, if any, in common stocks of subsidiaries, after making provision for dividends accrued on preferred stock, if any, of subsidiaries not owned by the Corporation or by another subsidiary, and after eliminating: any

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gains in excess of losses resulting from the sale or other disposition of capital assets (i.e., assets other than current assets), any gains resulting from the write-up of assets, any earnings or losses of any corporation acquired by the Corporation or any subsidiary in a pooling of interests for any year prior to the year of acquisition, any reversal of any contingency reserve, except to the extent that provision for such contingency reserve shall have been made during the period, any reversal of any reserve for tax, except to the extent of any excess of any such reserve over the amount ultimately determined to be due and payable, any portion of the net earnings of any subsidiary which is unavailable, under applicable law or under the terms of any agreement or instrument to which the Corporation or any of its subsidiaries is a party or bound or to which any of the assets of the Corporation or any of its subsidiaries are subject, for payment of dividends to the Corporation, any undistributed earnings from any other person (other than a subsidiary), any tax sharing payments retained by the Corporation pursuant to any tax sharing agreement between the Corporation and any corporation controlling the Corporation, all determined in accordance with generally accepted accounting principles.

4. The term "date of cumulation" as used in this resolution with reference to the Series A Preferred Stock shall be deemed to mean the date on which shares of the Series A Preferred Stock are first issued. In the event of the issue of additional shares of the Series A Preferred Stock, the "date of cumulation" with respect to such additional shares of Series A Preferred Stock shall be deemed to mean the date on which such additional shares of the Series A Preferred Stock are first issued. For the purposes of this resolution the phrase "set apart for payment" in respect of the payment of dividends or sinking funds shall not be construed as requiring deposit of any funds in trust or in any special account, but shall merely mean that out of the funds available for the payment of dividends or sinking or purchase funds, a sum sufficient for the payment of dividends or sinking or purchase funds on the Series A Preferred Stock shall be reserved by appropriate notation on the books of the Corporation.

(c) Redemption of Series A Preferred Stock

All the Series A Preferred Stock, or any part thereof, at any time outstanding may be redeemed by the Corporation on or after April 1, 1981, at its election expressed by resolution of the Board of Directors, upon not less than thirty (30) days previous notice to the holders of record of the Series A Preferred Stock to be redeemed, given by mail and by publication in such manner as may be prescribed by resolution of the Board of Directors, upon payment of $22 per share together with the amount of any dividends accrued and unpaid thereon to the date fixed for redemption (the "redemption price"); provided, however, that Series A Preferred Stock may be redeemed only after full cumulative dividends upon the Series A Preferred Stock then outstanding shall have been paid or declared and a sum sufficient for payment thereof set apart for such payment for all past dividend periods and after or currently with making payment of, or declaring and setting apart for payment, full dividends on the Series A Preferred Stock then outstanding (except the shares of Series A Preferred Stock to be redeemed) to the end of the current dividend period. In order to facilitate the redemption of any shares of Series A Preferred Stock that may be chosen for redemption as provided in this paragraph (c) the Board of Directors shall be authorized to exercise its discretion to cause the transfer books of the Corporation to be closed as to such shares not more than 60 days prior to the designated redemption date. Any notice mailed in the manner prescribed by the Board of Directors to the holder at his address as the same shall appear on the books of the Corporation, shall be conclusively presumed to have been given whether or not the holder receives the notice. If less than all the outstanding Series A Preferred Stock is to be redeemed, the redemption may be made either *pro rata* or by lot in such fair and equitable manner as may be prescribed by resolution of the Board of Directors. The Corporation shall provide moneys for the payment of the redemption price of the shares called for redemption by depositing the amount thereof on or before the redemption date for account of the holders of the Series A Preferred Stock entitled thereto with a bank or trust company having capital and surplus of at least fifty million dollars ($50,000,000). From and after the date fixed in any such notice as the date of redemption (unless default shall be made by the Corporation in providing moneys sufficient for the payment of the redemption price pursuant to such notice) all dividends on the Series A Preferred Stock called for redemption shall cease to accrue

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and all rights of the holders thereof as stockholders of the Corporation, except the right to receive the redemption price as hereinafter provided, shall cease and terminate. After the deposit of such amount with such bank or trust company, the respective holders of record of the Series A Preferred Stock to be redeemed shall be entitled to receive the redemption price at any time upon actual delivery to such bank or trust company of certificates for the number of shares to be redeemed, duly endorsed in blank or accompanied by proper instruments of assignment and transfer thereof duly endorsed in blank. Any interest accrued on funds so deposited shall be paid to the Corporation from time to time and the holders of shares of Series A Preferred Stock to be redeemed shall have no claim to any such interest. Any moneys so deposited which shall remain unclaimed by the holders of such Preferred Stock at the end of five (5) years after the redemption date, shall be paid by such bank or trust company to the Corporation. Series A Preferred Stock redeemed pursuant to the provisions of this paragraph shall have the status of authorized but unissued Preferred Stock, but such shares shall not be reissued as Series A Preferred Stock.

(d) Priority of the Series A Preferred Stock in the Event of Dissolution (i.e. Liquidation Preference)

The Series A Preferred Stock shall be preferred over the Common Stock and any class or series of stock ranking junior to the Series A Preferred Stock as to assets in the event of any liquidation or dissolution or winding up of the Corporation, and in that event the holders of the Series A Preferred Stock shall be entitled to receive, out of the assets of the Corporation available for distribution to its stockholders, $22 per share, together with the amount equal to all dividends accrued and unpaid thereon to the date of final distribution, for every share of the Series A Preferred Stock held by them before any distribution of the assets shall be made to the holders of the Common Stock or any other class or series of stock ranking junior to the Series A Preferred Stock as to distribution of assets. Upon any liquidation, dissolution or winding up of the Corporation, after payment shall have been made in full on the Series A Preferred Stock as provided in the preceding sentence, but not prior thereto, the Common Stock or any other series or class of stock ranking junior to the Series A Preferred Stock as to distribution of assets shall, subject to the respective terms and provisions, if any, applying thereto, be entitled to receive any and all assets remaining to be paid or distributed and the Series A Preferred Stock shall not be entitled to share therein. If upon any liquidation or dissolution or winding up of the Corporation the amounts payable on or with respect to the Series A Preferred Stock are not paid in full, the holders of shares of the Series A Preferred Stock together with all classes or series of stock ranking on a parity with the Series A Preferred Stock as to distribution of assets shall share ratably in any distribution of assets according to the respective amounts which would be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to the Series A Preferred Stock and any other class or series of stock that so ranks on a parity with the Series A Preferred Stock were paid in full. Neither the merger or consolidation of the Corporation with another corporation nor the sale or lease of all or substantially all the assets of the Corporation shall be deemed to be a liquidation or dissolution or winding up of the Corporation.

(e) The Sinking or Purchase Fund for the Series A Preferred Stock

The Corporation (unless prevented from doing so by law or by applicable restrictive provisions in these resolutions, in the Certificate of Incorporation or in any mortgage, deed of trust, indenture or loan agreement or arrangement of the Corporation, as in effect from time to time, or for any other reason) shall establish a sinking or purchase fund out of assets legally available therefor and set aside in cash for payment on the first business day of each year commencing with the year 1982 (each such date being herein called the "sinking fund payment date") such sum as may be required to redeem 6⅔% of the Series A Preferred Stock originally issued until all the Series A Preferred Stock shall be redeemed or otherwise acquired by the Corporation. Shares of Series A Preferred Stock acquired or redeemed by the Corporation otherwise than through operation of the sinking or purchase fund may, at the option of the Corporation, be credited, at the redemption price per share of the Series A Preferred Stock, against one or more sinking fund requirements which the Corporation may designate and shall reduce the sum required on the sinking fund payment date. If on any sinking fund payment date the funds of the Corporation legally available therefor, or for any reason herein stated, shall be insufficient (together with any

shares voluntarily redeemed or acquired and credited against the sinking or purchase fund requirement) to discharge the sinking or purchase fund requirement in full, such amount of the funds as is legally available and not restricted from such application by the terms of this paragraph (e) shall be set aside for the sinking or purchase fund. Such sinking or purchase fund requirement shall be cumulative so that if, for any year or years, such requirement shall not be fully discharged for any reason as it accrues, funds legally available therefor and not restricted from such application by the terms of this paragraph (e) shall be applied thereto until all such requirements are discharged. On each sinking fund payment date the amount set aside on such date shall be used to redeem Series A Preferred Stock in the manner provided in paragraph (c) of this resolution, at the redemption price for the Series A Preferred Stock.

Shares of Series A Preferred Stock redeemed or otherwise acquired by the Corporation may be held in the treasury of the Corporation or cancelled and given the status of authorized and unissued shares, but such shares shall not be reissued as shares of the Series A Preferred Stock.

(f) Voting Rights

1. Except as may be otherwise herein or in the Certificate of Incorporation, as amended, of the Corporation or by law otherwise specifically provided, each holder of shares of the Series A Preferred Stock shall at every meeting of stockholders of the Corporation be entitled to one vote for each share of the Series A Preferred Stock held by such stockholder and the holders of the Series A Preferred Stock shall vote together with the holders of the Common Stock and together with the holders of any class or series of stock, entitled to vote in the manner provided in this sentence, as one class (and not each as a separate class) on any matter that may be brought before any such meeting.

2. If at the time of any annual meeting of the stockholders of the Corporation for the election of directors (A) either (or both) a "default in preference dividends, in the first instance," or a "default in sinking fund payments, in the first instance," as such terms are hereinafter defined, shall exist, the holders of the Series A Preferred Stock voting separately as a class (subject, however, to the provisions of subdivision 5 of this paragraph (f)) shall have the right to elect two members of the Board of Directors of the Corporation, and no more, and (B) either (or both) a "default in preference dividends, in the second instance," or a "default in sinking fund payments in the second instance," as such terms are hereinafter defined, shall exist, the holders of the Series A Preferred Stock voting separately as a class (subject, however, to the provisions of subdivision 5 of this paragraph (f)) shall have the right to elect such additional number of directors as shall constitute a majority of the Board of Directors of the Corporation, and no more.

Notwithstanding the foregoing whenever any of the above enumerated defaults shall commence to exist and the holders of Series A Preferred Stock shall be entitled to elect directors in accordance with the terms of this subdivision 2 of this paragraph (f), the Secretary of the Corporation (or if at the time the Corporation has no Secretary, then the President of the Corporation) shall call a special meeting of the holders of the outstanding shares of Series A Preferred Stock and any other series of Preferred Stock entitled to vote in the event of such defaults in accordance with subdivision 5 of this paragraph (f) (hereinafter sometimes collectively referred to as the Special Voting Preferred Stock), such special meeting to be held within 120 days after the date of any of such enumerated defaults for the purpose of enabling the holders of the Special Voting Preferred Stock to elect such members of the Board of Directors as herein provided; provided, however, that such special meeting need not be called if an annual meeting of stockholders of the Corporation for the election of directors shall be scheduled to be held within such 120 days.

At any meeting held for the purpose of electing directors at which the holders of the Special Voting Preferred Stock voting as a single class shall have the right to elect directors as provided in this subdivision 2 of this paragraph (f), the presence, in person or by proxy, of a majority of the voting interest of the Special Voting Preferred Stock at the time outstanding shall be required and be sufficient to constitute a quorum of such class for the election of any director by the holders of the Special Voting Preferred Stock as a single class and the majority vote of the Special Voting Preferred Stock so present at such meeting shall be sufficient to elect any such director. For the purposes of the preceding sentence only,

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so long as GL Corporation, a Delaware corporation ("GL") or any of its affiliates shall own any Common Stock of the Corporation, any Special Voting Preferred Stock owned by GL or any of its affiliates shall not be entitled to cast a vote at such meeting of the Special Voting Preferred Stock and such shares not entitled to vote shall not be counted for quorum purposes. At any such meeting or adjournment thereof, (A) the absence of a quorum of the holders of the Special Voting Preferred Stock shall not prevent the election of directors, if any, to be elected by the holders of stock other than the Special Voting Preferred Stock and the absence of the quorum of stock other than the Special Voting Preferred Stock shall not prevent the election of the directors to be elected by the holders of the Special Voting Preferred Stock, and (B) in the absence of such quorum, either of the holders of the Special Voting Preferred Stock or of the holders of stock other than the Special Voting Preferred Stock (if the meeting shall not be a special meeting solely of the holders of the Special Voting Preferred Stock), or both, a majority of the voting interest, present in person or by proxy, of the class or classes of stock which lack a quorum shall have power to adjourn the meeting for the election of directors which they are entitled to elect, from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Prior to any such special meeting, the number of directors of the Corporation shall be increased to the extent necessary to provide as additional places on the Board of Directors the directorships to be filled by the directors to be elected thereat. Any director elected as aforesaid by the holders of shares of the Special Voting Preferred Stock shall cease to serve as such director whenever the default or defaults that provided the basis for such election shall cease to exist. If, prior to the end of the term of any director elected as aforesaid by the holders of shares of the Special Voting Preferred Stock, a vacancy in the office of such director shall occur by reason of death, resignation, removal or disability, or for any other cause, such vacancy shall be filled for the unexpired term by the remaining director or directors elected by the Special Voting Preferred Stock. Any director elected by the holders of shares of the Special Voting Preferred Stock may be removed without cause only by vote of the holders of majority of the votes of the Special Voting Preferred Stock entitled to be cast at an election of directors. For the purposes of this subdivision 2 of this paragraph (f), a "default in preference dividends, in the first instance" shall be deemed to have occurred whenever the amount of dividends in arrears upon the Series A Preferred Stock shall be equivalent to six full quarter-yearly dividends or more, and "default in preference dividends, in the second instance" shall be deemed to have occurred whenever the amount of dividends in arrears upon the Series A Preferred Stock shall be equivalent to ten full quarterly-yearly dividends or more, and, having so occurred, either of such defaults in preference dividends shall be deemed to exist thereafter until, but only until, all dividends in arrears on all shares of the Series A Preferred Stock then outstanding, shall have been paid or declared and set apart in trust for payment. For the purposes of this subdivision 2 of this paragraph (f), a "default in sinking fund payments, in the first instance" shall be deemed to have occurred whenever the amount of sinking or purchase fund payments in arrears upon the Series A Preferred Stock shall be equivalent to two full annual sinking or purchase fund payments or more, and a "default in sinking fund payments, in the second instance" shall be deemed to have occurred whenever the amount of sinking or purchase fund payments in arrears upon the Series A Preferred Stock shall be equivalent to five full annual sinking or purchase fund payments or more, and, having so occurred either of such defaults shall be deemed to exist thereafter until, but only until, all sinking or purchase fund payments in arrears on all shares of the Series A Preferred Stock then outstanding shall have been paid or declared and set apart in trust for payment. The terms "dividends in arrears" or "sinking funds in arrears" whenever used in this subdivision 2 of this paragraph (f) with reference to the Series A Preferred Stock shall be deemed to mean (whether or not in any period in respect of any such arrearages there shall have been surplus or net profits of the Corporation legally available for the payment of dividends or sinking funds or whether such dividends or sinking funds are not made for any other reason) that amount which shall be equal, in the case of dividends, to cumulative dividends at the rate expressed in this resolution for the Series A Preferred Stock for all past quarterly dividend periods less the amount of all dividends paid, or deemed paid, for all such periods upon such Series A Preferred Stock or, in the case of sinking or purchase funds, the cumulative sinking or purchase fund payments at the amount expressed in this resolution for the Series A Preferred Stock for all past sinking fund periods less the amount of all sinking or purchase funds

paid, or deemed paid (including credits in lieu of payments), for all such periods upon the Series A Preferred Stock. Nothing herein contained shall be deemed to prevent an increase in the number of directors of the Corporation pursuant to its By-laws as from time to time in effect so as to provide as additional places on the Board of Directors the directorships to be filled by the directors so to be elected by the holders of shares of the Special Voting Preferred Stock, or to prevent any other change in the number of the directors of the Corporation.

In the event directors elected by the holders of shares of the Special Voting Preferred Stock constitute a majority of the directors of the Corporation and the Corporation has assets legally available for the payment of dividends and/or sinking or purchase funds, but the Board does not apply the assets to the payment of dividends and/or sinking or purchase funds in arrears, the directors elected in an election in which the holders of the Common Stock participated (excluding any directors elected by the Preferred Stock pursuant to any special voting rights, in the event of defaults, granted to such Preferred Stock) (or any director who shall have filled the vacancy of the office of any such director, elected in an election in which the holders of the Common Stock participated, in the manner provided in the By-laws of the Corporation) are hereby authorized as a permanent Committee of the Board of Directors of the Corporation to declare and pay dividends on, or make sinking or purchase fund payments in respect of, any series of Preferred Stock of the Corporation entitled by its terms to any such declarations, payments or purchases for the purpose of eliminating any arrearages, provided that there are assets legally available for any such payments or purchases. The membership of such Committee may not be changed by the Board of Directors.

3. So long as any shares of the Series A Preferred Stock shall be outstanding, the Corporation shall not, without the affirmative vote or written consent of the holders of two-thirds of the aggregate number of shares of the Series A Preferred Stock at the time outstanding voting separately as a class, (A) alter or change the powers, preferences or rights given to the Series A Preferred Stock by this resolution, or (B) authorize or create any class or series of stock ranking, either as to payment of dividends or distribution of assets, prior to the Series A Preferred Stock. In addition to any requirement imposed by subdivision 4 below, so long as any shares of the Series A Preferred Stock shall be outstanding, the Corporation shall not, without the affirmative vote or written consent of the holders of a majority of the aggregate number of the Series A Preferred Stock at the time outstanding (subject, however, to the provisions of subdivision 5 of this paragraph (f)), authorize or create any class of stock ranking either as to payment of dividends or distribution of assets, on a parity with the Series A Preferred Stock or increase the authorized number of the shares of Preferred Stock.

4. So long as any shares of the Series A Preferred Stock shall be outstanding the Corporation shall not, without the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock, voting separately as a class,

(A) increase the number of outstanding shares of the Series A Preferred Stock or authorize, create or issue any series or class of stock ranking, either as to payment of dividends or distribution of assets, on a parity with the Series A Preferred Stock outstanding unless, after giving effect to the issuance of such stock ranking on such a parity with the Series A Preferred Stock, the Consolidated Net Tangible Assets (including the proceeds from such issuance, whether or not such proceeds are from an Acquisition Transaction as defined in clause (B) below) of the Corporation are equal to at least two and one-half times the aggregate liquidation preference of the shares of the Series A Preferred Stock and any class or series of stock ranking on a parity with the Series A Preferred Stock either as to the payment of dividends or the distribution of assets outstanding after such issuance;

(B) sell substantially all the assets of the Corporation or consolidate or merge the Corporation with or into any other corporation (an "Acquisition Transaction") for securities unless (a) any securities exchanged for Series A Preferred Stock shall be preferred stock the terms of which are substantially similar in all material respects to the Series A Preferred Stock exchanged and (b) the Consolidated Net Tangible Assets of the surviving corporation available to the Series A Preferred Stock (or to the preferred stock the terms of which are substantially similar to the Series A Preferred

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Stock in all material respects) immediately after giving effect to the Acquisition Transaction shall be equal to at least two and one-half times the aggregate liquidation preference of the Series A Preferred Stock and any class or series of stock ranking on a parity with the Series A Preferred Stock as to the payment of dividends or the distribution of assets outstanding after the Acquisition Transaction; provided that, except for the requirements of subclause (a) of this clause (B), nothing in clause (A) or in this clause (B) shall prevent (or require the vote or consent of the holders of shares of the Series A Preferred Stock with respect to) the issuance of Preferred Stock ranking on a parity as to dividends or distribution of assets with the Series A Preferred Stock issued to acquire a minority interest through a merger or consolidation of any consolidated subsidiary of Cerro Corporation, a New York corporation ("Cerro"), as any such entity existed on the date of the business combination of Cerro and the Marmon Group, Inc. (Michigan) with or into the Corporation or any subsidiary thereof, or through a sale of assets between any of the above, unless the minority interests in any such corporation to be so merged or consolidated, or whose assets are so to be so sold, shall have increased (other than through the exercise of employee stock options or existing rights to acquire such corporation's capital stock) through the issuance of equity securities as compared to the minority interests in such corporation on the date of such business combination, in which event this proviso shall not be applicable to such corporation;

(C) issue any shares of any class or series of stock ranking on a parity with the Series A Preferred Stock as to the distribution of assets if after giving effect to such issuance the aggregate liquidation preference of such issue shall exceed 115% of the amount or value of the aggregate proceeds (whether cash or property) received or to be received by the Corporation in respect of such issuance; or

(D) enter into any Acquisition Transaction in which the holders of Series A Preferred Stock would be required to accept cash before the date, in accordance with paragraph (c) of this resolution, on which the Series A Preferred Stock may be redeemed or accept cash in an amount less than the redemption price per share.

For the purposes of this subdivision 4 of this paragraph (f), "Net Tangible Assets" of a corporation shall mean the sum of all assets (less depreciation and valuation reserves and items deductible under generally accepted accounting principles) which, under generally accepted accounting principles, would appear on the asset side of the balance sheet of such corporation (excluding any shares of stock or any indebtedness of such corporation held in its treasury, any franchises, licenses, permits, patents, patent applications, copyrights, trademarks, trade names, goodwill, experimental or organizational expenses, unamortized debt discount and expense, research and development costs, deferred charges, unamortized excess cost over book value of assets acquired and all other items treated, in accordance with generally accepted accounting principles, as intangibles), less the sum of all items which, in accordance with generally accepted accounting principles, would be included in determining total liabilities as shown on the liability side of the balance sheet and "Consolidated Net Tangible Assets" shall mean the Net Tangible Assets of the Corporation and its subsidiaries on a consolidated basis determined in accordance with generally accepted accounting principles.

5. Notwithstanding anything to the contrary in these resolutions, the Board of Directors of the Corporation may provide, in connection with the issuance of additional series of Preferred Stock pursuant to the terms of Article Fourth of the Certificate of Incorporation of the Corporation, as amended, voting rights to the holders of any such series which permit such holders to vote together as a class with the holders of the shares of the Series A Preferred Stock with respect to any of the matters set forth in subdivisions 1, 2 and 3 (second sentence only) of this paragraph (f) if the Board determines that the terms of such series of Preferred Stock warrants such voting rights and, in such event, the holders of shares of the Series A Preferred Stock and the holders of shares of any such other series of Preferred Stock shall vote together as a class and without regard to series and the granting of such rights or any other voting rights with respect to any such other series of Preferred Stock shall not be deemed to alter or change in any respect the powers, preferences, or rights given to the Series A Preferred Stock; provided that each share of such Preferred Stock given voting rights shall not have voting rights in excess of the quotient

determined by dividing the liquidation preference of such Preferred Stock, in the event of liquidation or dissolution or winding up of the Corporation, by 22, and if any right accruing to any series of the Preferred Stock to vote for the election of directors in the event of any default in a dividend, sinking or purchase fund payment shall accrue, at a time when the Series A Preferred Stock shall not also be entitled to vote, the Series A Preferred Stock shall be entitled to vote with such series of Preferred Stock, and any other series of Preferred Stock also entitled to so vote, as a single class to elect such number of directors as are to be elected whether or not there has been a default with respect to the rights of the Series A Preferred Stock enumerated in subdivision 2 of this paragraph (f). For the purpose of the proviso to the preceding sentence the liquidation preference of any series of Preferred Stock ranking junior to the Series A Preferred Stock as to distribution of assets shall be determined in accordance with the requirements of clause (C) of subdivision 4 of this paragraph (f) if the liquidation preference to which such series of Preferred Stock is entitled does not meet such requirements.

6. Nothing contained in this paragraph (f) or in these resolutions shall require any vote or consent of the holders of the shares of the Series A Preferred Stock in connection with the authorization or issuance of any one or more additional series of Preferred Stock ranking junior to the Series A Preferred Stock as to dividends and distribution of assets.

(g) Valuation of assets

For the purposes of these resolutions any questions of valuations of assets for any purpose, including, without limitation, determining the amount or value of proceeds from the issuance of any class or series of capital stock or determining the carrying value of assets or liabilities on the books of the Corporation or determining the value of any distribution of assets, shall be conclusively decided by the Board of Directors of the Corporation.

(h) Certain definitions

Notwithstanding anything to the contrary in these resolutions, the term "affiliate" shall have the meaning which the term affiliate has under the Securities Act of 1933 as amended, except that for the purposes of determining affiliation, the reasonable determination of the Board of Directors of the Corporation shall be conclusive; the term "control" shall mean holding the voting interest of 25% or more of the capital stock of a corporation. So long as GL or any of its affiliates shall hold any shares of Common Stock of the Corporation, for the purposes of determining a majority vote of the Series A Preferred Stock outstanding, and of determining a two-thirds vote of the Series A Preferred Stock outstanding under subdivisions 3 and 4 of paragraph (f) (i) in those cases in which the Series A Preferred Stock shall be entitled to vote separately as a single class, then a majority vote shall mean (x) a majority vote of the Series A Preferred Stock outstanding, including the Series A Preferred Stock held by GL and any of its affiliates, and (y) a majority vote of the Series A Preferred Stock outstanding, excluding the shares of Series A Preferred Stock held by GL and any of its affiliates, (ii) in those cases in which more than one series of Preferred Stock shall be entitled to vote together as a single class, then a majority vote shall mean (x) a majority of such shares of Preferred Stock outstanding voting together as a class, including the shares of Preferred Stock held by GL and any of its affiliates, and (y) a majority vote of such outstanding shares of Preferred Stock voting together as a class, excluding any shares of Preferred Stock held by GL and any of its affiliates, and (iii) in those cases in which the Series A Preferred Stock shall be entitled to vote separately as a single class then a two-thirds vote shall mean (x) a two-thirds vote of the Series A Preferred Stock outstanding, including the Series A Preferred Stock held by GL and any of its affiliates, and (y) a majority vote of the Series A Preferred Stock outstanding, excluding the Series A Preferred Stock held by GL and any of its affiliates. GL and its affiliates shall include GL, its affiliates and each successor to any such person (other than a successor which was not an affiliate thereof immediately prior to such succession).

(i) Reports

So long as any Series A Preferred Stock shall be outstanding, the Corporation shall file with the Securities and Exchange Commission such supplementary and periodic information, documents and reports as may be required pursuant to section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security registered pursuant to section 12 of the Securities Exchange Act of 1934, as amended, to the extent said Commission will accept such filings and submit annual reports to the holders of the Series A Preferred Stock.

Item 3. ***Interest of Experts and Others in the Registration Statement.***

Mr. Thomas F. Githens, a Director of the Registrant, is a Vice President of Smith, Barney & Co. Incorporated, the investment banking firm which rendered its opinion in connection with this Registration Statement.

Item 4. ***Indemnification of Directors and Officers.***

Section 145 of the General Corporation Law of Delaware provides, in substance, that: (1) under certain circumstances a corporation may indemnify a director or officer made party to, or threatened to be made party to, any civil, criminal, administrative or investigative action, suit or proceeding (other than an action by or in the right of the corporation) because he is or was a director, officer, employee or agent of the corporation, or because he is or was so serving another enterprise at the request of the corporation, against expenses, judgments, fines and amounts paid in settlement reasonably incurred by him in connection with such action, suit or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to criminal cases, had no reasonable cause to believe his conduct was unlawful; (2) under certain circumstances a corporation may indemnify a director or officer made party to, or threatened to be made party to, any action or suit by or in the right of the corporation for judgment in favor of the corporation, because he is or was a director, officer, employee or agent of the corporation, or because he is or was so serving another enterprise at the request of the corporation, against expenses reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation; and (3) a director or officer shall be indemnified by his corporation against expenses reasonably incurred by him in connection with and to the extent that he has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in the preceding sentences, or in defense of any claim, issue or matter therein.

Under Registrant's By-Laws indemnification of directors and officers will be provided for to the fullest extent permitted under the General Corporation Law of the State of Delaware. The General Corporation Law of the State of Delaware and the By-Laws of the Registrant also permit the purchase by the Registrant of insurance for indemnification of directors and officers. The Registrant will succeed to insurance covering the liability of directors and officers, including liabilities under the Securities Act of 1933, purchased by Cerro Corporation from Continental Casualty Company and the Midland Insurance Company. This insurance will apply to the directors and principal officers of Cerro-Marmon, Leadership Housing, Inc. and Golconda Corporation.

Insofar as indemnification for liabilities or expenses incurred by a director or officer in legal proceedings arising under the Securities Act of 1933, as amended, may be permitted by the foregoing section of the General Corporation Law of the State of Delaware or by the foregoing provisions of the Registrant's Certificate of Incorporation, its By-Laws or otherwise, the Registrant understands that the Securities and Exchange Commission is of the opinion that such indemnification may be against public policy as expressed in said Act and therefore unenforceable. If a claim for such indemnification (except insofar as it provides for the payment by the Registrant of expenses incurred or paid by a director or officer in the successful defense of any action, suit or proceeding or any claim, issue or matter therein) pursuant to such provisions or otherwise is asserted against the Registrant by a director or officer of the Registrant in respect of the securities being registered and the Securities and Exchange Commission is still of the same opinion, the Registrant will, unless in the opinion of its counsel the question has already been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether or not such indemnification by it is against public policy as expressed in said Act and will be governed by the final adjudication of such issue.

Item 5. ***Exhibits Filed.***

The following exhibits are filed as part of this Registration Statement:

1A —Agreement and Plan of Merger dated as of January 15, 1976 between Registrant and Cerro Corporation.

1B —Exchange Agreement dated as of January 15, 1976 among Registrant, Cerro Corporation, GL Corporation and The Marmon Group, Inc. (Michigan).

2 —Form of Proxy to be used in connection with the Special Meeting of Stockholders of Cerro Corporation.

3 —Not Applicable.

4 —Not Applicable.

5 —Opinion of Alexander & Green as to legality of security being registered.

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6.1A —Certificate of Incorporation of Registrant.

6.1B —Form of Amendment to Exhibit 6.1A to be adopted prior to the business combination.

6.1C —Form of resolutions of Board of Directors of Registrant relating to Registrant's Preferred Stock to be adopted prior to the business combination.

6.1D —Form of By-Laws of Registrant to be adopted prior to the business combination.

6.3A —Specimen Certificate of Registrant's $2.25 Cumulative Series A Preferred Stock.

6.3B —Note Agreement of February 6, 1967 among Cerro Corporation, Prudential Insurance Company of America and the Aetna Life Insurance Company, as amended. (Incorporated by reference to Form 8-K of Cerro Corporation for March 1967 and Forms 10-K of Cerro Corporation for the years ending December 31, 1967 through 1974.)

6.3C —Amendment to Exhibit 6.3B.

6.3D —Amended and Restated Loan Agreement dated as of June 30, 1975 between Leadership Housing, Inc. and certain institutional lenders. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

6.3E —Collateral Agreement between Cerro Corporation and First National City Bank dated June 18, 1975 relating to Exhibit 6.3D. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

6.3F —Participation Agreement between Cerro Corporation and First National City Bank dated June 18, 1975 relating to Exhibit 6.3D. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

6.3G —Subordination Agreement between Cerro Corporation and First National City Bank dated June 18, 1975 relating to Exhibit 6.3D. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

6.3H —Credit Agreement among The Marmon Group, Inc. (Michigan), First National Bank of Chicago and First National City Bank dated December 30, 1974.

6.3I —Amendment to Exhibit 6.3H.

6.5 —1976 Profit Sharing Plan for ICX Industries, Inc.

6.8 —Opinion of Messrs. Alexander & Green.

6.9A —Loan Agreement among the Fetterolf Coal and Construction, Inc., Sumitomo Metal Industries, Limited and Mitsubishi Corporation dated October 1, 1974 and amendment thereto dated as of December 16, 1974. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9B —Coal Sales Agreement dated October 1, 1975 among Fetterolf Coal and Construction, Inc., Sumitumo Metal Industries, Limited and Mitsubishi Corporation and addendum thereto. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9C —Letter of October 1, 1974 from Cerro to Mitsubishi Corporation and Sumitomo Metal Industries, Limited relating to Exhibits 6.9A and 6.9B. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9D —Operating Agreement of March 11, 1975 by and among Fetterolf Coal and Construction, Inc. and Mitsubishi Corporation and Sumitomo Metal Industries, Limited. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9E —Tax sharing agreement dated December 31, 1971 among GL Corporation, The Marmon Group, Inc. (Michigan) and certain of their subsidiaries.

6.9F —Supplemental Agreement dated as of December 31, 1971 relating to Exhibit 6.9E.

6.9G —Form of tax sharing agreement between GL Corporation and Registrant to be executed prior to the business combination.

6.9H —Agreement between Cerro and C. Gordon Murphy dated June 12, 1974. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

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6.9I —Amendment dated December 16, 1974 to Exhibit 6.9H. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9J —Agreement between Cerro and C. Gordon Murphy and letters relating thereto dated February 12, 1975. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9K —Agreement of February 12, 1975 between Cerro and S. Roy French, Jr. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9L —Agreement of February 12, 1975 between Cerro and H. Willis Higgs. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9M —Agreement of February 12, 1975 between Cerro and J. Hugh Murphy. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9N —Agreement of February 12, 1975 between Cerro and Robert F. Long. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9O —General Indemnity Agreement of May 1971 between Cerro and Argonaut Insurance Company. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

6.9P —General Indemnity Agreement between Cerro and Highland Insurance Company. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

7 —Opinion of Smith, Barney & Co. Incorporated dated January 26, 1976.

Item 6. ***Undertaking to File Prospectuses as Amendments.***

The undersigned Registrant hereby undertakes as follows:

(a) That prior to any public reoffering of the securities registered hereunder through the use of a prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the Registrant undertakes that such reoffering prospectus will contain, or will be amended to contain the information called for by Item 2 with respect to the securities to be so offered, in addition to the information called for by the other items of Form S-14.

(b) That every prospectus which is filed pursuant to paragraph (a) above, or which purports to meet the requirements of Section 10(a)(3) of the Act, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment has become effective, and that for the purpose of determining liabilities under the Act, the effective date of such amendment shall be deemed the effective date of the Registration Statement with respect to securities sold after such amendment has become effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York, on the 26th day of January, 1976.

CERRO-MARMON CORPORATION
(Registrant)

By JAY A. PRITZER
(JAY A. PRITZKER) *Chairman of the Board*

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities indicated on the 26th day of January, 1976.

Signature	Title
JAY A. PRITZKER (JAY A. PRITZKER)	Chairman of the Board (Principal Executive Officer)
ROBERT A. PRITZKER (ROBERT A. PRITZKER)	President and Director (Principal Executive Officer)
ROBERT C. GLUTH (ROBERT C. GLUTH)	Vice President and Director (Principal Financial and Accounting Officer)
ROBERT H. CUTLER (ROBERT H. CUTLER)	Director
THOMAS F. GITHENS (THOMAS F. GITHENS)	Director
LEWIS B. HARDER (LEWIS B. HARDER)	Director
GEORGE A. JONES (GEORGE A. JONES)	Director
G. WILLING PEPPER (G. WILLING PEPPER)	Director
ALAN WOLFLEY (ALAN WOLFLEY)	Director

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-14 of our reports dated (1) February 25, 1975 (except as to the fourth paragraph of Note 14 the date of which is April 7, 1975, the first through fourth paragraphs of Note D to the consolidated statement of earnings (loss) the date of which is August 13, 1975, Note 13 the date of which is November 18, 1975, and the fifth paragraph of Note D to the consolidated statement of earnings (loss) and the sixth paragraph of Note 6(a) to Note 15 the date of which is January 20, 1976) relating to the consolidated financial statements of Cerro Corporation and Consolidated Subsidiaries and (2) March 16, 1973 relating to the consolidated financial statements of Leadership Housing, Inc. and its subsidiaries, both of which reports appear in such Prospectus. We also consent to the reference to us under the headings "Consolidated Statement of Earnings (Loss)—Cerro" and "Experts" in such Prospectus.

PRICE WATERHOUSE & CO.

New York, New York
January 23, 1976

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CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the references to our firm under the captions "Consolidated Statement of Earnings of The Marmon Group, Inc. (Michigan)" and "Experts" and to the use of our report dated May 16, 1975 (August 13, 1975 as to the [illegible] referred to in the second paragraph of the report, November 13, 1975 as to the third and fourth paragraphs of Note 9, November 19, 1975 as to Note 10 and August 13, 1975 and January 20, 1976 as to the third through fifth paragraphs of Note 5) with respect to the consolidated financial statements of The Marmon Group, Inc. (Michigan) described in such report in the Proxy Statement of Cerro Corporation, which is referred to and made part of this Registration Statement (Form S-14) and related Prospectus of Cerro-Marmon Corporation.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
January 23, 1976

LS 001108

MARGRP CDA dm - 1399

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the inclusion, in the Registration Statement (Form S-14) to be used in registering under the Securities Act of 1933, shares of Series A preferred stock, par value $1 per share of Cerro-Marmon Corporation, of our report dated March 19, 1973, except as to the restatement of the 1972 financial statements, as to which the date is March 12, 1974, which is included in the Prospectus.

We further consent to references to us under the caption "Consolidated Statement of Earnings (Loss)—Cerro" and "Experts" in the Prospectus.

COOPERS & LYBRAND

New York, N. Y.
January 23, 1976

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CONSENT OF SMITH, BARNEY & CO. INCORPORATED

We hereby consent to the use of our opinion dated January 26,* 1976, included as Exhibit C herein, and to references to us under the headings "Summary Information about the Proposed Business Combination—Business Combination Negotiations" and "The Business Combination—The Business Combination Committee—Smith, Barney & Co. Incorporated".

SMITH, BARNEY & CO. INCORPORATED

By ROBERT H. HOTZ
First Vice President

New York, New York
January 22, 1976

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* or such later date as the Registration Statement becomes effective.

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CONSENT OF MESSRS. LEVENFELD, KANTER, BASKES & LIPPITZ

We consent to the reference to our firm name under the captions "Federal Income Tax Consequences —Constructive Dividend" and "Other Tax Matters" and to the use of our opinions under said captions in the Registration Statement.

LEVENFELD, KANTER, BASKES & LIPPITZ

Chicago, Illinois
January 22, 1976

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LIST OF ADDITIONAL CONSENTS FILED HEREWITH

1. Gates Engineering Company

2. John T. Boyd Company

3. The consent of Messrs. Alexander & Green is included in their opinions filed as Exhibits 5 and 6.8 hereto.

LS 001112

LIST OF ADDITIONAL CONSENTS FILED HEREWITH

1. Gates Engineering Company

2. John T. Boyd Company

3. The consent of Messrs. Alexander & Green is included in their opinions filed as Exhibits 5 and 6.8 hereto.

LS 001113

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 1975 **Commission File Number 1-1518**

CERRO CORPORATION*
(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	13-1809539 (I.R.S. Employer Identification Number)
39 South LaSalle Street, Chicago, Illinois (Address of principal executive offices)	60603 (Zip Code)

Registrant's telephone number, including area code (312) 372-3090

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Cerro Corporation Common Stock par value $3.33⅓ per share	New York Stock Exchange (to February 24, 1976)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

* Cerro Corporation was merged into Cerro-Marmon Corporation, a Delaware Corporation, on February 24, 1976. Accordingly, this Form 10-K Annual Report is being filed by Cerro-Marmon Corporation on behalf of Cerro Corporation.

LS 001233

PART I

ITEM 1. BUSINESS

GENERAL

Incorporated in New York in 1915 as the successor to mining enterprises in Peru which were commenced in 1902, Cerro Corporation (the term "Cerro" refers to Cerro Corporation and its subsidiaries unless otherwise required by the context) is engaged in the United States in the manufacture and sale of refined copper, copper and brass mill products, electric wire and cable, electrical metallic tubing and valves, fittings, regulators and other control equipment for pressurized gases; coal mining and other mining operations; common carrier motor freight operations; and real estate operations. A wholly-owned subsidiary, Cerro Sales Corporation, ("Cerrosales"), conducts world-wide trading activities in non-ferrous refined metals, concentrates and other raw materials including copper, lead, zinc, silver and bismuth. Cerro also has a 22.25% interest in Southern Peru Copper Corporation, a company which is engaged in large copper mining operations in Peru; a 12% interest in an iron ore mining venture in Australia; and various interests in several relatively small mining and manufacturing companies in Peru.

On February 24, 1976 Cerro Corporation merged into Cerro-Marmon Corporation, a Delaware corporation ("Cerro-Marmon"), pursuant to a vote of shareholders duly taken on such date, approving an Agreement and Plan of Merger and an Exchange Agreement each dated as of January 15, 1976, pursuant to the terms of which GL Corporation, a Delaware corporation ("GL"), exchanged all the outstanding shares of capital stock of The Marmon Group, Inc. (Michigan), a Delaware corporation ("Marmon"), for five million newly issued shares of the common stock of Cerro-Marmon, and Cerro then merged into Cerro-Marmon, with the outstanding shares of common stock of Cerro held by persons other than Marmon being converted into and exchanged for an equal number of shares of Preferred Stock of Cerro-Marmon. The Agreement and Plan of Merger and the Exchange Agreement, each dated as of January 15, 1976, appear as Exhibits A and B, respectively, to the combined Notice of Special Meeting of Stockholders and Proxy Statement for Special Meeting of Stockholders dated January 26, 1976 and filed with the Securities and Exchange Commission, which is hereby incorporated by reference.

Accordingly, this Form 10-K Annual Report for the fiscal year ended December 31, 1975 is being filed by Cerro-Marmon on behalf of Cerro.

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(a) PRODUCTS, SERVICES, MARKETS AND METHODS OF DISTRIBUTION

Functioning through four operating groups, i.e., manufacturing, real estate, trucking and mining, Cerro's principal products, services rendered, principal markets and methods of distribution are as follows:

MANUFACTURING GROUP

The operations of the Manufacturing Group are carried out through Cerro Copper Products Division ("Cerrocu"), Cerro Metal Products Division ("Cerromet"), Cerro Wire and Cable Co. Division ("Cerrowire"), Cerro Communication Products Division ("Cerrocom"), Cerrosales and Golconda Corporation ("Golconda").

Cerrocu

Cerrocu produces and sells copper plumbing tube and related items, thin-wall industrial copper tube, and electrolytic copper cathode. Plumbing tube is sold principally to plumbing wholesalers direct from the mill and through fifteen regional warehouses. Industrial tube is sold primarily to original equipment manufacturers. Sales of electrolytic copper cathodes are divided approximately equally between sales on the open market to the ultimate user and to Cerrosales for resale (see "Cerrosales" below). Cerrocu also distributes a line of plastic plumbing fittings for another manufacturer.

On March 7, 1975 Cerrocu settled an 18 week old strike which had closed down its Sauget, Illinois manufacturing facility by signing a new three-year contract with the United Steelworkers. Management believes the terms of the new contract will permit Cerrocu's operation at Sauget to remain competitive from the standpoint of labor costs for the term of the new contract.

Cerromet

Cerromet produces and sells brass mill products, including brass and bronze rod, bar, shapes, wire, forgings, screw machine parts and die castings, as well as certain low melting point alloys, principally to original equipment manufacturers and metal distributors.

The principal markets for products manufactured by Cerromet and sold by it to fabricators are the housing, automotive, industrial process and control equipment, and communication and electrical equipment industries. In addition to the foregoing, a small portion of Cerromet's total sales are to distributors of brass rod products.

On April 17, 1975 Cerromet settled a six week strike of the United Auto Workers at its principal facility at Bellefonte, Pennsylvania following expiration of a labor agreement. Cerro's management believes that the settlement terms will not place the division at a competitive disadvantage.

During the second half of 1974 and the first half of 1975 the division experienced a substantial decrease in demand for its rod and fabricated parts products. This decrease began to abate in the third quarter of 1975 and showed further improvement in the fourth quarter.

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Cerrowire

Cerrowire produces and sells single and multi-conductor building wire and cable, control, power and instrumentation cable, aerospace and marine cable, copper wire rod, electrical metallic tubing and coaxial cable.

Cerrowire's products are sold through its own sales offices, manufacturer's representatives, and distributors to (i) the construction industry, (ii) public utilities, and (iii) diversified manufacturers, including those in the defense, maritime, and aerospace industries. In early 1976, it is expected that Cerrowire will commence the manufacture of intermediate metal conduit in a new building at its Syosset, New York facility. Cerro has acquired a building in East Granby, Connecticut, and related equipment, resulting in an expansion of production of utility wire and cable.

Cerrocom

Cerrocom manufactures coaxial cable and passive devices and sells them directly and through distributors to cable television system builders and operators.

Cerrosales

Cerrosales conducts worldwide metal trading activities. It trades, generally in a hedged position, in metal contracts on The Commodity Exchange, Inc. in New York, the London Metal Exchange and foreign exchange markets. Cerrosales deals in non-ferrous refined metals, concentrates and ores, including copper, lead, zinc, silver and companion metals. On December 20, 1974 Cerrosales was appointed copper sales agent in the United States and Canada for Corporacion del Cobre, Chile, an agency of the Government of Chile which oversees most copper production and sales operations of Chile.

Golconda

As a result of private purchases and a tender offer concluded at the end of May 1974, Cerro owns approximately 86.6% of the outstanding shares of common stock of Golconda and approximately 73.5% of the outstanding shares of its preferred stock, or approximately 85% of Golconda's total voting stock. Golconda is engaged in the manufacture and sale of valves, fittings, regulators and other control equipment for pressurized gases. The propane gas market has historically accounted for approximately 70% of Golconda's business. The propane market currently is depressed because of the high cost of propane gas. In addition, Golconda's share of such market has eroded. Golconda's products are sold principally in the United States by a variety of methods, including both direct sales and sales through distributors and dealers. Golconda sold its food service equipment business and its precision components and assemblies business in the first half of 1975.

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Cerro's wholly-owned subsidiary, Leadership Housing, Inc., is engaged primarily in the residential real estate business. (The term "Leadership" refers to Leadership Housing, Inc. and its subsidiaries unless otherwise required by the context.) The principal real estate operations include (i) housing operations consisting of the development, construction and sale of communities of single family homes, including condominium units; (ii) the sale of improved and unimproved land; and (iii) the development, construction, sale and management of rental apartment complexes. In addition, Leadership is a participant in joint ventures engaged in real estate development.

Leadership has been experiencing operating losses and severe liquidity problems. It is the intention of Cerro management to reduce substantially the business, operations and debt levels of Leadership through an orderly liquidation of inventories designed to minimize losses. As a result of the depressed condition of the real estate market existing in the United States generally, and in Florida in particular, an orderly liquidation of inventories designed to preserve corporate assets is likely to take several years. Based upon the information presently available, management believes that this liquidation will take place while adverse market conditions prevail. Management does not intend to acquire additional properties or undertake new projects except to the extent required to sell existing properties.

Liquidity

Leadership, because of its operating losses, experienced working capital deficiencies during the first half of 1975 and was without sufficient cash to meet operating requirements. Even with capital infusions, Leadership was not able to comply with various covenants under the loan agreement with its principal bank lenders pursuant to which it had borrowed $42.5 million during 1973-1974.

In June 1975, the loan agreement was restated and amended. Credit available to Leadership under the loan agreement was increased by $12 million (from $42.5 million to $54.5 million) and the maturity date was extended to April 1, 1977. The principal lenders agreed to provide $2 million of this increase and Cerro agreed to provide $10 million, all to provide funds for working capital and to pay short-term indebtedness. In connection with such restatement and amendment of the loan agreement, Cerro purchased from Leadership: (i) all of the issued and outstanding capital stock of Tamarac Utilities, Inc., Leadership's wholly-owned utility company; (ii) a note and mortgage from Tamarac Utilities, Inc. to Leadership, the prepayments of which are to be made directly to Leadership's lenders to reduce the unpaid principal amount under the loan agreement; (iii) certain accounts receivable of Leadership from Tamarac Utilities, Inc. The purchase price for such assets was $15.75 million, of which approximately $12 million was paid in cash to Leadership and approximately $3.75 million was paid by issuance of a nonrecourse Cerro note (secured by the Tamarac note and mortgage referred to above). In the event of a disposition of Tamarac Utilities, Inc. by Cerro, Cerro must pay to the lending banks the amount of proceeds of such disposition which exceeds such purchase price and certain other payments which amount will be credited to reduce Leadership's debt under the Loan Agreement. The Cerro note was pledged to provide additional collateral under the loan agreement and payments of the principal thereof are to be made directly to the pledgee. All such funds (and the terms under which they were made available)

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were meant to sustain Leadership for the foreseeable future. For information on the interest rate, elimination of compensating balances and further terms of the loan agreement, see Note 8 and Note 6(a) to Note 14 of the Notes to Cerro's Financial Statements.

Cerro was required under the terms of the loan agreement to subordinate amounts owing to it from Leadership (other than the $10 million to be advanced under the loan agreement and $5 million evidenced by two notes which are pari passu to the lending banks' claims under the loan agreement) to the claims of the lending banks. Such subordination covers past advances only.

The loan agreement contains, in addition to provisions normally found in such similar debt instrument, covenants which Cerro's management believes are consistent with its decision to reduce substantially Leadership's business operations and debt levels, such as a prohibition against the acquisition of any real estate, a prohibition against the commencement of new projects and required prepayment of the loan by application of a specified portion of the proceeds from the disposition of its assets. As of December 31, 1975 Leadership was not in compliance with all of the requirements of the loan agreement; on March 11, 1976 the loan agreement was amended to eliminate all such existing events of default. See Note 6 to Note 14 of the Notes to Cerro's Financial Statements.

Of the $12 million made available to Leadership under the amended loan agreement executed on June 18, 1975, the principal bank lenders have advanced their entire $2 million and, as of March 19, 1976, Cerro had advanced $9.2 million. All such funds were required by Leadership to meet its cash requirements. $.8 million remains available under the amended loan agreement. In the first quarter of 1976 Leadership had to borrow $1.5 million to meet its cash requirements. See Note A to the Statement of Earnings (Loss). In light of such cash requirements and limited availability of additional funds, Leadership's management has formulated goals with respect to overhead reduction, the reduction of cash outflow through the cooperation of lenders and other creditors, housing unit sales and reduction of land inventory. Even if these goals are achieved, there can be no assurance that temporary financing for working capital purposes will not be needed, or that if needed, will be available. See "Real Estate Group--Pending Legal Proceedings." At December 31, 1975 the amount of Cerro's equity in Leadership was $34.7 million and the only material legally binding commitment of Cerro (other than the loan agreement) in respect to Leadership is in connection with surety bonds amounting to approximately $33.4 million, guaranteeing Leadership's performance under certain construction contracts. A substantial amount of work has been performed under such contracts, but it is not possible to predict the cost of Cerro, if any, under the surety bonds. See also "Real Estate Operations--Recent Development."

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Results of Operations

Leadership's revenues from sales declined from approximately $160 million in 1973 to approximately $96 million in 1974, resulting in a pre-tax loss of $13.6 million in 1974 as contrasted with a pre-tax profit of approximately $11.9 million in 1973. In 1975 Leadership's revenues from sales further declined from the 1974 level of $96 million to $44 million resulting in a pre-tax loss of $32.5 million. Of the pre-tax loss experienced during 1975, approximately $8 million was attributable to a write-off of goodwill (which arose from Cerro's acquisition of Leadership) that was being amortized over a 40 year period and was determined to be of no continuing benefit to Cerro. The write-off of goodwill does not generate any income tax benefit. Leadership has completed an evaluation of substantially all its real estate inventories to determine that they are carried at the lower of cost or estimated net realizable value, as explained in Notes 1 and 3 to Note 14 of Notes to the Financial Statements. In connection with this evaluation, write-downs and other charges of approximately $8.7 million were charged to operations during the year ended December 31, 1975. See Note 3 to Note 14 of Notes to Financial Statements. There can be no assurance that there will not be further write-downs of inventories, which will depend on changes in the real estate market.

For the condensed financial statements relating to the following analysis of the results of operations of Leadership, see Note 14 to the Financial Statements which contains (a) a statement of operations for the years ending December 31, 1975 and December 31, 1974 and (b) a balance sheet at December 31, 1975 and December 31, 1974.

The principal factors underlying Leadership's decline in profitability for 1974 were a decline in sales and the impact of the substantially higher interest rates prevailing during that year combined with rapid inflation in material and labor costs. For 1975, the economic recession caused a decline in consumer confidence whereby new home buyers withdrew from the markets in which Leadership operates, resulting in fewer sales. The lack of new home buyers discouraged other builders from acquiring land parcels from Leadership thereby eliminating sales and profits from this activity. In Florida, Leadership's most important market, the withdrawal of potential buyers coincided with the completion by all builders of a record number of dwelling units resulting in an oversupply of unsold units.

The depressed state of the single family market did not result in a substantial decline in Leadership's revenue for 1974 from the sale of single family homes as compared with 1973, because such revenues for 1974, for the most part, were derived from the closings on homes under contracts entered into in 1973. The gross profit margin, however, on sales of single family homes in 1974 and in the year ended December 31, 1975 declined substantially owing principally to materially increased costs of interest, labor and materials and the inability to recover these cost increases in full from purchasers of such homes under the terms of Leadership's contracts. See "Single Family Housing" below for information on the decline in the number of contracts entered into for single family homes during 1974 and 1975 as contrasted with the prior comparable periods.

There was a substantial decline in 1974 and a lesser decline in 1975 in the revenues from the development, construction, sale and management of multi-family housing. The declines resulted primarily from economic conditions prevailing in the housing industry during 1974 and 1975. The revenues recognized in 1973 were attributed to sales made in prior years. In 1973 Leadership substantially reduced its sales and construction activities with respect to multi-family housing.

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During 1975, one apartment sale was recognized compared to two projects recognized in 1974. See Note 1 to Note 14 of Notes to Cerro's Financial Statements for methods of accounting for revenues from sales of multi-family projects.

Leadership's revenue from sales which do not fall within its principal operations and certain production related revenues and expenses are encompassed within the "Other" category, in the Statement of Operations contained in Note 14 to the Financial Statements. This category consists of operations which are ancillary to Leadership's principal businesses such as country clubs constructed for the purpose of making homes and land more marketable and utility services. Leadership's gross revenues from this category were higher in 1973 than 1974 because of sales in 1973 of an office building and two country clubs for $7.7 million. Such sales in 1973 also resulted in a gross profit of $1.3 million in that year, as contrasted with a gross loss in 1974 of $2 million attributable to increased operating expense and a decline in profitability of Richmar Development Corporation, a Leadership subsidiary engaged in the development of commercial real estate properties, and losses of a utility corporation. See also "Water and Sewer Facilities" below. Leadership's gross revenues from this category were higher in 1975 than 1974 because of the sale in 1975 of an office building for $.7 million. Such sales in 1975 resulted in a gross loss of $1.7 million, contrasted with a gross loss in 1974 of $2.3 million. The reduced loss resulted primarily from improved profits from the utility operation and reduced operating expenses.

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Single Family Housing

The following table sets forth certain information as of December 31, 1975 and 1974 with respect to single family housing units under construction or completed:

	Housing Units Under Contract and Under Construction or Completed (1)		Housing Units Completed or Under Construction, But Not Under Contract (2)	
	1975	1974	1975	1974
Housing East				
Palm Beach County, Florida		10		14
Broward County, Florida	108	276	93	238
Pinellas County, Florida	11	5	44	68
	119	291	137	320
Housing West				
San Diego, California	45	41	80	44
Leucadia, California	18	6	84	132
Orange County, California	27	39	48	148
Northern California and Nevada	42	18	10	18
	132	104	222	342
	251	395	359	662

(1) Although there are contracts covering these housing units, there can be no assurance that the purchasers will perform. It has been Leadership's practice to retain all or a substantial portion of the purchasers' deposit and resell the unit rather than attempt to enforce such contracts. The purchasers' deposit varies from approximately $500 on units sold in California to somewhat higher amounts on housing units sold in Florida.

(2) Does not include additional housing units which are not under construction but which are included in the current plans for the respective developments and which may be subsequently constructed. Includes certain housing units on which refundable reservation deposits have been received from the prospective purchaser and which, at the option of such prospective purchaser, may subsequently result in binding contracts.

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The following table sets forth information as to contracts entered into for, and deliveries of, single family housing units during the years ended December 31, 1975 and 1974 and single family housing units contracted for but not delivered as of such dates:

	Year Ended December 31, 1975	1974
Housing Units contracted for sale (net of cancellations)	612	648
Housing delivered	803	2,250
Housing Units contracted for sale but not delivered at end of period	268	459

As of December 31, 1975, Leadership had a backlog of orders for 268 single family housing units aggregating approximately $11,150,000, as compared with 459 single family housing units aggregating approximately $16,000,000 at December 31, 1974. The backlogs for these years compare with 2,061 single family housing units aggregating approximately $62,000,000 at December 31, 1973. Although there are contracts covering housing units under order, there can be no assurance that the purchasers will perform. It has been Leadership's practice to retain all or a substantial portion of the purchaser's deposit and resell the housing unit rather than attempt to enforce such contract.

The decline in each of the periods was due to a number of factors, including the limited availability of mortgage financing, substantially higher mortgage interest rates, buyer concern with the state of the economy, and the adoption by Leadership of a policy to reduce backlog owing to the difficulty of securing contracts with purchasers which protect Leadership against substantial increases in the cost of labor and materials and interest attributable to single family housing units during the period of construction. However, the number of units contracted for sale increased during the last half of 1975 reflecting the introduction of a new single family housing project in the Northern California division of Housing West and the results in Housing East of a major advertising program coupled with substantial price reductions on completed condominium and single family homes which were instituted to reduce carrying costs. Housing East increased activity will not result in a proportionate increase in gross profit because of the substantial price reductions involved. Initiation of new single family projects required to sell existing land inventory will depend on the market and cost conditions enumerated above. Leadership does not contemplate acquiring additional land for single family projects.

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Multi-Family Projects

Three projects were completed in 1975, of which one was sold in 1975 and two were sold in 1974. See "Recent Development" for information relating to an additional project.

In substantially all multi-family projects constructed and sold by Leadership, Leadership has guaranteed for a specified period either (i) a fixed rate of return to the purchaser or (ii) that revenues from the project will be sufficient to meet expenses and debt service. Typically, the guarantees are for a period of from two to three years after completion, and with respect to some projects under certain conditions may be extended to five years after completion of construction and with respect to three projects the guarantees are for up to thirty years after completion of construction.

Land Sales

Leadership has acquired large parcels of unimproved land for its own use as well as for sale to other developers. The approximate landholding interests of Leadership, other than those presently under development with the joint ventures mentioned below consist of, at December 31, 1975, 650 acres in Broward County, Florida; 860 acres in Palm Beach County, Florida; 4,170 acres in Pinellas and Hillsborough Counties, Florida; 435 acres in Orange County, California; 55 acres in San Diego, California; 145 acres in Contra Costa County, California; and an aggregate of 140 acres in Maui and Kauai, Hawaii. As the home-building industry deteriorated in 1974, Leadership ceased negotiations to acquire options on additional property and allowed other options to expire without exercise. The losses in 1974 attributable to the options which expired aggregated approximately $1.2 million. There were no significant losses attributable to expired options in 1975.

A major source of financing of Leadership's land development has been borrowings from real estate investment trusts ("REIT's"). REIT's have been experiencing significant problems relating to liquidity which effectively eliminated this group as a source of financing for land development activities. Commercial banks, which have substantial commitments to the REIT's, curtailed their direct real estate lending activities further limiting available sources of funds. As a result, potential buyers of Leadership's lands are having difficulty obtaining necessary financing for acquisition and development activities.

As a result of the foregoing and the depressed state of the single family home market, Leadership's land sales declined from $30 million in 1973 to $2.9 million in 1974. Land sales for 1975 totalled $3.2 million. It is not expected that land sales will return to previously existing levels until such time as there is a general improvement in the housing industry, and an increase in the availability of funds for land development at lower rates of interest than generally prevailed in 1974 and 1975.

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Pending Legal Proceedings

Leadership is a defendant in numerous lawsuits which have arisen in the normal course of its business. In the opinion of the management of Leadership, such suits will not have a materially adverse effect upon Leadership; however, the timing and amount of a judgment or settlement in one or more of such actions could adversely affect Leadership's cash position. See the discussion under the heading "Liquidity" elsewhere herein.

Water and Sewage Facilities

Tamarac Utilities, Inc., a wholly-owned subsidiary of Cerro, (the stock of which was purchased from Leadership in connection with the financing referred to under "Liquidity" herein), services the City of Tamarac, Florida and the surrounding area. Operations are conducted under an exclusive and perpetual certificate issued by the Florida Public Service Commission. Tamarac Utilities, Inc. also has a franchise agreement with the city, largely with respect to the use of public rights of way, in consideration of a payment by the utility to the city of an amount equal to the net of 4 percent of the gross sales of the utility, less certain building or permit fees. During the 24 month period ended December 31, 1975 the results of operations of this utility were approximately break even. An application is presently pending before the Florida Public Service Commission for an increase in the rates the utility may charge its customers. The utility is presently charging its customers on the basis of an interim rate order allowed by the Commission, representing approximately 80% of its rate request. The utility expects the Commission to issue a final order within the near future. During 1974 and 1975, approximately $5.9 million was expended on plant and system expansion. In addition, funds for additional facilities will be required in an amount which is estimated to be approximately $1.2 million for 1976. It is presently contemplated that funds for such additional facilities will be provided by Cerro. The facilities are subject to regulation by the Florida Public Service Commission, Florida Department of Environmental Regulation (Health Department and Pollution Control), and the Central and Southern Florida Flood Control District (water diversionary rights).

Recent Development

Cerro has committed to provide Leadership with a construction loan of $4,020,000, secured by (a) a first Deed of Trust on real estate, (b) a security interest in personal property and (c) an assignment of rents, for a 300-unit apartment complex to be constructed by Leadership in Dallas, Texas, known as the Meadow Road II Project. This project has been sold in advance of construction, for approximately $6,000,000. Construction commenced in January, 1976 and is anticipated to be completed by January 1, 1977. In conjunction with this construction loan, Cerro has made certain completion and repayment guarantees which, together with the $4,020,000 construction loan, create a maximum exposure to Cerro of approximately $6,627,000. In the event that Cerro is required to provide funds under the guarantees, the repayment of all sums (other than the $4,020,000 construction loan, which will be repaid upon completion and delivery of the project to the purchaser and funding of the permanent loan, and except for approximately $520,000) may not be made to Cerro until Leadership pays all of its obligations under its aforementioned loan agreement, an event which, if it occurs, will most likely not occur for a substantial period of time. As of March 19, 1976, $569,784 had been advanced under the terms of the construction loan.

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Joint Ventures

Leadership currently has an interest in four ventures with investors. The first is a partnership agreement relating to approximately 2,100 unsold acres in Palm Beach County, Florida at December 31, 1975. Leadership manages, on behalf of the partnership and for a fee, the development and ultimate sales of this tract for 50% of the profits (but not losses) on approximately 800 acres of the unsold property at December 31, 1975 and shares equally in profits and losses on the remaining 1,300 acres. Sales by the foregoing partnership resulted in a pre-tax profit (loss) to Leadership of approximately $(.5) million in 1975 compared to approximately $1.6 million in 1974.

The second venture, in the City of Tamarac, Florida, is with a group of private trusts of which members of the Pritzker family, including Messrs. Jay A. Pritzker and Robert A. Pritzker, are the beneficiaries. The venture was formed in December 1972, at which time Leadership sold a large tract of unimproved building property to the trusts for an aggregate purchase price of approximately $22,415,000, of which $17,932,000 was paid in cash and the balance was paid by a note secured by a second mortgage on approximately 40% of the property.

Under the terms of an agreement, approximately 40% of the property, zoned for 6,141 dwelling units is to be improved and sold under the management of Leadership, with Leadership and the trusts sharing equally in net profits. The trusts bear all losses. During 1973 and the early part of 1974, property zoned for 1,014 dwelling units and a small parcel of property zoned for commercial use was sold to third parties resulting in a profit to Leadership and the trusts of approximately $657,000 each.

In addition, as of December 31, 1975, property zoned for 868 units was under contracts of sale to third parties; profit, if any, on this sale is not presently determinable. At the present time, purchasers and contract vendees of property zoned for 1,693 units of the foregoing parcels (other than the commercial property) are the subject of lawsuits involving claims for rescission. In addition, all of the property sold to the trusts is the subject of litigation between Leadership and the trusts on the one hand and the City of Tamarac on the other, regarding zoning, density, and sub-division development standards applicable to the property. The litigation arose out of the annexation of the property by the City of Tamarac and an attempt by the City to change the sub-division development standards and to rezone the property for a lower density than was applicable to the property at the time the contracts for the sale of such property were entered into. Leadership and the trusts were successful in the lower court and the Appellate Court, but the suit is presently under appeal by the City of Tamarac to the State Supreme Court. Leadership is unable to predict the results of the appeal, and the effect, if any, the results of such appeal will have on the rescission actions.

With respect to another 40% of the property, an agreement requires the trusts to pay for certain improvements to the property, and Leadership is required to repurchase portions of the property zoned to permit an aggregate of 4,500 housing units to be built on the repurchased property. Such repurchases are to be effected in substantially equal amounts by June 30 of each year through 1979. The repurchase price is to consist of the purchase cost of the trusts, improvement costs, carrying charges and an additional amount equal to $760 per unit for which the property is zoned. If Leadership fails to make the required repurchases, the agreement provides that the trusts may sell the properties; keep all profits; and set off against a purchase money second mortgage owing to Leadership the difference, if any, between the price at which the trusts sell the property and the price at which Leadership would have been required to repurchase the

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property. Based on Leadership's financial position, Leadership and the trusts amended the agreement in 1975 to provide for a moratorium of the obligations of both parties until June 30, 1977. In addition, Leadership has an option to repurchase additional portions of the improved property zoned to permit approximately 2,700 units on the same terms as apply to the 4,500 unit tract. Pursuant to the terms of the amendment to the agreement, Leadership surrendered an option relating to parcels zoned for 753 units. During 1973 and 1974, Leadership repurchased property zoned for 1,770 units for an aggregate amount of approximately $4,697,000. The balance of the property has been used for the construction of two eighteen-hole golf courses. Construction of a club house is planned for 1976.

There are two ventures with a partnership in which members of the Pritzker family, including Messrs. Jay A. Pritzker and Robert A. Pritzker, have indirect interests, relating to parcels of 3,900 acres of property and 235 acres of property in Broward County, Florida. The ventures were formed in 1973, and call for Leadership to act as managing partner for the improvement and resale of the property, with Leadership and the partnership sharing equally in ultimate profits and losses in each of the ventures. All of the capital requirements for those ventures will be furnished by the partnership. As a result of market conditions recently existing in the Florida real estate market, none of the property owned by those ventures has been sold.

In connection with the two joint ventures with the Pritzker Trusts, Leadership is contingently liable for approximately $18,800,000 of the notes payable by the joint ventures at December 31, 1975 to unaffiliated third parties. Leadership, however, would have recourse to the joint ventures. See Note 8 to Note 14 of Notes to the Financial Statements.

The ventures in which Messrs. Jay A. Pritzker and Robert A. Pritzker have interests were commenced at a time when neither was affiliated with Cerro.

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TRUCKING GROUP

Illinois-California Express, Inc., a Nebraska trucking corporation ("ICX"), is a Class I common carrier of general commodities subject to regulation by the Interstate Commerce Commission ("ICC") and operates over 18,000 route miles in all or part of the states of California, Arizona, New Mexico, Texas, Utah, Colorado, Nebraska, Kansas, Missouri, Illinois, Iowa, Indiana, Ohio, Wyoming, Nevada, Oklahoma, Wisconsin and Minnesota. Since its acquisition by Cerro in 1972, ICX has expanded its operating authority through acquisition of the operating authorities of a number of small trucking companies. During 1974, ICX received permanent authority from the ICC to acquire Southern Express Company previously operated by ICX under a temporary authority granted in 1973. As a result of the Southern Express acquisition, ICX extended routes directly covered by it from Chicago, Illinois, to the northern Ohio area, including the cities of Cleveland, Akron, Warren and Toledo. ICX has applications pending before the ICC for the purchase of certain operating authorities of Bestway Freight Lines, Inc. and Hennis Freight Lines, Inc. of Nebraska, which involve routes to such cities as Tulsa and Oklahoma City, Oklahoma and Wichita, Kansas and between Omaha, Nebraska and Kansas City, Missouri. ICX is operating over such routes under temporary authority granted in prior years by the ICC. ICX continues to serve customers on a national basis through interchange agreements with various trucking companies whose authorities cover portions of the United States for which ICX has no operating authority.

In October, 1975, ICX was granted permanent authority by the ICC to acquire certain assets from Arrow Motor Transit, Inc., including its operating authority between Chicago, Illinois and Fort Wayne, Indiana and a terminal facility in Fort Wayne. Permanent authority was also granted to enlarge its service in the Chicago, Illinois area.

At December 31, 1975, the Trucking Group owned twenty-seven terminals. In addition, twenty-nine terminals were leased by the Trucking Group at an aggregate rental of approximately $849,000 per annum. The leases on the terminals, five of which are on a month-to-month basis, expire at various dates through December 31, 1987.

The Trucking Group owns 271 road tractors, 462 converter gears and 1,632 road trailers. In addition, the Trucking Group owns 833 units of pick-up and delivery and service equipment.

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RESULTS OF COAL MINING OPERATIONS

In 1975 coal mining results included a full year of operations of the Fetterolf Group as well as operations of G.M.&W. Coal Company, Inc. and Delta Mining, Inc., both acquired May 28, 1975, and Stott Coal Company, acquired in August of 1975. Sales for the full year were $79.3 million with $17.0 million of pre-tax profits for all coal operations combined.

Fetterolf Coal

On September 25, 1974, Cerro acquired, through its wholly owned subsidiary, Fetterolf Coal and Construction, Inc. ("Fetterolf"), at a total cost of approximately $34,000,000 in cash, the M.F. Fetterolf Coal Co., Inc. and its affiliates which own and lease operating properties in Somerset County, Pennsylvania containing coal reserves, principally of metallurgical quality.

It is estimated that such properties contain reserves of approximately 40,000,000 tons of clean recoverable coal. These reserves are contained in two seams separated vertically by approximately 100 feet in a tract of approximately 12,000 acres. Such seams are contained in areas of approximately 4,600 acres and 3,100 acres, respectively, with sulfur contents of approximately 1.25% and approximately .80%, respectively. Seams less than 36 inches thick are not considered as reserves.

In addition, Fetterolf owns or leases parcels of land containing coal deposits. Fetterolf conducts surface mining operations on such parcels on which there are no comprehensive exploratory studies. Because of the lack of such studies, Fetterolf is unable to determine the amount of coal in such parcels which will be exploitable. The extent to which this coal is mined will depend upon the results of further exploration studies as well as economic conditions prevailing in the coal industry, neither of which can be predicted at this time.

In the fourth quarter of 1974, Fetterolf had pre-tax earnings of $10.5 million on sales of $21.1 million. Operations were interrupted during the quarter from November 12, 1974 to December 9, 1974 as a result of a United Mine Workers' strike. In 1975, Fetterolf had pre-tax earnings of $14.5 million on sales of $64.9 million. For information concerning events affecting Fetterolf's profitability see "Cerro Management's Discussion and Analysis of the Consolidated Statement of Earnings (Loss)".

Fetterolf produces low volatile metallurgical coal which is sold both domestically and abroad. As noted below, a substantial proportion of Fetterolf's production is dedicated to a long-term Coal Sales Agreement with two Japanese corporations. The remaining production is sold on the open market (the "spot market"). Such spot-priced coal is subject to wide price fluctuation. Based upon representative shipments, currently such price continues at its lowest levels of 1975 or approximately $40-45 per short ton while earlier its 1975 high was $70 per short ton. The earnings of Fetterolf during the fourth quarter of 1974 were in large part a result of coal sold on the spot market at record price levels. Average spot prices for metallurgical coal for 1975, while higher than those prevailing during the comparable periods in 1974, have fallen substantially from those prevailing during the fourth quarter of 1974.

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The demand for metallurgical coal is dependent upon the demand for steel and in particular the demand for steel made from iron ore, since steel can be produced from scrap without the use of metallurgical coal. Because of the world wide decline in steel production, the amount of metallurgical coal sold in the spot market both domestically and abroad has declined since the fourth quarter of 1974.

At the time of the acquisition, Fetterolf's underground and surface mining operations were producing at the rate of 650,000 short tons per annum. Expansions are now under way which are expected to increase mine production to 2 million short tons a year at an estimated capital total cost of $23 million of which approximately $14.0 million had been expended as of December 31, 1975. The bulk of such production is and will continue to be from underground mining operations.

Fetterolf's coal preparation plant at Boswell, Pennsylvania, which is also the location of Fetterolf's executive and administrative offices, has a present design capacity to process coal sufficient to produce about 1 million short tons of clean coal per annum. The location of the preparation plant provides access to a source of purchased coal from local independent producers, if desirable. This facility is now in the process of being expanded to a design capacity of approximately 2.4 million short tons a year at a cost of $4.64 million, of which amount $1.54 million had been expended as of December 31, 1975. The expanded coal preparation plant is expected to be fully operational by April 1977.

Coal produced at such preparation plant consists of a blend of coal obtained from surface mining and underground mining, as well as coal purchased from unaffiliated third parties.

The following table sets forth certain information as to Fetterolf's operations for the periods indicated.

	000's Short Tons*			
	Surface Mining	Under-ground Mining	Coal Purchased From Others	Total Coal Sold**
July 1, 1973 to December 31, 1973***	61	161	149	333
1974	257	290	414	965
1975	313	382	454	1001

* Tonnage is calculated after processing at Fetterolf's coal preparation plant.

** Differences in totals of sources of coal and coal sold is accounted for by inventory.

*** Fetterolf's coal preparation plant went into production in May 1973.

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In the light of the current expansion program described above, the foregoing table is not indicative of the operations of Fetterolf in the future. It is anticipated that when the present expansion programs have been completed, underground mining will constitute a larger portion of Fetterolf's production.

As of October 1, 1974, Fetterolf entered into a Coal Sales Agreement with two Japanese corporations for the sale of metallurgical coal beginning July 1, 1975. Shipments under this Agreement began in April of 1975. Fetterolf is required to deliver and the buyers are obligated to accept 600,000 long tons (2,240 pounds avoirdupois) during the first nine months and one million long tons annually thereafter until March 31, 1988. As of February 29, 1976, the end of the eighth month of the contract, Fetterolf has delivered 500,000 long tons and stands ready to supply the additional 100,000 long tons by the March 31, 1976 nine month deadline. The price under the Coal Sales Agreement is firm for the life of the contract, subject to adjustment, based upon certain indices, for increased or decreased costs and to maintenance, in part, of existing profit margins. At present approximately 73% of Fetterolf's production is being dedicated to such Coal Sales Agreement. It is anticipated that when the expansion program discussed above has been completed approximately 50% of such production will be dedicated to such contract. There can be no assurances as to the prices or manner of sale of the remainder of such production.

The price for coal sold under the Coal Sales Agreement is also subject to certain reductions for failure to meet specifications for ash and sulphur content. Initial shipments have been subjected to small price reductions, the causes of which management believes can be corrected. The buyers under the Coal Sales Agreement can also reject coal not conforming to quality requirements in regard to ash and sulfur content if the coal shipped repeatedly fails to conform to those requirements until the buyers have received adequate assurance based on testing results that the coal tendered for delivery will meet content standards. If such coal fails to meet certain other specifications in two consecutive shipments, the buyers must accept such coal but only at a penalty to be borne by Fetterolf to be negotiated. If the next succeeding shipment fails to meet such other specifications, the buyers may reject such shipments unless a reduced price is negotiated. In the event of a failure successfully to negotiate such price, the buyers may terminate the Coal Sales Agreement.

On December 19, 1974, Fetterolf borrowed from the buyers under the Coal Sales Agreement $35 million at an interest rate of 9.5% per annum. The loan is secured by liens upon a substantial portion of the assets of Fetterolf. Repayment of the loan is to be made in semi-annual installments over a ten-year period commencing December 20, 1977. Cerro used a portion of the proceeds of the loan to finance the purchase of Fetterolf and the balance has been or will be used to expand the existing facilities as described above. Cerro has guaranteed delivery by Fetterolf of one million long tons of coal in the first full fiscal year of the Coal Sales Agreement. Fetterolf has the right under the loan agreement to suspend debt service for up to one year should it be unable to ship coal to the buyers as a result of an event of force majeure as set forth in the Coal Sales Agreement. In addition, damages resulting from a breach of the Coal Sales Agreement by the buyers may be offset against payments due under the loan agreement.

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Fetterolf owns or leases coal lands located in western Pennsylvania. Under the terms of the deeds or leases to such lands Fetterolf has the right to remove and take title to coal in certain specified seams in such coal lands but usually, as is customary in the industry for underground mines, does not have title or the right of possession of the surface of such lands. In most cases the right to remove other minerals or coal from other seams has been reserved to the grantor. In addition, Fetterolf owns or leases surface rights to land on which are located or are to be located existing or proposed mine entrances and various structures, such as offices, storage and work sheds, and the coal preparation plant referred to above. Management believes that the material deeds and leases held by Fetterolf are on terms suitable for their intended uses. Such leases are numerous and vary in their terms, but management believes that the terms of the material leases (including permissible renewals thereon, if any) are sufficient to permit mining to exhaustion of the reserves covered thereby if it is so desired.

Acquisition of G.M.&W. Coal Co. and Delta Mining, Inc.

At present, all of Fetterolf's underground mines are operated under contract by the G.M.&W. Coal Co. In order to assure continued operation by a qualified underground mining organization, Cerro purchased in the second quarter of 1975 the G.M.&W. Coal Co. and its sister company, Delta Mining, Inc., for a price of $7.65 million, of which $2.15 million was paid in cash and the timing of the payment of the remainder is to be based on cash flow of those companies over a period estimated to be four or five years. As of January 31, 1976 $780,471 in principal and $160,904 in interest has been paid. Both G.M.&W. Coal Co. and Delta Mining, Inc. mine coal for others.

Acquisition of Stott Coal Company ("Stott")

In the third quarter of 1975, Cerro acquired Stott for a net price of $5.0 million, of which $1.4 million was paid in cash and the timing of the payment of the remainder is to be based on cash flow of that company over a period of time estimated to be three years. At the time of the acquisition Stott owed Fetterolf $1 million net.

The acquisition of Stott, a producer of medium volatile metallurgical coal located in Pennsylvania approximately 60 miles from the Fetterolf group, will increase Cerro's annual production capacity by 750,000 short tons. Since the start up of the preparation plant in May 1975, Stott has produced medium volatile metallurgical coal approximately 40% of which is obtained from surface mining of coal owned by Stott and the balance of which is purchased from independent operations in the area. It is contemplated that within the next six to 12 months coal obtained from surface mining will increase to 50% of total production. The location of the Stott preparation plant in Philipsburg, Pennsylvania assures a source of such purchased coal, if desirable. Coal produced by Stott does not meet the specifications for the Coal Sales Agreement of Fetterolf, and is not subject to any sales agreement. Therefore, there is no assurance of a market for the coal produced by Stott. Stott has two principal customers, both of which are in the steel industry which purchase substantially all of its production and on which it is presently dependent.

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It is estimated that certain of the Stott coal properties contain reserves of approximately 5,000,000 tons of clean recoverable coal. Coal is mined from a number of seams with a sulfur content of from .80% to 1.25% which is then blended to achieve a sulfur content of 1.1% which is permissible within the markets to which Stott sells. These reserves are contained in several seams in several different tracts of approximately 5,000 acres. In addition, Stott owns or leases parcels of land containing coal deposits. Stott conducts surface mining operations on such parcels on which there are no comprehensive exploratory studies. Because of the lack of such studies Stott is unable to determine the amount of coal in such parcels which will be exploitable. The extent to which this coal is mined will depend upon the results of further exploration studies as well as economic conditions prevailing in coal industry, neither of which can be predicated at this time.

Transportation

Coal produced by Fetterolf and Stott is transported primarily by rail and also by trucks. Within the coal industry rail cars are in short supply from time to time and the unavailability thereof could have an adverse impact upon Fetterolf's and Stott's operations and Fetterolf's ability to comply with the Coal Sales Agreement.

Marketing Arrangements

Fetterolf and Stott's production, including that coal sold pursuant to the Coal Sales Agreement, is marketed through an unaffiliated company under a contract for a remaining term of 4 years, pursuant to which such company receives a commission of 2% on the first million tons sold by each of Fetterolf and Stott and 1% thereafter.

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CERRO SPAR CORPORATION

Cerro's wholly owned subsidiary, Cerro Spar Corporation ("Cerrospar"), is the operator and manager of, and has a 70% interest in, a joint venture which began construction of a fluorspar mine and milling operation in western Kentucky in June 1972. The project, as originally contemplated, was completed in mid-year 1974 at a cost to the venture of $6.7 million. Cerrospar has not in the past contributed to Cerro's earnings and is not expected to do so in the foreseeable future.

Start up problems and certain underground mining conditions resulted in unsatisfactory operations in 1974. Production has been curtailed while further underground exploration continues. It is anticipated that this exploration work will be completed in late 1976 at a cost of approximately $1.0 million. On the basis of adequate sampling the existence of approximately 120,000 tons of approximately 35% fluorspar (calcium fluoride) has been established. In addition to this tonnage, based upon limited exploration, the existence of substantial additional mineralization has been established, but the degree to which these deposits will be commercially mineable will depend upon the results of the work currently in progress. Contingent upon the results of this exploration work the mine would be designed to produce at an annual rate of 56,000 tons of acid-grade fluorspar. The two principal uses for fluorspar are in the production of hydrofluoric acid by the chemical industry and as a flux in the steel industry. Cerrospar expects to sell all of its production to the chemical industry. Approximately 50% of its design capacity is committed to long-term contracts with 2 customers in the chemical industry. As to the excess of design capacity over such commitments no contracts have been made.

The fluorspar business in the United States experiences competition from both European and Mexican producers. However, Cerrospar's principal competition is from Mexico owing to the shipping advantage that Mexican producers have over the European producers.

ZIDANI ASBESTOS MINE PROJECT

The mining rights to the Zidani asbestos deposit in northern Greece are held under long-term lease by a 71.25% owned Greek subsidiary of Cerro. The remaining interest is held by the Hellenic Industrial Development Bank S.A., an agency of the Greek Government, which has provided funds for field work and related studies. In 1974, Cerro fully reserved the amount of its investment and has no plans at this time to develop the deposit.

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INVESTMENTS

Southern Peru Copper Corporation

At December 31, 1975, Cerro had a 22.25% interest in Southern Peru Copper Corporation ("SPCC"). SPCC holds concessions covering two mines, Toquepala, in operation, and Cuajone, under development, both located inland from the southern port city of Ilo, Peru.

In 1975 SPCC had sales of approximately $96.6 million and net loss of approximately $9.6 million, compared with sales and net income in 1974 of approximately $190.5 million and $40.5 million, respectively. The decline in sales and the reported loss were due principally to a seven week strike of the mine and smelter employees at Toquepala, lower copper prices and increased fuel costs during the third quarter of 1975. Since the last half of 1972, dividends were suspended as SPCC used its earnings in the development of Cuajone.

Pursuant to Peruvian law, the mining community made up of SPCC's employees will eventually receive 50% of the ownership in SPCC's assets, thereby reducing proportionately Cerro's interest in SPCC's assets. Under Peruvian law SPCC's employees are entitled to receive 10% of SPCC's pre-tax income in each fiscal year, 40% of the 10% which is to be paid in cash and 60% of the 10% which is to be attributed to the acquisition of SPCC's employees of a 50% ownership participation in SPCC's assets. An additional 1% of such annual pre-tax income must be paid to Peru's Mining, Scientific and Technological Institute. At January 1, 1976 these participations in assets amounted to approximately 8.74% compared with approximately 9% as of January 1, 1975. For Cerro's method of accounting for its investment in SPCC, see Note 5 of Notes to Cerro's Financial Statements.

Tax dispute. The Peruvian tax authorities have assessed additional income tax against SPCC on a basis which, if upheld, would result in the liability of SPCC for additional income tax (exclusive of interest and surcharges) in respect of the years 1970 through 1974 of approximately $37.2 million. The assessment for 1970 is presently the subject of an administrative review by the Peruvian Fiscal Tribunal, the outcome of which may resolve the dispute as to all the years of assessment. Cerro has no contingent liability with respect to these assessments.

Toquepala. SPCC has entered into an agreement with Minero Peru Comercial ("Minpeco"), the Peruvian government's export marketing entity for all Peruvian mineral products, whereby as of July 1, 1975, the output of the Toquepala mine is sold to Minpeco for resale to third parties. As a result of costs related to the strike of Toquepala employees, additional financing of approximately $30 million had to be obtained in order to return production to pre-strike levels, which is subject to approval by SPCC's lenders described below. At December 31, 1975 estimated ore reserves at the Toquepala mine amounted to 238 million tons of sulfide ore, with average content of 0.88% copper.

Cuajone. Cuajone is being developed under an agreement with the Peruvian government requiring minimum annual expenditures. Failure to maintain the investment program or complete the project as scheduled (December, 1976) in the absence of force majeure will result in termination of the Cuajone concession and the loss of SPCC's investment therein. Presently the development of Cuajone is proceeding in accordance with such schedule.

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A Peruvian joint venture has been established to develop and operate Cuajone. SPCC (with equity of 88.5%) manages the project while Billiton, N.V., (a Netherlands company holding the remaining equity interest which it acquired for $24.75 million paid to SPCC in January, 1976) has assigned senior engineers to SPCC for work on project development and on subsequent mining and production operations. Cuajone will have a design capacity of 170,000 short tons of blister copper per annum. At December 31, 1975 reserves were estimated at 468.4 million tons of sulphide ore averaging slightly over 1% copper and 22 million tons of oxide material averaging 1.29% copper. In addition, low grade leach material (both sulphide and oxide) amount to 106.5 million tons averaging 0.32% copper.

Through December 31, 1975, $397.4 million was borrowed by SPCC under financing arrangements providing for a total credit of $404 million for Cuajone, in which 54 different institutions participate. Such financing arrangements restrict dividends and additional borrowings and grant the lenders a security interest in the assets of SPCC. In addition, Cerro has agreed to indemnify SPCC against certain losses and expenses related to refining certain Cuajone copper in Peru (limited to the amount of future cash dividends paid by SPCC to Cerro out of Toquepala current and retained earnings over a period not exceeding from four to seven years). Cerro would also be liable to pay for the value of certain blister copper from such project estimated not to exceed $5 million even though such copper may not be delivered. Recently, certain stockholders of SPCC, including Cerro, arranged for an option to place in effect on or before July 1, 1976, insurance against the contingent liability with respect to blister copper. Cerro's coverage under such insurance would be approximately $1.5 million.

Cost overruns exceed the credit available under SPCC's financing arrangements by approximately $106 million, including $70 million for working capital. Borrowings by SPCC to meet these additional costs will require waivers under such financing arrangements. In order for SPCC to obtain waivers which will be effective until July 30, 1976 Cerro and the other stockholders of SPCC have invested an aggregate of $20 million ($4.45 million in the case of Cerro) in additional equity capital in SPCC. Further, an additional offering of equity securities of SPCC (possibly securities with a preference to dividends) in the amount of $25 million to SPCC stockholders and to third parties is required by such lenders. Such offering will reduce Cerro's equity interest in SPCC to the extent Cerro does not subscribe thereto. Such equity investments would allow SPCC to seek additional credit during the waiver period to July 30, 1976. In the event such additional equity offering is not fully purchased or such additional credit is not available on a timely basis, the development of the Cuajone concession by the scheduled date of December 1976 may become impracticable and the loss of such concession and SPCC's investment therein may result therefrom. In such event the lending institutions would be entitled to accelerate the indebtedness relating to the Cuajone financing in connection with which the lending institutions possess a security interest in all the assets of SPCC. Preliminary discussions are being held by SPCC with possible sources of such additional funds. Through December 31, 1975, $557.1 million had been expended by SPCC in the development of Cuajone.

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Chile

Under arrangements with the Government of Chile providing for compensation for the expropriation in 1971 of Compania Minera Andina S.A., a Chilean corporation, 70% owned by Cerro, Cerro received in 1974 a cash payment of $3,223,000 and notes in the principal amount of $38,633,794. Through December 31, 1975, Cerro had collected $12.3 million in prepayments of principal and $3.8 million in regular payments of principal on such notes. For a description of such notes, see Note 4 of Notes to the Financial Statements.

Peruvian Affiliates

In 1974, Cerro received net dividends of $1,136,000 from its Peruvian industrial and mining affiliates and for 1975, Cerro received net dividends of $1,081,000 from such affiliates. In 1973 Cerro fully reserved for its entire investment in its Peruvian affiliates.

Compensation for Expropriation of Cerro de Pasco Corporation

In December 1974, Cerro received from the United States Government $10.0 million plus interest, representing the final installment of the $68.0 million paid by Peru as compensation for expropriation of Cerro de Pasco Corporation. The $10.0 million had been paid to the United States Government by Peru in February 1974.

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Savage River Corporation (Northwest Iron Co. Ltd.)

Through its 24% equity position in Northwest Iron Co., Ltd. ("Northwest"), Cerro holds an approximate 12% interest in Savage River Corporation, a joint venture operating iron ore mining and pelletizing facilities in Tasmania, Australia. Besides Cerro, the owners of Northwest include Pickands Mather & Co. as operator and 48% owner with the balance distributed among a number of institutional investors.

Cerro and Pickands Mather & Co. have agreed to advance sufficient funds to maintain Northwest's working capital at a level of $500,000 until certain of its outstanding indebtedness aggregating $18.3 million at December 31, 1975 has been repaid; such repayment is scheduled for 1983. Under this arrangement, Cerro is obligated to advance one-third of the funds necessary to maintain working capital at such level; Cerro advanced $247,000 in 1971 for this purpose. No advances were required in 1972, 1973 and 1974. Working capital shortfalls could be in excess of $500,000 and could be recurring. In the event that Cerro and Pickands Mather & Co. would find it desirable to have the entire amount of the indebtedness repaid rather than contribute to working capital, Cerro would be contingently liable for $6.1 million based on outstanding indebtedness at December 31, 1975. There can be no assurance that Pickands Mather & Co. would concur in such judgment and agree to repay that portion of such indebtedness relating to its obligation. In July, 1975, Cerro pledged $1,000,000 principal amount of marketable debt instruments owned by it to a lending institution as partial security for an interim loan in the amount of $3,000,000 made to Northwest. On November 7, 1975, in connection with permanent financing arrangements and upon an increase in the loan to $6,000,000, Cerro increased the principal amount of pledged securities to $2,000,000. Pickands Mather & Co. supported the balance of such loan.

In 1973 and 1974, Cerro fully reserved, exclusive of its contingent liability, the amount of its investment in Northwest. Northwest has never contributed to Cerro's earnings and it is unlikely that it will contribute to such earnings in the foreseeable future. See Note 5 of Notes to the Financial Statements for Cerro's share of the reported profits (loss) of Northwest for recent fiscal periods.

FOREIGN OPERATIONS

For the calendar years 1972, 1973 and 1974 Cerro recognized net dividends and other income from foreign affiliates in the amounts of $732,000, $881,000 and $1,136,000, respectively. The net income for the calendar year 1972 is exclusive of dividends received from Southern Peru Copper Corporation in the amount of $3,482,000. For the year ended December 31, 1975, Cerro received net dividend income of $1,081,000. The results for calendar years 1972 and 1973 reflect only results from continuing operations. The Division of Enforcement of the Securities and Exchange Commission is conducting informal inquiries into certain transactions involving the company's foreign operations. In the opinion of Cerro, these transactions are not material to Cerro's continuing business and operations.

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(b) COMPETITION, BACKLOG, MATERIALS AND SUPPLIES, FRANCHISES, RESEARCH, EMPLOYEES AND ENVIRONMENT

(1) Competition

Manufacturing Group--

The fields in which Cerro's manufacturing divisions operate are intensely competitive. Although Cerro is a major producer in its fields, a number of its major competitors in the copper fabricating field are fully integrated and have captive sources of copper which equal or exceed their fabricating and manufacturing capacities. Each of Cerro's manufacturing divisions is dependent on non-captive sources of supply.

(a) Cerrocu--There are approximately 25 primary and redraw domestic copper tube companies with which Cerro competes. All of these companies have capacity substantially in excess of demand, a condition aggravated by substantially reduced demand in the second half of 1974, and the year 1975. Cerrocu attempts to compete in the areas of price and service by maintaining regional warehouses for its product lines and using its own sales force. In the sale of electrolytic copper cathodes, Cerrocu competes with all copper refiners.

(b) Cerrowire--There are a large number of competitors with which Cerrowire competes, no one of which necessarily produces the same product line. Therefore, its competitive position varies with each type of wire and cable produced by this division. Conditions are highly competitive.

(c) Cerrocom--There are approximately six major competitors with which Cerrocom competes, no one of which necessarily produces the same product line. Therefore, its competitive position varies with each product produced. Conditions are highly competitive.

(d) Cerromet--There are seven major competitors producing substantially similar products as Cerromet, as well as over 100 foreign and domestic companies competing in various lesser degrees with all products produced by this division. The division competes on the basis of quality of its products and the geographic locations of its facilities.

(e) Golconda--Golconda is subject to intense competition from a large number of firms in the fields in which it is engaged. Competition varies from older and larger firms having greater financial resources than Golconda to small local and regional competitors which have advantages deriving from proximity to local markets.

Real Estate Group--

The housing industry is highly competitive. Leadership is one of many national home builders and competes with numerous builders (national, regional and local) of both single and multi-family residences in every area where its developments are located. Competition is based primarily on design, location and price. Although it is impractical to estimate the number of companies with which Leadership competes, there are numerous competitors which are larger, more experienced and have greater financial resources.

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Trucking Group--

Competition for freight, within the geographic market in which ICX operates, is intense from competing trucking companies as well as other modes of transportation. Based on the latest available industry statistics, ICX was among the 50 largest General Commodities Common Carriers in terms of gross revenues. ICX, which operates under the regulation of the ICC and various State regulatory agencies has a number of authorities, licenses and franchises with which it believes it is in compliance.

Mining Group--

Fetterolf and Stott compete with numerous producers, some of whom are substantially larger, and each has only a small share of the market. In addition, there are large reserves of metallurgical coal owned by steel companies and others.

(2) Principal Customers

Neither of the Manufacturing, Real Estate, nor Trucking groups is dependent on a single customer, or a small number of customers, the loss of which would have a materially adverse effect on any such group. As to principal customers of the Mining Group, see "Mining Group."

(3) Backlog of Orders

With the exception of the New Haven plant of Cerrowire, backlog of orders are not material to the business of the Manufacturing Group. As at December 31, 1975 the New Haven plant had a backlog of orders believed to be firm of $7.9 million as compared with $18.6 million at December 31, 1974.

As a common carrier, ICX has no long-term agreements with customers and, therefore, no backlog.

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(4) Sources and Availability of Raw Materials

Manufacturing Group—

Cerro's Manufacturing Group depends for raw materials (principally copper used in the production of copper and brass mill products, electrical wire and cable products) on non-captive sources of supply, including purchases from United States, Canadian and other foreign producers of primary copper, from Cerrosales, from scrap dealers and customer generated scrap. Copper produced by the expropriated operations in Peru had not recently been used as a major source of copper for Cerro's manufacturing operations, and, therefore, the loss of Cerro de Pasco Corporation has not had a direct affect on the availability of supplies for the Manufacturing Group.

Copper is purchased in the United States at U. S. producer prices and dealer and scrap prices which are generally at variance with one another. When the U. S. producer prices are below those for scrap and dealer copper, Cerro has historically not been able to obtain the quantities of copper it requires at the U. S. producer prices, thus placing it at a distinct competitive disadvantage with those favored with large supplies of copper at U. S. producer prices.

A renewal of the fuel shortage or further increases in the price of oil, natural gas or electricity could result in increases in all energy costs and in the case of oil the costs of materials produced by the petrochemical industry. The Cerrowire and Cerrocom divisions use a substantial amount of petrochemical products such as polyethylene, neoprene and polyvinyl chloride in the manufacture of its wire and cable. Renewal of a shortage of such products as occurred in the last half of 1973 could cause some curtailment of output. Production of wire and cable was somewhat curtailed during the first nine months of 1974 because of a shortage of raw materials, primarily copper, steel, plastic resins and plasticizers. There was no shortage of such raw materials in 1975.

Real Estate Group—

Leadership is dependent for construction materials on independent local and regional suppliers in the building supplies business. During the early part of 1974, Leadership experienced periods in which certain construction materials were either in short supply or not available at the time required by it. The cost of nearly all the materials purchased by Leadership have increased substantially and, because of existing contracts and market conditions, Leadership, in most instances, has been unable to pass on such cost increases to its buyers.

Trucking Group—

On July 1, 1975, rate increases were granted by the ICC of approximately 4% to offset labor cost increases. Such rate increases, however, were not adequate to offset increases in costs other than labor. ICX operates both diesel and gasoline fueled trucks. The primary source of fuel is the major oil companies and some independent oil suppliers. The availability of fuel and petroleum products generally was not a significant problem in 1975 as compared to 1974. ICX's average monthly requirements for diesel fuel and gasoline exceed 600,000 gallons and 100,000 gallons, respectively, and it has storage capacity at its various terminal locations approximately equal to those amounts. A renewal of a shortage of such products could have a significant impact on operations as well as on ICX earnings if cost increases are not offset by timely rate increases.

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The cost of fuel continued to increase during 1975 so that such costs aggregated approximately 5.3% of ICX's total revenue for 1975, as compared with approximately 5.4% for 1974. During the first half of 1974 rate relief was granted in the form of a temporary surcharge and permanent rate increases were granted during the year. On September 23, 1975, an additional 2% increase in rates was approved by the ICC which, in part, has offset increases in fuel and other operating costs. This rate increase applies to the operations of ICX in the Rocky Mountain Tariff Bureau area which accounts for about 76% of ICX's business.

(5) Licenses, Patents and Trademarks of Operating Groups

Except in the case of ICX, which is discussed under the heading "Trucking Group" above, Cerro holds no material patents, trademarks, licenses or franchises which are important to its business.

(6) Research and Development; Exploration

Cerro expended a total of approximately $922,000 in 1975 and approximately $700,000 in 1974 in research and development in respect of new products and improvements of existing products and in mineral exploration activities.

(7) State and Federal Safety and Environmental Regulation

Cerro's coal operations are subject to Federal and State regulation in matters of coal mine health and safety, including legislation prescribing health and safety standards promulgated under the Federal Coal Mine Health and Safety Act of 1969. This Act empowers Federal Mine Inspectors to conduct inspections and issue citations or require cessation of mining in the event that violation of standards or the existence of dangerous conditions are found. The managements of Fetterolf and Stott believe that they are in substantial compliance with the Act.

Fetterolf's and Stott's operations are subject to environmental regulations imposed by the Federal Government and the Government of the Commonwealth of Pennsylvania. Such regulations include water and air quality and surface mining regulations which affect operations at Fetterolf's and Stott's mines and facilities. In addition, Fetterolf's underground mines are subject to regulations relating to subsidence of the surface as a result of undermining. The managements of Fetterolf and Stott believe that they are in compliance with such regulations. To date, the sulfur content of the coal produced and blended by Fetterolf and Stott has been 1.0% and 1.1%, respectively, which is within permissible limits in all the markets in which it is sold.

Compliance with Federal, State and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, is not expected to have any material effect upon the capital expenditure, earnings and competitive positions of Cerro's Manufacturing Group, its Real Estate Group or its Trucking Group.

(8) Employees

As at February 1, 1976, Cerro had 8,012 employees.

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(c) Information as to Continuing Lines of Business (Unaudited)

The following table sets forth certain information for each of the last five fiscal years with respect to the contribution to consolidated sales and earnings (losses) before taxes, and before allocation of corporate administrative expenses and interest expense, of the continuing operations of Cerro's principal lines of business. Material intergroup transactions have been eliminated.

	Year ended December 31,									
	1975		1974		1973		1972		1971	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Thousands of Dollars)									
Sales (1):										
Metal Products	$142,308	24	$251,065	33	$202,160	32	$147,349	34	$111,881	34
Wire and Cable Products	108,327	18	123,943	16	112,034	18	87,958	21	82,186	25
Metals Trading	148,511	25	192,404	26	103,608	16	66,290	15	79,388	25
Real Estate (3)	45,486	8	96,006	12	159,949	25	114,668	27	52,634	16
Trucking	74,566	12	73,466	10	58,856	9	11,756(2)	3	---	---
Mining	79,971	13	21,446(2)	3	---	---	---	---	---	---
	$599,169	100	$758,330	100	$636,607	100	$428,021	100	$326,089	100
Earnings (Losses) from Continuing Operations (1):										
Metal Products	$ 4,384	19	$ 14,231	24	$ 20,846	37	$ 11,057	36	$ 4,377	27
Wire and Cable Products	17,758	77	26,231	44	10,498	19	4,503	14	5,442	33
Metals Trading	3,612	16	5,952	10	2,767	5	3,024	10	(26)	---
Real Estate (3)	(32,149)	(139)	(13,606)	(23)	11,884	21	5,609	18	(2,879)	(18)
Trucking	3,231	14	4,970	9	5,550	10	1,183(2)	4	---	---
Mining	15,597	67	10,230(2)	17	---	---	---	---	---	---
Dividends from Southern Peru Copper Corp.	---	---	---	---	---	---	3,482	11	6,615	41
Other	10,699	46	11,177	19	4,698	8	2,170	7	2,670	17
	$ 23,132	100	$ 59,185	100	$ 56,243	100	$ 31,028	100	$ 16,199	100

(1) Information with respect to 1972 and 1971 has been restated for the expropriation of Cerro de Pasco Corporation's properties in Peru, the sale of Cerro's 50% equity interest in Atlantic Cement Company, Inc. and a change in inventory accounting at one of the metal fabricating plants. See Note B to Cerro's Statement of Earnings (Loss).

(2) Year of acquisition or start-up: Trucking--October 1972; Mining--September 1974.

(3) For all periods; includes results of Leadership Housing, Inc. and Tamarac Utilities, Inc.

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ITEM 2. SUMMARY OF OPERATIONS

The following sets forth the consolidated Statement of Earnings (Loss) of Cerro Corporation and Consolidated Subsidiaries for the years 1971 through 1975.

	($ in Thousands)				
	1975	1974	1973	1972(B)	1971(B)
			(Not Covered by Auditor's Report)		
Net sales	$599,169	$758,330	$636,607	$428,021	$326,089
Other revenue, net (Note D)	18,280	23,571	21,268	14,817	16,786
	617,449	781,901	657,875	442,838	342,875
Cost of products sold	519,354	661,886	549,832	373,277	300,713
Selling and administrative expenses	53,936	57,206	58,933	38,364	32,477
Write-off of unamortized good-will attributed to realty operations (Note M)	8,040	---	---	---	---
Interest cost accrued	23,326	23,301	17,596	13,336	8,427
Less: Interest capitalized (Note K)	(6,198)	(8,461)	(5,962)	(3,558)	(2,490)
Depreciation, depletion and amortization	13,201	8,692	6,722	4,845	3,679
	611,659	742,624	627,121	426,264	342,806
Earnings from continuing operations before taxes	5,790	39,277	30,754	16,574	69
(Provision for) benefit of income taxes (Note E)	(8,200)	(23,350)	(15,376)	(7,512)	2,210
Earnings (loss) from continuing operations	(2,410)	15,927	15,378	9,062	2,279
Earnings from discontinued operations (Notes E and F)	---	---	33,783	10,626	353
Earnings (loss) before extraordinary items	(2,410)	15,927	49,161	19,688	2,632
Extraordinary items (Notes E, F and G)	---	---	(45,550)	(1,924)	(988)
Net earnings (loss)	$ (2,410)	$ 15,927	$ 3,611	$ 17,764	$ 1,644
Net earnings (loss) per Common Share (in dollars)*:					
Continuing operations	$(.30)	$2.01	$1.86	$1.07	$ .27
Discontinued operations	---	-	4.08	1.26	.04
Earnings (loss) before extraordinary items	(.30)	2.01	5.94	2.33	.31
Extraordinary items	---	-	(5.50)	(.23)	(.12)
Net earnings (loss)	$(.30)	$2.01	$ .44	$2.10	$ .19
Dividends (represents historical dividends paid):					
Cash	$1.20	$1.05	$ .75	$ .60	$ .80
Stock	-	-	-	-	5%
*Based on the weighted average number of shares outstanding during each year as adjusted for stock dividends (Thousands of shares) (Note L)	7,911	7,925	8,273	8,464	8,463

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See Notes to Financial Statements (numerical references) and Notes to Statement of Earnings (Loss) (alphabetical references).

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

($ in Thousands)

	Year Ended December 31,				
	1975	1974	1973	1972(B)	1971(B)
			(Not covered by Auditor's Report)		
Balance at beginning of year	$161,935	$154,323	$103,939	$ 90,750	$103,179
Add:					
Reappraisal surplus (Note 10)	---	---	52,959	---	---
Consolidation adjustments related to minority shareholders' equity in Leadership Housing, Inc.	---	---	---	503	---
Net earnings (loss)	(2,410)	15,927	3,611	17,764	1,644
Cash dividends	(9,494)	(8,315)	(6,186)	(5,078)	(6,770)
Transferred to common stock and paid-in capital for 5% stock dividend	---	---	---	---	(7,303)
Balance at end of year	$150,031	$161,935	$154,323	$103,939	$ 90,750

CONSOLIDATED STATEMENT OF PAID-IN CAPITAL

($ in Thousands)

	Year Ended December 31,				
	1975	1974	1973	1972(B)	1971(B)
			(Not covered by Auditor's Report)		
Balance at beginning of year	$178,218	$178,218	$178,084	$178,084	$172,159
Excess of fair value over par value of common stock issued as stock dividends (417,291 shares)	---	---	---	---	5,912
Excess of cash received over par value of common stock issued upon exercise of stock options (1971 - 1,118 shares; 1973 - 15,407 shares)	---	---	134	---	13
Balance at end of year	$178,218	$178,218	$178,218	$178,084	$178,084

See Notes to Financial Statements (numerical references) and Notes to Statement of Earnings (Loss) (alphabetical references).

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NOTES TO STATEMENT OF EARNINGS (LOSS)

A. UNCERTAINTIES

On August 13, 1975, management stated its intention to reduce substantially the business, operations and debt levels of Leadership Housing, Inc. ("Leadership"), a real estate subsidiary, through an orderly liquidation of inventories designed to minimize losses. (See Note 14 of Notes to Financial Statements for Condensed Real Estate Financial Statements). It is expected that, after this reduction is completed, the total assets of Leadership would be less than half of its total assets at December 31, 1974. As a result of the depressed condition of the real estate market existing in the United States generally, and in Florida in particular, an orderly liquidation of inventories designed to preserve corporate assets is likely to take several years. Based upon the information available, it is believed that this liquidation will take place while adverse market conditions prevail. To the extent the reduction results in the disposition of inventories other than in the normal course of business and during a period in which adverse market conditions prevail, the estimated net realizable value may be adversely affected by an undeterminable amount.

Leadership has historically utilized its own sales transactions as well as sales of comparable land and improvements by others as one of the primary factors in the determination of estimated net realizable value. Based upon information available in 1975, Leadership has made a determination of net realizable value which resulted in provisions for writedown of inventories (see Note 3 to Note 14). However, the decline in comparable transactions together with adverse market conditions and the inventory reduction plan mentioned above have created significant uncertainties with respect to Leadership's determination of estimated net realizable value. Accordingly, uncertainties are created as to the amount and timing of the ultimate realization upon disposition of land and improvement inventories carried on the books of Leadership ($75,981,000 at December 31, 1975). Further, because of the potential for losses upon realization of land and improvement inventories, an uncertainty exists as to the realizable value of Cerro's asset, "Future income tax benefit" ($35,789,000 at December 31, 1975).

The estimated net realizable value of unimproved property ($38,593,000 at December 31, 1975) held by the two joint ventures in which Leadership is a participant with the Pritzker Trusts (see Note 4 to Note 14) is subject to the same uncertainties as described in the preceding paragraph. While Leadership has no investment in these particular ventures, it is contingently liable to lenders with respect to approximately $18,800,000 of notes payable of the ventures at December 31, 1975 (see Note 7 to Note 14).

Events of default existed at December 31, 1975 under certain of the covenants in the Amended and Restated Loan Agreement of Leadership (see Note 6 to Note 14). Although such events of default were eliminated by amendments to the Loan Agreement on March 11, 1976, Leadership anticipates that additional events of default will probably occur in 1976 as a result of continuing unprofitable operations and adverse cash flow, which may be affected by the outcome of litigation involving certain receivables aggregating $1,565,000, the ultimate collectibility of which can not presently be determined (see Note 2 to Note 14). If events of default occur, the Loan Agreement provides that upon notification from the principal lenders the debt covered thereby would become due and payable. Leadership and its lenders are currently studying alternatives to the April 1, 1977 maturity date of the loan. It is anticipated that discussions will begin in 1976 to renegotiate the existing Loan Agreement, the outcome of which cannot be determined at this time.

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Cerro financially supported the operations of Leadership during 1975; however, no decision has been reached as to how long Cerro will continue its support if Leadership's current operating losses continue and the Loan Agreement does not provide adequate support during the orderly liquidation period described above, or the principal lenders withdraw their support. Funds available under the Loan Agreement amounted to $800,000 at March 19, 1976. Cerro also has legally binding commitments in connection with surety bonds ($33,400,000 at December 31, 1975) guaranteeing Leadership's performance under certain construction contracts. A substantial amount of work has been performed under such contracts, but it is not possible to predict the cost to Cerro, if any, under the surety bonds.

B. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS

The information presented for 1972 and 1971 has been restated to reflect the operations of Cerro's former subsidiary in Peru (Cerro de Pasco Corporation), which was expropriated on January 1, 1974, and Cerro's interest in Atlantic Cement Company, Inc., which was sold during 1973, as discontinued operations (Note F). It has also been restated to reflect the operations of Cerro de Pasco Corporation and Industrias de Cobre, S.A. (Indeco) on the equity basis of accounting and for the change in method of accounting for certain metal inventories from the last-in, first-out to the first-in, first-out method. The effects of these restatements are as follows:

	Sales and Other Revenue, Net	
	Year Ended December 31,	
	1972	1971
	($ in Thousands)	
As previously reported	$633,443	$487,395
(Deduct):		
Cerro de Pasco and Indeco	(189,136)	(143,085)
Atlantic Cement Company, Inc.	(1,469)	(1,435)
As restated	$442,838	$342,875

	Earnings from Continuing Operations	
	Year Ended December 31,	
	1972	1971
	($ in Thousands)	
As previously reported	$ 24,178	$ 4,443
Add (Deduct):		
Cerro de Pasco and Indeco	(13,740)	429
Atlantic Cement Company, Inc.	(1,469)	(1,435)
Inventory accounting change	93	(1,158)
As restated	$ 9,062	$ 2,279

	Net Earnings Per Share	
	Year Ended December 31,	
	1972	1971
As previously reported	$ 2.09	$ .33
Inventory accounting change	.01	(.14)
As restated	$ 2.10	$ .19

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C. CONSISTENCY OF ACCOUNTING

Extraordinary items for the years 1972 and 1971 include items which, under the provisions of Accounting Principles Board Opinion No. 30, effective in October 1973, would have been included in the determination of earnings from continuing operations or from discontinued operations. Opinion No. 30, however, prohibits restating prior year financial statements for consistency with 1973 and subsequent periods. Restatement of the Statement of Earnings (Loss) however, would have shown the following:

	($ in Thousands)	
	1972	1971
Earnings (loss) from continuing operations	$ 7,412	$ (519)
Earnings from discontinued operations	7,550	353
Extraordinary items	2,802	1,810
Net earnings	$ 17,764	$ 1,644

Net earnings as reported in the Statement of Earnings (Loss) are unchanged.

D. OTHER REVENUE, NET

In addition to other items, other revenue, net includes dividends from Southern Peru Copper Corporation, a 22½%-owned affiliate, accounted for on the cost basis, and the following:

	($ in Thousands)				
	1975	1974	1973	1972	1971
Southern Peru Copper Corp.	$ ---	$ ---	$ ---	$ 3,482	$ 6,615
Interest on marketable securities	$ 7,007	$ 6,154	$ 4,244	$ 1,249	$ 1,366
Other interest income	$ 9,516(1)	$ 10,662(1)	$ 5,863	$ 4,030	$ 1,807
Joint venture income (loss) - principally real estate	$ (475)	$ 1,883	$ 4,252	$ ---	$ ---

(1) Includes $ 2,546,000 for the year 1975 and $2,878,000 for the year 1974 applicable to the Chilean Notes and $526,000 for the year 1974 relating to the receivable from the U.S. Government.

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E. INCOME TAXES

Income tax expense (benefit) consists of the following:

	($ in Thousands)				
	1975	1974	1973	1972	1971
United States:					
Current.....	$(1,050)	$ 2,312*	$ 4,618	$ (236)	$(3,255)
Deferred.....	---	(10,273)	10,020	(844)	(351)
Future tax benefit.....	2,508	26,503	(64,800)	---	---
Foreign:					
Current.....	761	607	36,788	6,591	389
Deferred.....	---	---	---	1,372	820
State	5,981	4,201	842	1,475	846
	$ 8,200	$23,350	$(12,532)	$ 8,358	$(1,551)

*Adjustment in 1974 to conform to 1973 tax return as filed.

Income tax expense (benefit) has been allocated as follows:

	($ in Thousands)				
	1975	1974	1973	1972	1971
Earnings from continuing operations:					
United States.....	$ 1,458	$18,542	$14,534	$ 6,037	$(3,056)
State and Foreign....	6,742	4,808	842	1,475	846
	8,200	23,350	15,376	7,512	(2,210)
Earnings from discontinued operations.....	----	----	36,892	3,709	474
Extraordinary items.....	----	----	(64,800)	(2,863)	185
	$ 8,200	$23,350	$(12,532)	$ 8,358	$(1,551)

For financial statement purposes, the full tax benefit of $64,800,000, applicable to the Cerro de Pasco expropriation loss (Note F), was recognized in 1973 because of the non-recurring nature of the loss and Cerro's virtual certainty at that time of utilizing such benefit over the carry-foward period allowed by the tax statutes. As a result, although Cerro will reduce its future tax liability by the expropriation loss, no further financial statement benefit will be recognized. During the years 1975 and 1974 $2,508,000 and $26,503,000, respectively, were credited to the "Future income tax benefit" account on the Consolidated Balance Sheet. See Note A for uncertainties as to realization of the future tax benefit.

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On January 22, 1974, the Internal Revenue Service advised Cerro by a private ruling letter that it considered the expropriation loss to have resulted in a loss sustained directly by Cerro as a result of a compulsory or involuntary conversion of the stock of Cerro de Pasco and, further, that the expropriation loss qualified as an ordinary loss which could be carried over and applied against the Cerro affiliated group's income for as long as ten years, to the extent not so consumed during the taxable year in which it arose. Cerro succeeded to all rights and liabilities of Cerro de Pasco by merger of Cerro de Pasco into Cerro in February, 1974. In November 1975 the Internal Revenue Service issued a public ruling on facts substantially identical to the Cerro de Pasco expropriation holding that such expropriations will be treated as involuntary conversions of assets. In light of this position, the Internal Revenue Service has effectively reversed the substance of its earlier private ruling to Cerro. While Cerro was aware for some time that the Internal Revenue Service was reconsidering its position, it was not until the November 1975 ruling that Cerro was notified of the change in policy. Since Cerro relied on the ruling of January 22, 1974, requests have been filed, which are now under active consideration, seeking to have any change in position of the Internal Revenue Service applied without retroactive effect, pursuant to Section 7805(b) of the Code. If the revocation of the January 22, 1974 private ruling is retroactively applied, Cerro may be required to establish the adjusted basis of the Cerro de Pasco assets expropriated. Although Cerro believes that such adjusted basis can be established, the problems of proof of basis in assets (as compared to basis in stock) may be more difficult than required if the ruling were not reversed. Reversal, retroactively, of the January 22, 1974 private ruling could also affect the technical elements for Cerro's substantiation of continued availability of its net operating loss carryover derived from the expropriation loss. Such availability may be determined under Section 382(a) of the Code. Cerro believes and has been advised by its outside tax counsel that the net operating loss carryover of Cerro should not be subject to disallowance under Section 382(a).

As reflected in its 1974 consolidated Federal income tax return, Cerro reported a loss of $4,214,000, which included the unused portion of the Cerro de Pasco expropriation loss. The income reported for tax purposes for 1974 included $65,000,000 from advance payments received on copper sales. The income to be reported for tax purposes for 1975 will include $62,000,000 from similar advance payment transactions. For tax purposes, such payments are reported as sales in the year of receipt. The related cost of sales is reported at the time of delivery, which occurs during the year after receipt of the funds. Generally, to the extent that the cost of copper sales reported at time of delivery is not offset by taxable income in the same year, a new net operating loss will result which may (within certain limitations) be carried back and then, to the extent unused by carryback, carried over against income of future years. Advance payment transactions, like other business transactions, are subject to examination by the Internal Revenue Service. These transactions and any future advance sales transactions could influence the possibilities of ultimate realization of the future tax benefit related to the Cerro de Pasco expropriation loss recognized by Cerro in 1973 for financial statement purposes, as well as the timing of such realization.

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Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of timing differences in 1973 and the tax effect of each were as follows ($ in thousands):

Real estate operations - principally use of installment sales method for tax purposes and deduction of interest costs which are capitalized for financial statement purposes	$ 8,922
Financial statement expenses - principally reserves for investments and expenses not currently deductible for income tax purposes	(5,393)
Income taxed in prior years and recognized currently for financial statement purposes	4,903
Other, net	1,588
	$10,020

The deferred tax credit of $10,273,000 at December 31, 1973 was eliminated in 1974 as a result of the expropriation loss.

The tax provisions of $8,200,000 and $23,350,000 for the years 1975 and 1974 represent effective tax rates as follows, excluding the write-off of unamortized goodwill in 1975 which was related to realty operations (Note M) and is not deductible for Federal income tax purposes:

	1975	1974
Federal income tax at statutory rate	48.0%	48.0%
State and local income taxes, net of Federal income tax benefit	22.5	5.6
Foreign taxes, net of Federal income tax benefit	3.8	1.5
Investment tax credit	(7.6)	(.8)
Capital losses without tax benefit	----	3.3
Goodwill amortization not deductible for tax purposes	3.6	1.8
(Earnings) loss of foreign subsidiaries at 48%	(2.5)	.3
Percentage depletion allowance	(8.4)	(1.5)
Other, net	(.1)	1.2
Effective tax rate	59.3%	59.4%

F. DISCONTINUED OPERATIONS

The table below shows the earnings (losses) that were recorded from operations that have been expropriated, sold or liquidated.

	($ in Thousands)		
	1973	1972	1971
Earnings (loss) from operations of discontinued businesses, net of applicable income tax:			
Cerro de Pasco	$ 30,111	$ 13,740	$ (429)
Atlantic Cement	1,556	1,469	1,435
Stereo Tape Club	---	(4,583)	(653)
Gain on sale of investment in Atlantic Cement	2,116	---	---
Total	$ 33,783	$ 10,626	$ 353

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Cerro De Pasco Corporation

The Government of Peru expropriated Cerro's wholly-owned subsidiary, Cerro de Pasco Corporation, which resulted in a financial statement loss in 1973 after compensation but before tax benefit, of $110,350,000. The tax loss on the expropriation after adjusting the financial statement loss primarily for non tax-deductible pensions and severance reserves was approximately $135,000,000. On February 19, 1974, based on an agreement between the Governments of Peru and the United States, Cerro received $58,000,000, including repatriation of 1973's net earnings, from Peru. The net after tax loss from expropriation, reflected as an extraordinary item in the 1973 financial statements, is $45,550,000 or $5.50 a share (Note G). In December 1974, Cerro received a final payment of $10,000,000 with interest of $526,000 from funds paid by Peru to the U.S. Government as part of a lump sum settlement agreed upon by the U.S. and Peru.

Atlantic Cement Company, Inc. (Atlantic)

In June 1973, Cerro sold its 50% interest in Atlantic for $38,500,000 resulting in a gain of $2,116,000. Cerro's equity in net earnings through the date of the sale was $1,556,000.

Stereo Tape Club of America (Stereo)

The operations of Stereo had been unprofitable since its acquisition and in December 1972 Cerro ordered termination of the business and liquidation of its assets.

G. EXTRAORDINARY ITEMS

The following table shows the extraordinary items reflected in the Statement of Earnings (Loss):

	($ in Thousands)		
	1973	1972	1971
Expropriation of Cerro de Pasco*.....	$(45,550)	---	---
Write off of:			
Stereo Tape Club of America*.....	---	$ (3,076)	---
Goodwill at Cleveland, Ohio copper plant.....	---	---	$ (3,267)
Reserve for investments.....	---	(1,650)	(1,159)
Gain on insured casualty loss and sale of distribution station by Atlantic Cement	---	---	526
Gain on sale of mining concessions and oil leaseholds*.....	---	---	1,102
Utilization of net operating loss carry-forwards.....	---	2,802	1,810
	$(45,550)	$ (1,924)	$ (988)
Per share.....	$ (5.50)	$ (.23)	$ (.12)

*Net of taxes.

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H. BUSINESS COMBINATIONS

During 1972, Cerro acquired approximately 80% of the outstanding stock of Behring Corporation, which, through a subsequent merger into a wholly owned subsidiary, became Leadership Housing, Inc. In 1973, Cerro acquired all of the remaining outstanding shares of Leadership. The total cost of these transactions was approximately $27,700,000, principally cash. The excess of the purchase price over the book value of the shares acquired was allocated equally to land and goodwill. The goodwill portion was being amortized over forty years, but as of June 30, 1975, as described in Note M, the unamortized balance was charged to operations.

On October 6, 1972, Cerro acquired all of the outstanding common stock of ICX for $21,501,000 paid in cash. The cost in excess of net assets acquired ($11,859,000) has been assigned to operating rights and is being amortized over a forty year period.

On March 29, 1974, Cerro acquired 1,043,566 shares of common stock of Golconda Corporation (Golconda) for cash of $9,753,000. An additional 22,100 shares of common stock were acquired on April 19, 1974 for cash of $180,000. On May 3, 1974, Cerro commenced a tender offer to purchase all the remaining outstanding common stock of Golconda at $8.375 per share net to the seller and all of the cumulative preferred stock at $16.25 per share net to the seller. As a result of the tender offer, which expired on May 29, 1974, Cerro acquired 1,345,759 shares of common stock and 281,635 shares of the cumulative preferred stock at a cost of $16,600,000. In the aggregate, Cerro owns 86.6% of the common stock, 73.5% of the cumulative preferred which is entitled to one vote per share, or 84.98% of the total outstanding voting shares. The total cost of $26,600,000 has been allocated to the net assets of Golconda.

On September 25, 1974, Cerro through its newly established wholly owned subsidiary, Fetterolf Coal and Construction, Inc., acquired the outstanding stock of M.F. Land Company, Inc., M.F. Fetterolf Coal Company, Inc. and the partnership interests of D & F Trucking Company, collectively referred to as the Fetterolf Coal Group. The purchase price, which amounted to $33,995,000 in cash has been allocated to the net assets of the acquired companies, principally coal mining properties.

On May 30, 1975, Cerro, through its newly established wholly owned subsidiary, Jenner Mining Corporation, acquired the outstanding stock of GM&W Coal Company Inc., and Delta Mining, Inc., for $7,650,000, of which $2,150,000 was paid in cash at closing with the timing of the payment of the balance due based on cash flow. The $5,500,000 balance due has been discounted at a current interest rate to its estimated present value of $5,221,000 for financial statement purposes.

On August 28, 1975, Cerro, through its newly established wholly owned subsidiary, JMS Mining Corporation, acquired the outstanding stock of Stott Coal Company, Inc., and James M. Stott Coal Company for approximately $5,000,000, of which $1,400,000 was paid in cash at closing with the timing of the payment of the balance due based on cash flow. At the time of the acquisition Stott owed Fetterolf approximately $1,000,000 net. The $3,600,000 balance due has been discounted at a current interest rate to its estimated present value of $3,218,000 for financial statement purposes.

These transactions were accounted for as purchases and operating results of the acquired companies were combined with those of Cerro from the respective dates of acquisition.

Had the acquisitions of Behring (Leadership) and ICX been consummated on January 1, 1971, Golconda and Fetterolf on January 1, 1973, and GM&W, Delta and Stott on January 1, 1974, the proforma combined operating results of Cerro and these companies for the periods indicated would have been as follows ($ in thousands, except per share):

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	1975		1974		1973		1972		1971	
	Amount	Per Share	Amount	Per Share	Amount	Per Share	Amount	Per Share	Amount	Per Share
Sales and other revenue..	$622,087		$842,678		$724,095		$482,477		$419,303	
Earnings (loss) from Continuing operations..	$ (2,392)	$(.30)	$ 24,702	$ 3.12	$ 18,010	$ 2.17	$ 10,593	$ 1.25	$ 3,151	$ .37
Earnings (loss) from discontinued operations...	---	---	---	---	33,783	4.08	10,626	1.26	(6,005)	(.71)
Extraordinary items.....	---	---	---	---	(45,550)	(5.50)	(1,750)	(.21)	(7,098)	(.84)
Net Earnings (loss)	$ (2,392)	$(.30)	$ 24,702	$ 3.12	$ 6,243	$ .75	$ 19,469	$ 2.30	$ (9,952)	$(1.18)

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I. PENSION EXPENSE

Pension expense charged to earnings from continuing operations was $5,386,000, $4,522,000, $3,162,000, $1,970,000 and $1,553,000 for the years 1975 to 1971 respectively. Changes in various actuarial assumptions and methods for 1975 had the effect of decreasing pension costs for 1975 by approximately $1,500,000.

J. SUPPLEMENTARY EARNINGS STATEMENT INFORMATION

Supplementary earnings statement information is as follows:

	($ in Thousands)	
	1975	1974
Maintenance and repairs	$ 15,739	$ 12,448
Depreciation, depletion and amortization of property, plant and equipment	13,201	8,692
Taxes, other than income taxes	12,992	12,569
Rents	9,854	8,987
Amortization of goodwill and operating rights	1,053	1,749

Note: Royalties, advertising, exploration, research and product development costs were not significant in amount.

K. INTEREST CAPITALIZATION

It has been the practice of Cerro's real estate group to capitalize interest relating to obligations incurred in connection with land, construction and land improvements. Management believes this policy results in the most appropriate matching of costs and revenues. Had Cerro followed the policy of expensing all interest as incurred, its consolidated net earnings (loss) would have been as follows:

	Net Earnings (Loss)	Per Share
	($ in Thousands)	
1975	$(4,401)	$(.56)
1974	13,717	1.73
1973	2,052	.25
1972	17,372	2.05
1971	1,129	.13

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L. EARNINGS PER SHARE

Outstanding stock options have not been considered in the computation of earnings per share. Consideration of options would have resulted in immaterial dilution or would have had an antidilutive effect on earnings per share.

M. WRITEOFF OF GOODWILL

Because of the inventory liquidation program described in Note A above, it was determined that goodwill in the amount of $8,040,000, representing the unamortized excess of purchase price over the net assets of Leadership Housing, Inc. had no continuing benefit to the company, and it was therefore written off as of June 30, 1975.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE

SUMMARY OF OPERATIONS*

1972 vs. 1971

Sales and earnings from continuing operations in 1972 increased over those of 1971 due primarily to strong demand for copper products and productivity gains. Earnings before taxes from metal manufacturing operations were $18,584,000, a 90% increase over the $9,793,000 reported in 1971. Sales rose 10% to $301,597,000 from $273,455,000 in the prior year.

Real estate sales and earnings increased in 1972 to $114,668,000 and $5,609,000, respectively. On February 1, 1972 Cerro acquired 65% of Behring Corporation for $13.6 million which together with a former wholly owned Cerro subsidiary, Leadership Housing Systems, Inc., was merged on September 1, 1972, into a newly formed company, Leadership Housing, Inc. (LHI). As a result of this merger, Cerro owned approximately 80% of LHI. (In 1973, Cerro acquired the remaining stock of Leadership).

In October 1972, Cerro acquired Illinois-California Express, Inc. (ICX) a major motor freight carrier. For the last three months of 1972, sales and pre-tax earnings were $11,756,000 and $1,183,000, respectively.

In December 1972, operations of the Stereo Tape Club of America ("Stereo") were discontinued. Stereo sustained an operating loss in 1972 of $4,583,000. The extraordinary net loss from liquidation was $3,076,000. The net operating losses for 1972 and 1971 are reported in the Statement of Earnings (Loss) as discontinued operations.

Dividends from Cerro's 22½ percent interest in Southern Peru Copper Corporation (SPCC) were suspended in the second half of 1972 to free additional funds for development of the Cuajone copper mine. Earnings of SPCC continued at approximately the same rate as in 1971.

1973 vs. 1972

Sales in 1973 were $636,607,000, 49 percent higher than the $428,021,000 reported in 1972.

Metal manufacturing, with sales of $417,802,000 and pre-tax earnings of $34,111,000 was the largest contributor to the sales and earnings growth over 1972. These improvements reflect the significantly higher selling prices and volume that resulted from strong demand and shortages of fabricated metal products throughout the world.

*Amounts shown for pre-tax earnings (loss) are before corporate administrative expenses and interest expense as well as income taxes.

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Effective January 1, 1973, Cerro adopted the First-In, First-Out (FIFO) method of valuin metal inventories at one of its manufacturing plants which had previously reported on the Last-In, First-Out (LIFO) basis. For comparative purposes, the Statement of Earnings (Loss) has been restated to reflect this change in accounting. The effect on net earnings per share for each of the years was as follows:

	FIFO BASIS	LIFO BASIS
1972.....	$2.10	$2.09
1971.....	.19	.33

Pre-tax earnings from trucking operations (ICX) improved 17% from the prior year with revenues up 19%.

Real estate earnings increased over 1972 by 111% to $11,884,000 while sales increased 39%. There were 2,342 single family homes and condominiums delivered during the year and 2,152 rental apartment units.

In June 1973, Cerro sold its 50% interest in Atlantic Cement for $38,500,000 resulting in a gain of $2,116,000. Cerro's equity in net earnings reported as a discontinued operation in the accompanying Statement of Earnings (Loss), through the date of the sale, was $1,556,000.

On January 1, 1974 the Government of Peru expropriated Cerro's wholly owned subsidiary, Cerro de Pasco Corporation which resulted in a financial statement loss in 1973 of $110,350,000 after compensation, but before tax benefit. The tax loss on the expropriation after adjusting the financial statement loss primarily for non-tax deductible pensions and severance reserves was approximately $135,000,000. On February 19, 1974, based on an agreement between the Governments of Peru and the United States, Cerro received $58,000,000, including repatriation of 1973's net earnings, from Peru. In December 1974 Cerro received an additional $10,000,000 from the U.S. Government as part of a lump sum settlement agreed to by the U.S. and Peru. The net after-tax loss from expropriation reflected as an extraordinary item in the accompanying financial statements for 1973 is $45,550,000 or $5.50 a share.

1974 vs. 1973

Pre-tax earnings from metal manufacturing operations increased 36 percent over 1973 to $46,414,000 primarily due to stronger demand for most products, even though market conditions seriously slackened in the last quarter of 1974.

The real estate operations sustained a substantial loss in 1974 of $13,606,000 on sales of $96,006,000 which were down by $64,000,000 from the prior year. The loss is attributable to depressed housing markets and increased building costs, as well as materially reduced land sales and the high cost of financing.

Trucking operations experienced a slight reduction, 10 percent, in pretax earnings from the prior year although revenues were up by 25 percent. Increased fuel and other costs along with a reduction in shipments were not fully offset by increased rate adjustments granted during the year.

Mining operations experienced a substantial increase in earnings and sales as a result of the acquisition in September 1974 of the Fetterolf Coal Group. This segment of the operations had pretax earnings of $10,230,000 on sales of $21,446,000.

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1975 vs. 1974

The results for the year ended December 31, 1975 are considered by Cerro management to reflect unusually adverse conditions in such period for the businesses representing Cerro's operations as discussed below. Cerro management does not consider the results for the year as representative of normal operations.

A substantially depressed real estate market particularly in Florida existed throughout 1975. Sales of Leadership for the year 1975 were $44,187,000 as compared with $96,006,000 in 1974. The pre-tax loss in 1975 was $32,477,000 which included a $8,040,000 write-off of goodwill and other write-offs and writedowns of real estate inventories totalling $8,700,000. Pre-tax losses in 1974 were $13,606,000.

Manufacturing group sales in 1975 fell $168,266,000 to $399,146,000 while pre-tax earnings in 1975 dropped $20,660,000 to $25,754,000. These declines are principally attributable to decreased construction and housing activity, which are major markets for the manufacturing group's products, lower metal prices, writedowns of excess and obsolete inventory of Golconda created by reduced demand for its major products, and, to a lesser extent, strikes at the Metal Products and Copper Products divisions which lasted two and four months, respectively.

While 1975 revenues of Cerro's trucking subsidiary, ICX, were relatively unchanged from 1974, pre-tax earnings for the year declined to $3,231,000 from $4,970,000 in 1974, principally because of cost increases and start-up costs of newly acquired routes.

Sales and pre-tax earnings for the mining group in the year were $79,971,000 and $15,597,000, respectively. These results are directly due to the purchases of the Fetterolf group of coal mining companies in September 1974, GM&W Coal Company and Delta Mining, Inc. on May 30, 1975 and Stott Coal Company on August 28, 1975. A decline in the spot market price of coal, certain higher production costs and start-up costs incurred in connection with the development of new mining facilities reduced operations in the latter part of 1975. Increased depreciation and depletion resulted from the capital costs of the recently acquired properties and also affected earnings. These factors are expected to continue into 1976.

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ITEM 3. PROPERTIES

MANUFACTURING GROUP

Cerro's fabricating and manufacturing operations are conducted at twelve principal plant locations having an aggregate of approximately 3.5 million square feet of floor space, all of which are owned in fee (except for 132,000 sq. ft. of the Ohio plant of Cerrocu which is leased under a lease expiring December 31, 1980, renewable to 1995, and the equipment at the New Jersey plant of Cerrocu which is leased).

REAL ESTATE GROUP

The major landholdings of Leadership, other than those presently under development with the joint ventures, consist of, as of December 31, 1975, 650 acres in Broward County, Florida; 4,170 acres in Pinellas and Hillsborough Counties, Florida; 860 acres in Palm Beach County, Florida; 435 acres in Orange County, California; 55 acres in San Diego, California; 145 acres in Contra Costa County, California; and an aggregate of 140 acres on Maui and Kauai, Hawaii. In addition, at the end of 1973, and the beginning of 1974, Leadership held, or was negotiating to acquire, options covering substantial additional property in California and Hawaii. As the home-building industry deteriorated in 1974, Leadership ceased negotiations to acquire options on additional property and allowed other options to expire without exercise. The losses in 1974 attributable to the options which expired aggregated approximately $1.2 million. There were no significant losses attributable to expired options in 1975.

TRUCKING GROUP

At December 31, 1975, the Trucking Group owned twenty-seven terminals. In addition, seventeen terminals were leased by the Trucking Group at an aggregate rental of approximately $849,000 per annum. The leases on the terminals, five of which are on a month to month basis, expire at various dates through December 31, 1987.

ITEM 4. PARENTS AND SUBSIDIARIES

Until February 24, 1976 The Marmon Group, Inc. (Michigan) ("Marmon"), owned 3,586,297 shares of the Common Stock of Cerro, or approximately 45% of the outstanding shares. Until February 24, 1976 GL Corporation owned 100% of the outstanding stock of Marmon and members of the Pritzker family were the beneficial owners of all of the outstanding stock of GL Corporation. The Pritzker family, for this purpose, consists of the descendants, and their spouses, of Nicholas J. Pritzker, deceased, including Messrs. Jay A. and Robert A. Pritzker who are the Chairman of the Board and the President of Cerro, respectively.

As of February 24, 1976 GL Corporation owns five million shares of the Common Stock of Cerro-Marmon Corporation, successor in interest to Cerro Corporation (by way of merger effective February 24, 1976), which number of shares represent all the issued and outstanding shares of the Common Stock of Cerro-Marmon and which shares represent 82% of the voting interest in Cerro-Marmon.

Following is a list of significant subsidiaries of Cerro indicating the percentage of ownership by Cerro of the voting securities, and the jurisdiction of incorporation, of each:

Name of Subsidiary*	Percentage of Voting Securities Owned	State or Other Jurisdiction of Incorporation
Cerro Sales Corporation	100	Delaware
Cerro Spar Corporation	100	Kentucky
Delta Mining, Inc.+++	100	Pennsylvania
Fetterolf Coal and Construction, Inc.	100	Delaware
GM&W Coal Company, Inc.+++	100	Pennsylvania
Golconda Corporation	85	Idaho
JMS Mining Corporation	100	Pennsylvania
James M. Stott Coal Company++	100	Pennsylvania
Jenner Mining Corporation	100	Pennsylvania
Illinois-California Express, Inc.**	94	Nebraska
Leadership Housing, Inc.***	100	Delaware
M. F. Fetterolf Coal Co., Inc.+	100	Delaware
M. F. Land Company, Inc.+	100	Pennsylvania
Stott Coal Company, Inc.++	100	Pennsylvania
Tamarac Utilities, Inc.	100	Florida

In addition, Cerro has a number of other subsidiaries, which considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

* Indicates subsidiaries included in consolidated financial statements.

** ICX is a third-tier subsidiary of Cerro. The intervening subsidiary corporations are Cerro Motor Express Corporation (100% owned by Cerro) and ICX Industries, Inc. (94.3% owned by Cerro Motor Express Corporation).

*** Leadership Housing, Inc. has 42 subsidiaries engaged in Real Estate and related activities.

\+ Wholly owned subsidiaries of Fetterolf Coal and Construction, Inc.

++ Wholly owned subsidiaries of JMS Mining Corporation.

+++ Wholly owned subsidiaries of Jenner Mining Corporation.

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ITEM 5. PENDING LEGAL PROCEEDINGS

There is pending in the United States District Court for the Southern District of New York, a consolidated action (75 Civ. 1795) encompassing five actions which were commenced in such court in April and May 1975. The consolidated amended complaint ("Complaint") alleges class action claims against C. Gordon Murphy, the former President and Chief Executive Officer of Cerro, Jay A. Pritzker, Robert A. Pritzker, GL and Marmon, based upon alleged violations of Sections 10(B), Rule 10b-5 promulgated thereunder and Section 14(e) of the Securities Exchange Act of 1934 and the common law. The Complaint charges that Jay A. Pritzker and Robert A. Pritzker, and corporations allegedly controlled by them, have wrongfully acted in seeking to acquire 100% ownership of Cerro; it also makes claims of wrongdoing with respect to the GL tender offer for 1.5 million Cerro shares made on June 26, 1974 and subsequent conduct directed to a proposed merger of Cerro with corporations allegedly controlled by the Pritzkers, including Marmon, culminating in the business combination of Cerro and Marmon on February 24, 1976. This latter conduct is alleged to include actions taken by Jay A. Pritzker and Robert A. Pritzker, after gaining effective control of the Cerro Board, to depress the market value of Cerro shares by understating Cerro's 1974 earnings, keeping dividends at an unwarrantedly low level and generally understating Cerro's allegedly favorable prospects. The Complaint seeks compensation for damages allegedly sustained by the class.

In addition to the foregoing class action claims, the Complaint alleges derivative claims on Cerro's behalf, seeking to recover up to $2,330,000 (the sum paid to Mr. Murphy in the settlement of an employment agreement entered into on June 12, 1974, (the "New Agreement"), replacing a previous agreement) from certain present and former directors of Cerro, specifically Mr. Murphy, Jay A. Pritzker, Robert A. Pritzker, Alan Wolfley, Robert H. Cutler, Thomas F. Githens, Lewis B. Harder, Charles B. Harding, William L. Henry, Adrian M. Massie, G. Willing Pepper and John B. Stone.

Cerro is named as a defendant in all the above-described claims but no relief is sought from it. All other defendants who have been served with process have denied the material allegations of the Complaint, have denied any wrongdoing and have asserted affirmative defenses.

The court has ruled that the class action claims in the Complaint may be maintained as a class action and has ordered that notice with respect to such claims be given by mail to members of the class, defined as all persons, other than defendants, who owned Cerro stock at any time during the period from June 12, 1974 to July 26, 1974, inclusive. Such notice has been duly given. The court has currently scheduled the trial of this consolidated action for a date to be determined in April 1976.

On March 24, 1976 an agreement in principle was reached among all counsel to settle the class action claims made in the Complaint referred to above.

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Under the terms of the proposed settlement, which is estimated to aggregate $2,365,000 in cash to be paid by certain of the defendants, other than Cerro-Marmon (the successor by merger to Cerro), a fund of $915,000 will go to those members of the class who tendered or sold Cerro Common Stock any time prior to February 24, 1976, the date of the merger of Cerro and Cerro-Marmon, and a fund of $1,000,000 will be established for those members of the class who held Cerro Common Stock on February 24, 1976.

Further, Cerro-Marmon has agreed that any recovery from the above-described related derivative actions will be applied to the regular dividends on the Cerro-Marmon $2.25 Cumulative Series A Preferred Stock par value $1.00 per share, which was issued in connection with the business combination. In the event that the proposed settlement is approved, seven years after such approval the regular annual rate of dividend on such Preferred Stock will be increased from $2.25 to $2.35 per share. The proposed settlement also provides that there will be no dividends on the Common Stock of Cerro-Marmon until the net worth of Cerro-Marmon has increased at least $10 million from the net worth at February 24, 1976. Certain of the defendants have also agreed to pay plaintiffs' attorneys' fees in an amount to be fixed by the court.

As of March 30, 1976 a written settlement agreement had not been prepared and, accordingly, specific terms of the settlement remain unresolved. The consummation of the proposed settlement is subject to the preparation of all requisite documents, notice to the class, and hearing before and approval by the United States District Court for the Southern District of New York pursuant to the provisions of Rule 23 of the Federal Rules of Civil Procedure.

There is pending in the Supreme Court of the State of New York a consolidated derivative stockholders' action brought by two persons claiming to be shareholders of Cerro. Named as defendants are seven former directors (including Mr. C. Gordon Murphy, the former President and Chief Executive Officer), and Messrs. Robert H. Cutler, Thomas F. Githens, Lewis B. Harder, Jay A. Pritzker, Robert A. Pritzker, Alan Wolfley, GL and Cerro. The complaint alleges, in connection with the payment to Mr. Murphy, corporate waste pursuant to an alleged plan among the defendants to permit GL to acquire control of the Corporation by means of GL's tender offer. The complaint apparently demands that the New Agreement be declared null and void; that Mr. Murphy account for all sums received by him in connection with cancellation of the New Agreement; and that the defendants account for any profits realized by them and any losses and damages sustained by Cerro as a result of the matters alleged in the complaint. All of the defendants who have been served with process in the consolidated action have denied the material allegations of the complaint.

On February 18, 1976, Sully Schulwolf and Josef Kaszovitz, claiming to be shareholders of Cerro commenced a class action in the Supreme Court of the State of New York, naming as defendants Cerro, all of its present directors, Cerro-Marmon Corporation (the successor by merger

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to Cerro), and The Marmon Group, Inc. (Michigan). The complaint alleges that the then proposed merger of Cerro into Cerro-Marmon Corporation would unlawfully deprive plaintiffs and the other members of the class, which they purport to represent, of an equity interest in Cerro and that the terms of such proposed merger were unfair and constituted a breach of fiduciary duties alleged to be owed by certain of the defendants to the members of the alleged class. The relief sought is that the defendants be permanently barred and enjoined from effectuating any direct or indirect merger between Cerro and Cerro-Marmon Corporation pursuant to which Cerro's public stockholders would be divested of a residual equity in the surviving corporation and that the defendants be so enjoined from any merger between Cerro and any other corporation controlled by Messrs Jay A. Pritzker, Robert A. Pritzker or members of the Pritzker family except on terms determined by the court to be fair.

On February 18, 1976, concurrent with the commencement of their action, these plaintiffs applied to the New York State Court for a preliminary injunction enjoining and restraining the effectuation of such merger and the holding of a meeting of the shareholders of Cerro in connection therewith. A hearing thereon was held on February 20, 1976. On February 23, 1976, plaintiffs' application was denied by the court in all respects. On February 25, 1976, plaintiffs filed a notice of appeal to the Appellate Division of the New York Supreme Court from the denial of the preliminary injunction. Briefs have been filed by all parties and oral argument has been set for April 9, 1976.

On February 20, 1976, Josef Kaszovitz, one of the plaintiffs in the class action referred to above, commenced a class action against the same defendants in the United States District Court for the Southern District of New York. The allegations of the complaint in this action are substantially the same as those in the New York State action discussed above, but contain claims of alleged violations of the anti-fraud provisions of the federal securities laws. The relief sought in this federal action is that the defendants be permanently barred and enjoined from effecting any merger between Cerro and Cerro-Marmon Corporation and any other merger between Cerro and any other corporation controlled by Messrs. Jay A. Pritzker, Robert A. Pritzker or other members of the Pritzker family.

One William Shlensky, claiming to be a stockholder of Cerro filed a complaint in the United States District Court for the Southern District of New York (76 Civ. 960) on February 27, 1976 naming as defendants Cerro Corporation, Jay A. Pritzker, Robert A. Pritzker, Cerro-Marmon Corporation, GL Corporation and The Marmon Group, Inc. (Michigan) purporting to commence a class action. The complaint alleges violations of the anti-fraud provisions of the federal securities laws (Sections 10(b) and 14(a) of the Securities Exchange Act of 1934 and Rules 10b-5 and 14a-9 promulgated thereunder) and common law in that the merger of Cerro Corporation and related transactions were facilitated by manipulation and the dissemination of a false and misleading proxy statement and prospectus. The relief sought by the complaint is rescission of the merger and related transactions and the accounting and payment to Cerro and through Cerro to the plaintiff and the purported class of the damages sustained by them and any profits gained by the defendants.

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On May 22, 1975, one Maurice Seiden, claiming to be a shareholder of Cerro, filed a complaint in the United States District Court for the Eastern District of New York (75 Civ. 790) naming as defendants Cerro, certain of its present directors, certain of its former directors, Leadership Housing Systems, Inc., a subsidiary of Leadership, and Cerro's auditors, Price Waterhouse & Co., commencing a class action and a shareholder's derivative suit. The complaint alleges, among other things, that the reporting of Cerro's financial condition for the years ending December 31, 1972 and 1973, and for a portion of 1974, did not accurately reflect the difficulties of certain of its subsidiaries, principally Leadership Housing, Inc. and Cerro de Pasco Corporation, Cerro's former mining subsidiary in Peru. On January 27, 1976, the action was dismissed conditionally. Such dismissal became final on March 26, 1976.

In September 1975 an action was commenced in the Supreme Court of the State of New York by one Harry S. Samuels against Jay A. Pritzker, GL, Marmon and Cerro. The complaint alleges that the plaintiff is entitled to recover from Jay A. Pritzker, GL and Marmon a finder's fee of $750,000 for introducing Jay A. Pritzker to C. Gordon Murphy, by reason of an alleged agreement by those defendants to pay plaintiff a finder's fee equal to the reasonable value of his services upon the acquisition of control of any business entity to which Jay A. Pritzker was introduced by plaintiff. The complaint also alleges that Cerro impliedly agreed to pay plaintiff such a finder's fee and seeks damages against Cerro in the amount of $750,000. All of the defendants in this action have served answers to the complaint denying the material allegations thereof.

As of March 30, 1976, there were no other pending legal proceedings to which Cerro or any of its subsidiaries is a party, or to which any of their property is subject, the results of which are likely to be materially adverse to Cerro. In addition, there are no suits or proceedings pending or, to the knowledge of Cerro, threatened, under any civil rights or environmental protection statutes, which, in the aggregate, could have a materially adverse effect on Cerro.

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ITEM 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES

There were no increases or (decreases) in the amount of equity securities of Cerro outstanding during the fiscal year ended December 31, 1975:

(1) Cerro Common Stock

Outstanding, December 31, 1974 and 1975	7,911,267

(2) Options to Acquire Common Stock

See Note 9 of Notes to Financial Statements of Cerro Corporation and Consolidated Subsidiaries.

(b) The following information relates to all securities of Cerro sold by Cerro during the fiscal year which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4(2) of that Act:

Cerro Corporation Promissory Note, Secured by Assignment of Note and Mortgage, to Leadership Housing, Inc.

Reference is made to the Cerro Form 8-K for the month of June, 1975.

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MARGRP CDA dm - 1575

ITEM 7. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

As of December 31, 1975, as reported by Irving Trust Company, Transfer Agent:

Title of Class	Number of Holders of Record
Cerro Corporation Common Stock	19,066

LS 001285

MARGRP CDA dm - 1576

ITEM 8. EXECUTIVE OFFICERS OF CERRO

(a) Listed below, as of February 24, 1976, the date upon which Cerro Corporation was merged into Cerro-Marmon Corporation, are the names and ages of all executive officers of Cerro Corporation and the positions and offices of Cerro Corporation held by each:

Jay A. Pritzker	Chairman of the Board	53
Robert A. Pritzker	President	49
Alan Wolfley	Executive Vice President	52
Robert C. Gluth	Vice President	51
John Spevacek	Vice President and Controller	48
Kenneth D. Archer	Vice President, Secretary and General Counsel	36
Marshall Samuels	Treasurer	35

Messrs. Jay A. Pritzker and Robert A. Pritzker are brothers. There are no other family relationships among the executive officers of Cerro.

(b) Business experience of each executive officer during past five years:

JAY A. PRITZKER

Mr. Pritzker became a director of Cerro in March 1974 and Chairman of the Board of Cerro in February 1975. He is presently Chairman of the Board of Marmon (since 1963); Chairman of the Board of GL Corporation (since 1971); Chairman of the Board of Hyatt Corporation (since 1967) as well as an attorney and member of the law firm of Pritzker and Pritzker.

ROBERT A. PRITZKER

Mr. Pritzker became a director of Cerro in December 1974 and its President in February 1975. He is the President and a director of Marmon, which positions have been held for more than five years and Treasurer of Marmon (since 1972); President, Treasurer and Director of GL Corporation (since 1971); Chairman of the Board of Hammond Corporation (manufacturer of musical instruments and gloves) since 1974.

ALAN WOLFLEY

Mr. Wolfley joined Cerro in May 1971 as Vice President-Finance and Treasurer. He became Vice President-Finance and Administration in September 1971; Senior Vice President-Finance and Administration in May 1972; and Executive Vice President in May 1973. Prior to joining Cerro, Mr. Wolfley was Vice President-Finance of Scovill Manufacturing Company (brass and aluminum mill products, electrical and kitchen appliances).

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ROBERT C. GLUTH

Mr. Gluth was elected a Vice President of Cerro in May 1975 and a Director in June 1975. Mr. Gluth has been a Vice President of The Marmon Group, Inc. (Michigan) since February 1970 and a Vice President of GL Corporation since 1972.

JOHN SPEVACEK

Mr. Spevacek became Vice President and Controller of Cerro in June 1975. Prior to joining Cerro, Mr. Spevacek was President and Chief Executive Officer of Anderson Manufacturing Company, Inc. (September 1973 to June 1975). From May 1967 to September 1973 Mr. Spevacek served as Group Vice President - Finance of Amphenol Components Group, Bunker Ramo Corporation.

KENNETH D. ARCHER

Mr. Archer became Associate Counsel of Cerro Corporation in November 1973. He was elected Vice President, Secretary and General Counsel of Cerro in May 1975. From December 1970 until November 1973 Mr. Archer was Associate Counsel of GAF Corporation. Prior thereto he was associated with the law firm of Shearman & Sterling.

MARSHALL SAMUELS

Mr. Samuels joined Cerro in May 1975 as Treasurer. For more than five years prior thereto he was associated with Coopers & Lybrand, independent auditors.

LS 001287

MARGRP CDA dm - 1578

ITEM 9. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The New York Business Corporation Law and the General Corporation Law of the State of Delaware provide authority for the indemnification of directors and officers in the defense of civil and criminal actions and the purchase of insurance in connection therewith. The Bylaws of Cerro and Leadership Housing, Inc. permit indemnification of directors and officers to the full extent and in the manner permitted by the laws of the States of New York and Delaware, respectively. Accordingly, Cerro and Leadership have purchased from Continental Casualty Company and the Midland Insurance Company insurance covering the liability of directors and officers. The insurance applies to the directors and principal officers of Cerro and Leadership. The premiums paid for this insurance aggregate $158,822 covering the period from September 26, 1973 to September 26, 1976.

LS 001288

MARGRP CDA dm - 1579

ITEM 10. FINANCIAL STATEMENTS AND EXHIBITS FILED

(a) Financial Statements

Cerro Corporation and Consolidated Subsidiaries; Cerro Corporation (Registrant)

(b) Exhibits

1. Agreement and Plan of Merger dated as of January 15, 1976 by and between Cerro-Marmon Corporation and Cerro Corporation. (Incorporated by reference to Form S-14 Registration Statement as filed with the Securities and Exchange Commission on January 26, 1976.)

2. Exchange Agreement dated as of January 15, 1976 among GL Corporation, The Marmon Group, Inc. (Michigan), Cerro Corporation and Cerro-Marmon Corporation. (Incorporated by reference to Form S-14 Registration Statement as filed with the Securities and Exchange Commission on January 26, 1976.)

3. Cerro Corporation Prospectus and Proxy Statement dated January 26, 1976. (Incorporated by reference to Form S-14 Registration Statement as filed with the Securities and Exchange Commission on January 26, 1976.)

4. Amendment dated May 13, 1975 to Bylaws of Cerro Corporation.

5. Note Agreement of February 6, 1967 among Cerro Corporation, The Prudential Insurance Company of America and the Aetna Life Insurance Company, as amended. (Incorporated by reference to Form 8-K of Cerro Corporation for March 1967 and Forms 10-K of Cerro Corporation for the years ending December 31, 1967 through 1974.)

6. Letters dated December 31, 1975 from The Prudential Insurance Company of America and Aetna Life Insurance Company to Cerro amending Exhibit 5. (Incorporated by reference to Form S-14 Registration Statement as filed with the Securities and Exchange Commission on January 26, 1976.)

7. Letter of March 31, 1975 from The Prudential Insurance Company of America to Cerro amending Exhibit 5.

8. Letter of May 6, 1975 from Aetna Life Insurance Company to Cerro amending Exhibit 5.

9. Amended and Restated Loan Agreement dated as of June 30, 1975 between Leadership Housing, Inc. and certain institutional lenders. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

10. March 9, 1976 Amendment to Exhibit 9.

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11. Collateral Agreement between Cerro Corporation and First National City Bank dated June 18, 1975 relating to Exhibit 9. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

12. Participation Agreement between Cerro Corporation and First National City Bank dated June 18, 1975 relating to Exhibit 9. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

13. Subordination Agreement between Cerro Corporation and First National City Bank dated June 18, 1975 relating to Exhibit 9. (Incorporated by reference to Form 8-K of Cerro Corporation for the month of June, 1975.)

14. 1976 Profit Sharing Plan for ICX Industries, Inc. (Incorporated by reference to Form S-14 Registration Statement as filed with the Securities and Exchange Commission on January 26, 1976.)

15. Loan Agreement among the Fetterolf Coal and Construction, Inc., Sumitomo Metal Industries, Limited and Mitsubishi Corporation dated October 1, 1974 and amendment thereto dated as of December 16, 1974. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

16. Coal Sales Agreement dated October 1, 1975 among Fetterolf Coal and Construction, Inc., Sumitumo Metal Industries, Limited and Mitsubishi Corporation and addendum thereto. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

17. Letter of October 1, 1974 from Cerro to Mitsubishi Corporation and Sumitomo Metal Industries, Limited relating to Exhibits 15 and 16. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

18. Operating Agreement of March 11, 1975 by and among Fetterolf Coal and Construction, Inc. and Mitsubishi Corporation and Sumitomo Metal Industries, Limited. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

19. Agreement between Cerro and C. Gordon Murphy dated June 12, 1974. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

20. Amendment dated December 16, 1974 to Exhibit 19. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

21. Agreement between Cerro and C. Gordon Murphy and letters relating thereto dated February 12, 1975. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

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22. Agreement of February 12, 1975 between Cerro and S. Roy French, Jr. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

23. Agreement of February 12, 1975 between Cerro and H. Willis Higgs. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

24. Agreement of February 12, 1975 between Cerro and J. Hugh Murphy. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

25. Agreement of February 12, 1975 between Cerro and Robert F. Long. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

26. General Indemnity Agreement of May 1971 between Cerro and Argonaut Insurance Company. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

27. General Indemnity Agreement between Cerro and Highland Insurance Company. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

28. Amendment dated February 12, 1975 to Agreement of May 30, 1972 between Leadership Housing, Inc. and Harrison M. Lasky. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

29. Amendment of March 14, 1975 of the joint venture agreement of Leadership Housing, Inc. dated December 20, 1972. (Incorporated by reference to Form 10-K of Cerro Corporation for the year ending December 31, 1974.)

A copy of any exhibit may be obtained by a stockholder of Cerro by making a written request therefor to the Secretary of Cerro and by paying Cerro's costs of reproduction and postage.

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PART II

Items 11 through 15 have been omitted from this report pursuant to General Instruction H to Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CERRO CORPORATION
(Registrant)

By: /s/R. C. Gluth
(Signature)
Robert C. Gluth,
Vice President and Treasurer
CERRO-MARMON CORPORATION
(Filing on behalf of Cerro Corporation)

March 31, 1976

LS 001292

MARGRP CDA dm - 1583

CERRO CORPORATION (REGISTRANT)

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

For the Years Ended December 31, 1975 and 1974

	Pages
Report of independent accountants	F-2
Financial statements:	
Cerro Corporation and Consolidated Subsidiaries:	
Consolidated statements of earnings (loss), retained earnings and paid-in capital and related notes	30—41
Consolidated balance sheet at December 31, 1975 and 1974	F-3—F-4
Consolidated statement of changes in financial position	F-5—F-6
Notes to financial statements	F-7—F-29
Cerro Corporation (Registrant):	
Statements of earnings (loss), retained earnings, and paid-in in capital	F-30—F-31
Balance sheet at December 31, 1975 and 1974	F-32—F-33
Statement of changes in financial position	F-34—F-35
Notes to financial statements	F-36—F-38
Schedules:	
Cerro Corporation and Consolidated Subsidiaries:	
Schedule I--Marketable securities	F-39
Schedule II--Amounts receivable from directors, officers and employees	F-40
Schedule V--Property, plant and equipment	F-41—F-42
Schedule VI--Accumulated depreciation, depletion and amortization of property, plant and equipment	F-43—F-44
Schedule XII--Valuation and qualifying accounts and reserves	F-45
Schedule XIII--Capital shares	F-46
Cerro Corporation (Registrant):	
Schedule I--Marketable securities	F-47
Schedule II--Amounts receivable from directors, officers and employees	F-40
Schedule III--Investments in, equity in earnings of and dividends received from affiliates and other persons.	F-48—F-50
Schedule V--Property, plant and equipment	F-51
Schedule VI--Accumulated depreciation and amortization of property, plant and equipment	F-52
Schedule XII--Valuation and qualifying accounts and reserves	F-53

Schedules other than those listed above have been omitted since either they are not required, they are not applicable, or the required information is disclosed in the notes to the financial statements.

Financial statements are not filed for certain of the unconsolidated subsidiaries of the registrant since such subsidiaries, in the aggregate, would not constitute a significant subsidiary.

LS 001293

MARGRP CDA dm - 1584

200 EAST RANDOLPH DRIVE, CHICAGO, ILLINOIS 60601 · 312-565-1500

March 19, 1976 (except for
Note 12 as to which the
date is March 26, 1976)

To the Board of Directors of

Cerro Corporation

We have examined the financial statements of Cerro Corporation and Consolidated Subsidiaries and of Cerro Corporation (registrant) listed in the accompanying index. 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.

As described in Note A to the consolidated statement of earnings (loss), uncertainties have been created relating to the real estate operations of Leadership Housing, Inc., principally as to the amount and timing of the ultimate realization of land and improvement inventories and to potential liabilities arising from real estate contingencies. Because of these matters, an uncertainty is also created as to the realizable value of Cerro's asset, "Future income tax benefit." In addition, it is anticipated that discussions will begin in 1976 to renegotiate Leadership's term loan maturing in April 1977 and, that events of default will probably occur under the terms of the existing loan agreement during 1976 as a result of continued unprofitable operations and adverse cash flow. If events of default occur and are not waived, the term loan would become due and payable upon notification by the principal lenders.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties described in the preceding paragraph been known, the financial statements examined by us present fairly the financial position of Cerro Corporation and Consolidated Subsidiaries and of Cerro Corporation (registrant) at December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the two years then ended, in accordance with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE & CO.

LS 001294

MARGRP CDA dm - 1585

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1975 and 1974

($ in Thousands)

ASSETS

	1975	1974
Current Assets:		
Cash	$ 3,487	$ 22,181
Time and certificates of deposit (includes restricted deposits of $104,000 in 1974) (Note 2)	53,946	117,382
Marketable securities at cost, less valuation allowance of $1,926 in 1975 and $2,069 in 1974 - approximately market (Schedule I)	80,562	41,843
Accounts receivable, less allowance of $1,713 in 1975 and $1,096 in 1974 for doubtful accounts (Schedules II and XII)		
Trade	50,065	53,987
Chile (Note 4)	4,261	4,859
Other	7,658	4,588
Inventories (Note 3) (Schedule XII)	103,125	90,769
Prepaid expenses	8,228	2,248
Total current assets	311,332	337,857
Realty assets (Notes 14, A and M)	166,606	208,986*
Notes due from Chile (Note 4)	13,239	25,251
Future income tax benefit (Note E)	35,789	38,297
Investments (Note 5) (Schedule XII)	13,842	16,297
Property, plant and equipment, net (Note 6) (Schedules V and VI)	157,223	119,612
Operating rights and other intangibles net of amortization of $1,305 in 1975 and $620 in 1974	19,659	15,148
Other assets (Note 5)	3,006	---
	$720,696	$761,448

* Reclassified for comparative purposes

See Notes to Financial Statements (numerical references) and Notes to Statement of Earnings (Loss) (alphabetical references).

LS 001295

MARGRP CDA dm - 1586

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1975 and 1974

($ in Thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current Liabilities:		
Long-term debt due within one year (Note 8)	$ 7,113	$ 14,679
Accounts payable (Note 2)	98,045	101,095
Accrued liabilities (Notes 7 and 11)	41,366	38,542
Total current liabilities	146,524	154,316
Realty liabilities (Notes 14 and A)	131,900	149,483*
Long-term debt (Note 8)	94,525	96,801
Deferred income	1,395	1,196
Minority interest (Schedule XIII)	5,157	6,553
Total liabilities	379,501	408,349
Commitments and contingencies (Notes 5, 8, 9, 11, 12, 13 and 14)	---	---
Shareholders' equity (Notes 8, 9, 10, and 12)		
Common stock, par value $3.33-1/3 per share, authorized 15,000,000 shares, issued 8,779,654 shares	29,265	29,265
Paid-in capital	178,218	178,218
Retained earnings (Note 8)	150,031	161,935
	357,514	369,418
Treasury stock, at cost, 868,387 shares	(16,319)	(16,319)
Total shareholders' equity	341,195	353,099
	$720,696	$761,448

* Reclassified for comparative purposes.

See Notes to Financial Statements (numerical references) and Notes to Statement of Earnings (Loss) (alphabetical references).

LS 001296

MARGRP CDA dm - 1587

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

($ in Thousands)

SOURCES OF FUNDS

	Year ended December 31, 1975	1974
Net earnings (loss)	$ (2,410)	$ 15,927
Operations not (providing) or requiring funds:		
Income taxes - not payable due to expropriation loss (Cerro de Pasco)	2,508	26,503
Realty losses not included in consolidated funds (including write-off of goodwill of $8,040 in 1975)	32,477	13,606
Deferred income taxes, net	---	(10,273)
Investment reserves	(148)	290
Depreciation, depletion and amortization	13,513	8,444
Minority interest, equity and dividends, net	(1,396)	711
Total funds from operations	44,544	55,208
Funds from other sources:		
Collection of receivable from U.S. Government	---	10,000
Reduction in long-term portion of notes due from Chile	12,012	10,423
Long-term borrowing	4,732	40,692
Sale of property, plant and equipment	5,206	1,105
Total funds from other sources	21,950	62,220
Total sources of funds	$ 66,494	$117,428

See Notes to Financial Statements (numerical references)
and Notes to Statement of Earnings (Loss) (alphabetical references).

LS 001297

MARGRP CDA dm - 1588

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION - (Continued)

($ in Thousands)

USES OF FUNDS

	Year ended December 31, 1975	1974
Acquistions of companies (excluding net current assets):		
Property, plant and equipment	$ 14,392	$ 48,668
Long-term debt assumed or incurred	(8,439)	(19,418)
Other, net (principally goodwill in 1975 and minority interest in 1974, respectively)	4,483	(3,992)
	10,436	25,258
Purchase of Tamarac Utilities, Inc. net non-current assets from Leadership Housing, Inc.	13,630	---
Investment in real estate operations, net	7,680	15,437
Purchase of property, plant and equipment	27,080	17,455
Purchase of treasury stock	---	561
Cash dividends	9,494	8,315
Reduction of long-term debt	15,447	37,800
Other, net	1,460	1,630
Total funds used	85,227	106,456
Increase (decrease) in working capital	$(18,733)	$ 10,972

INCREASE (DECREASE) IN WORKING CAPITAL

Cash, deposits and marketable securities	$(43,411)	$ 88,953
Receivable from Peru Government	---	(30,415)
Accounts, notes and other receivables, net	(1,450)	2,798
Inventories	12,356	23,095
Prepaid expenses	5,980	709
	(26,525)	85,140
Long-term debt due within one year	7,566	(9,587)
Accounts payable	3,050	(49,553)
Accrued liabilities	(2,824)	(15,028)
	7,792	(74,168)
Increase (decrease) in working capital	$(18,733)	$ 10,972

See Notes to Financial Statements (numerical references) and Notes to Statement of Earnings (Loss) (alphabetical references).

LS 001298

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CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING PRINCIPLES

Accounting principles followed by Cerro and its operating units are generally consistent with their respective industry practices. Significant accounting policies are as follows:

(A) Principles of Consolidation; Investments

The consolidated financial statements include the accounts of all significant domestic subsidiaries; material intercompany transactions have been eliminated.

Operating results of foreign subsidiaries, in the years in which such subsidiaries are included in the Statement of Earnings (Loss), are translated to U.S. dollars at average exchange rates in effect during the respective years, except for depreciation and depletion which are translated at the rates in effect when the underlying assets were acquired. The effects of FASB Statement No. 8 (Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements) on previously issued financial statements are immaterial.

The investment in Southern Peru Copper Corporation, a 22½%-owned affiliate, is carried at cost, as are all other investments; income from these affiliates is recognized only upon receipt of dividends. The cost method is used because all significant affiliates are domiciled outside the United States in countries with histories of political instability and significant foreign exchange restrictions.

(B) Inventories

Inventories are recorded at the lower of cost or market with cost computed on a First-In, First-Out (FIFO) basis.

(C) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Gain or loss on retirement is included in earnings. Maintenance and repairs are expensed; renewals and betterments are capitalized. Depreciation of plant and equipment is based on the estimated service lives of the assets using primarily the straight-line method. Depletion of mining properties is charged based on units of production.

(D) Income Taxes

Deferred taxes are provided to account for the differences for accounting and tax purposes in the recognition of certain income and expense items. Principally these consist of the excess of accelerated tax depreciation over book depreciation, the use of the installment sales method for tax purposes with respect to certain real estate transactions which are recorded on the accrual basis for financial reporting purposes and expenses and income recognized in different years for tax purposes than for accounting purposes.

The investment tax credit is accounted for as a reduction of the provision for U.S. income taxes.

See Note E to the Statement of Earnings (Loss) for the Company's accounting policy with respect to future tax benefits.

LS 001300

MARGRP CDA dm - 1591

(E) Intangibles

Operating rights, franchises and permits obtained through the purchase of ICX Industries, Inc. and the excess of cost of investments over the fair value of assets acquired in purchase transactions are being amortized on a straight-line basis over 40 years.

(F) Exploration, Research and Product Development

Exploration expenses incurred in the search for new mining properties and research and development expenses for new or existing products are charged to earnings as incurred. Development costs of bringing new mineral properties into production are capitalized and amortized over the anticipated life of the ore reserve when production begins.

(G) Pensions

Pension costs, actuarially determined and funded as accrued, include as to certain of the plans amortization of prior service costs over periods not exceeding 40 years.

2. ADVANCE PAYMENT TRANSACTIONS AND RESTRICTED DEPOSITS

In December 1975 and 1974, Cerro entered into copper sales agreements under which it received approximately $62,000,000 and $65,000,000, respectively in advance. Funds received in 1975 are unrestricted. In 1974, $50,000,000 was placed in time deposits. Additionally, approximately $54,000,000 in nonnegotiable certificates of deposit was placed with a financial institution. The $104,000,000 of deposits, which matured in March 1975, are shown in Cerro's balance sheet as restricted as of December 31, 1974. Cerro's accounts payable at December 31, 1975 and 1974 include obligations to customers amounting to approximately $62,000,000 and $65,000,000 for delivery of copper in March 1976 and 1975. See Note E to the Statement of Earnings (Loss) for additional information as to the tax effects of these transactions.

LS 001301

MARGRP CDA dm - 1592

3. INVENTORIES

Inventories (excluding real estate inventories) entering into the determination of net earnings (loss) were as follows:

	December 31,		
	1975	1974	1973
	($ in Thousands)		
Refined metals and ores	$ 37,843	$ 7,836	$ 8,798
Manufacturing inventories:			
Raw materials	15,030	23,668	24,709
Work in progress	18,809	26,161	18,080
Finished goods	27,791	30,392	14,250
Operating supplies	3,652	2,712	1,837
	$103,125	$90,769	$67,674

4. NOTES DUE FROM CHILE

In 1971, the former Government of Chile expropriated Compania Minera Andina, S.A. (Andina), a Chilean corporation 70% owned by Cerro. Andina is the owner and operator of the Rio Blanco copper mine in which Cerro had invested $35,674,000 in the form of equity, notes and accrued interest.

On March 12, 1974, Cerro Corporation signed a compensation agreement with the Government of Chile for $41,300,000 consisting of $2,700,000 of cash and $38,600,000 in seventeen year, 9.165% Series A and B Notes, which are exempt from Chilean taxes and guaranteed by the Central Bank of Chile. The notes and related interest are payable semi-annually. An amount of $500,000 was also received representing payment for commissions earned on shipments made by a Cerro subsidiary on behalf of Andina. The difference of $5,600,000 between the principal settlement of $41,300,000 and Cerro's book value at December 31, 1973 of approximately $35,700,000 represents primarily interest earned since the date of expropriation on loans made by Cerro to Andina in 1966 and 1968. This interest had not been reflected in prior years' earnings of Cerro as there was no reasonable assurance at that time of collection. This interest will be reflected in earnings as and when the last $5,600,000 in collections on the notes is received.

In addition, an agreement was entered into on July 14, 1974 between Cerro and the Overseas Private Investment Corporation (OPIC), an agency of the U.S. government whereby OPIC guarantees, in the event of a default by the Chilean government, the payment of a portion of the total face amounts of each of the Series B Notes. The amount guaranteed under this provision of the agreement at December 31, 1975 was approximately $8,100,000.

LS 001302

MARGRP CDA dm - 1593

Cerro and the Government of Chile have an arrangement covering the purchase and resale of certain copper-bearing materials produced in Chile, which cannot be processed there and which are outside normal Chilean production and exports. The proceeds from the resale of these materials are being applied to prepayment of notes, in inverse order of maturity, and have resulted in the prepayment of a substantial portion thereof. During 1974 Cerro received approximately $2,900,000 in principal prepayments and $900,000 of principal in September, 1974 in accordance with the normal payment terms of the agreement. In 1975, Cerro has further reduced the balances due on the notes by prepayment applications of $9,400,000 and regular payments of $2,900,000.

5. INVESTMENTS

Cerro's investments are summarized below:

	Equity %	1975	1974
		($ in Thousands)	
Southern Peru Copper Corporation..	22½	$13,375	$13,375
Northwest Iron Co., Ltd.....	24	1,950	1,950
Peruvian affiliates.....	--	5,553	5,709
Mining and manufacturing ventures (principally foreign).....	--	2,961	5,408
		23,839	26,442
Reserve for investments.....	--	(9,997)	(10,145)
		$13,842	$16,297

Southern Peru Copper Corporation

Cerro's 22½% equity interest in Southern Peru's book value was $66,994,000 and $69,129,000 as of December 31, 1975 and 1974 which exceeds its investment by $53,619,000 and $55,754,000 respectively. Despite the fact that Cerro owns 22½% of Southern Peru, Cerro recognized earnings only to the extent dividends are received. If the equity method had been used, Cerro's earnings from continuing operations would have decreased by $ .27 a share in 1975 compared with an increase of $1.05 a share in 1974.

Southern Peru's net income (loss) for 1975 was $(9,597,000) compared to $40,480,000 for 1974. No dividends were paid to shareholders; since the last half of 1972, dividends have been suspended as Southern Peru used its earnings to aid in financing the development of the Cuajone mine.

On February 27, 1976, Cerro made a contribution to the capital of Southern Peru in the amount of $4,450,000, its proportionate share of a total increase in capital of $20,000,000. Such funds will be used to continue development of Cuajone. Because the projected costs of Cuajone will exceed presently available funds (including the above $20,000,000), an additional equity offering of $25,000,000 may be required by Southern Peru's lenders. To the extent that Cerro does not subscribe thereto, its equity interest in Southern Peru would be diluted.

Pursuant to Peruvian law, the mining community, made up of Southern Peru's employees, may eventually receive 50% of the ownership in Southern Peru. As the equity interest of the mining community increases, Cerro's interest will decline proportionately.

Northwest Iron Co., Ltd.

Cerro's interest in a Tasmanian iron ore joint venture is held through its 24% ownership of Northwest. Cerro and another owner of Northwest have agreed to advance sufficient funds to maintain working capital, as defined, at $500,000 until certain outstanding indebtedness aggregating $18,300,000 at December 31, 1975 is repaid; such repayment is scheduled for 1983. Under this arrangement, Cerro is obligated to advance one-third of the funds necessary to maintain working capital at this level. Cerro was not required to advance funds to Northwest for this purpose in 1974.

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In July, 1975, Cerro pledged $1,000,000 principal amount of marketable debt instruments owned by it to a lending institution as partial security for an interim loan in the amount of $3,000,000 made to Northwest. On November 7, 1975, in connection with permanent financing arrangements and upon an increase in the loan to $6,000,000, Cerro increased the principal amount of pledged securities to $2,000,000. These securities are included in the balance sheet caption Other Assets.

In the event that Cerro and the principal owner would find it desirable to have the entire amount of indebtedness repaid rather than contribute to working capital, Cerro would be contingently liable for $6,100,000 based on the amount of indebtedness outstanding at December 31, 1975. There can be no assurance that the principal owner would concur in such judgement and agree to repay that portion of the indebtedness relating to its share of the obligation.

Cerro's 24% share of the most recent profits (losses) of Northwest is:

Nine months ended December 31, 1975 (unaudited)	$(210,000)
Fiscal year ended March 31, 1975	462,000*
Fiscal year ended March 31, 1974	471,000*

*Including Cerro's proportionate share of extraordinary credits from utilization of tax loss carryforwards in the amount of $202,000 and $223,000 for the fiscal years ended March 31, 1975 and 1974, respectively.

Cerro has never received dividends from this affiliate and, in 1973 and 1974, fully reserved, exclusive of any contingent liability resulting from the agreement discussed above, the amount of its investment in Northwest.

6. PROPERTY, PLANT AND EQUIPMENT

Non-realty property, plant and equipment are summarized below:

	1975	1974
	($ in Thousands)	
Land and buildings	$ 47,815	$ 40,841
Machinery and equipment	103,174	84,474
Mining properties	39,255	31,966
Revenue equipment	21,454	21,194
Utility plant	11,946	---
Construction in progress	8,448	3,728
	232,092	182,203
Less: Accumulated depreciation, depletion and amortization	74,869	62,591
	$157,223	$119,612

Depreciable lives of non-realty property, plant and equipment are:

	Years
Buildings	10-40
Machinery and equipment	4-25
Revenue equipment	5-7
Utility plant	10-40

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7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	1975	1974
	($ in Thousands)	
Payroll	$ 7,207	$ 7,729
Income taxes	15,771	14,515
Interest	1,431	1,597
Pensions	4,476	4,848
Other	12,481	9,853
	$ 41,366	$ 38,542

8. FINANCING AGREEMENTS

(A) The following table gives the detail on Cerro's long-term debt (other than real estate debt):

	Interest Rate	Due	1975	1974
			($ in Thousands)	
Promissory notes to institutions (a)	6-3/8%	1976-1987	$ 24,000	$ 26,000
Promissory notes to an institution (b)	6%	1976-1981	9,000	10,500
Promissory notes to corporations (c)	9½%	1977-1987	35,000	35,000
Promissory notes to individuals (d)	5%	1976-1980	8,439	---
Promissory notes to banks (e)	110% Prime	1977	---	8,000
1st mortgage note payable (f)	10%	1976-1990	2,631	2,712
Subordinated debentures (g)	7%	1990	3,879	3,570
Subordinated promissory notes to an individual (h)	12%	1976-1984	8,330	11,468
Other (i)	5-15%	1976-1990	10,359	14,230
			101,638	111,480
Less current portion			7,113	14,679
			$ 94,525	$ 96,801

(a) Payable in annual installments of $2,000,000.
(b) Payable in annual installments of $1,500,000.
(c) Payable in annual installments of $3,500,000 and secured by mining properties.
(d) Represents the balances due on the fixed purchase prices for the acquisitions of GM&W and Delta ($5,221,000) and Stott ($3,218,000) as discounted to an effective rate of 9%. The balances are to be paid as cash is generated from operations, with payments estimated to be made annually in approximately equal amounts.
(e) Repaid on January 24, 1975. Accordingly the $8,000,000 has been reflected as a current payable at December 31, 1974.
(f) Secured by buildings and payable in monthly installments of $28,975 including interest.
(g) Redeemable at Company's option at prices ranging from 104.5% in 1976 to 100% in 1984; annual sinking fund payments of $325,000 are required beginning in 1976 with the option to make additional annual payments of $325,000 (such payments may be reduced by the principal amount of debentures acquired by the Company; as a result all of the 1976 and 1977 installments and all but $139,000 of the 1978 installment have been satisfied at December 31, 1975); debentures are convertible into common stock of Cerro's subsidiary (Golconda Corporation) at a conversion price of $10.67 per share (subject to antidilution provisions). These debentures were discounted to an effective interest rate of 10% upon acquisition of Golconda Corporation.
(h) Payable in annual installments of $1,207,000. On August 1, 1975, $1,931,000 of debt maturing in 1982-84 was paid.
(i) Other long-term debt includes payables by ICX at December 31, 1975 and 1974 of $5,598,000 and $10,228,000 respectively, of which $3,918,000 and $7,092,000 was secured by revenue equipment.

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The various note agreements impose certain restrictions on Cerro, including the payment of cash dividends and reacquisition of capital stock. Approximately $39,100,000 at December 31, 1975 of retained earnings was not restricted; however see Note 13 for amendments to a note agreement effective subsequent to December 31, 1975.

Payments of long-term debt during the next five years are as follows:

1976	$ 7,113,000
1977	11,372,000
1978	12,098,000
1979	10,849,000
1980	9,744,000

(B) Rentals due under various long-term leases for certain office space, equipment and freight terminals for periods after 1975 are as follows:

1976	$ 1,884,000
1977	1,578,000
1978	1,334,000
1979	1,053,000
1980	973,000
1981 - 1985	3,372,000
1986 - 1990	1,279,000

Sublease rentals are insignificant. Non-capitalized financing leases are immaterial.

(C) In the third quarter of 1975, a subsidiary entered into short-term line of credit agreements with two banks in the amounts of $5,000,000 each. Borrowings under the lines bear interest in one case at the bank's prime rate and in the other at ½ of 1% above the bank's prime rate. The subsidiary is expected to maintain average compensating balances, which may be withdrawn without restriction, of 10% of the amounts borrowed. Under one line, an additional compensating balance of 10% of the maximum available is necessary. Compensating balances are based on average collected cash balances on deposit at the banks. Since the loans were negotiated, the maximum amounts borrowed totaled $7,000,000 with average borrowings of $4,986,000. Interest rates during the period averaged 7.7%.

In January 1976, this subsidiary entered into an additional short-term line of credit with a third bank in the amount of $10,000,000. Borrowings under this line bear interest at the bank's prime rate. A compensating balance of 20% of any amounts borrowed will be required.

Another subsidiary has a revolving credit agreement with a bank whereby the subsidiary may borrow up to 90% of the depreciated book value of certain equipment, with a maximum available credit line of $5,000,000. The subsidiary is expected to maintain an average compensating balance (which may be withdrawn without restriction) of 15% of the outstanding loan balance, based upon the average collected monthly bank deposit. Effective January 1976 the agreement was revised to require compensating balance maintenance of 10% of the total commitment plus 10% of the outstanding loan balance. Additionally, in connection with an unsecured loan of $1,680,000 this subsidiary is required to maintain a compensating balance of 15% of the loan balance.

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9. STOCK OPTIONS

At December 31, 1975 Cerro had two stock option plans in effect covering officers and key employees. The 1970 Plan is qualified and discontinued as to additional grants whereas the 1971 Plan (Alternate Stock Option Plan) is non-qualified. The 1964 Plan expired on November 21, 1974. The terms of options under the two current plans generally are five years from the date of grant.

Optionees are not entitled to exercise both the stock options under the 1970 Plan and the stock options under the 1971 Plan. In addition, since March 14, 1973, holders of the options under the 1971 Plan are not entitled to exercise such options but receive in cash the difference between the option price and the market value at the time the option is exercised. No more than 50% of the shares covered by any option can be issued in payment for such appreciation, with the balance payable in cash. At December 31, 1975 and 1974, 422,856 shares of common stock were reserved for issuance under the 1970 and 1971 Plans.

On March 15, 1974, the 1971 Plan was amended to provide that the option price per share of each option outstanding on May 14, 1974 and of each option granted thereafter, would be reduced by an amount equal to the aggregate cash dividends declared and paid on each share of common stock during the period beginning with the later of (a) May 14, 1974 or (b) the date of grant of the option and ending on the date the option is presented for exercise, subject to the limitation that in no event will the option price per share be reduced to less than 50% of the original option price per share or the then par value of each share, whichever is higher. The 1971 Plan is to remain in effect until terminated by the Board, but no options may be granted after February 23, 1980. On May 13, 1975 the Board of Directors directed that no shares of common stock will be issued in payment of the appreciated value of any option, but such appreciated value will be paid exclusively in cash.

The Board of Directors has the power to cancel all or any part of any outstanding option under the 1971 Plan in the event it determines that the ultimate Federal income tax consequences or the financial accounting effects of the exercise of options under the plan would not be in the best interest of Cerro.

The option price under both Plans is 100% of fair market value of the stock on the date of grant. In 1974, options were granted to purchase 34,750 shares under the Plans. No options were granted in 1975. In 1974 and 1975, options to purchase 317,712 and 31,919 shares expired, respectively. Options for 83,947 shares were cancelled in 1975. Details of other transactions for the years 1973, 1974 and 1975 are as follows:

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	No. of Shares(a)	Option Price Per Share(a)	Option Price Amount	Market Value Per Share(a)	Market Value Amount
Became Exercisable In:					
1973					
1961,1964,1970 Plans.....	41,978	$12.94 to $25.24	$ 709,000	$13.50 to $16.19(c)	$ 629,000
1971 Plan.....	66,851	12.94 to 17.25	1,062,000	13.50 to 16.19(c)	1,027,000
1974					
1970 Plan.....	46,944	12.94 to 25.24	864,000	11.62 to 18.94(c)	771,000
1971 Plan.....	88,360	12.56 to 18.13	1,369,000	11.62 to 18.94(c)	1,422,000
1975					
1970 Plan.....	17,715	13.19 to 17.25	287,000	10.88 to 16.94(c)	239,000
1971 Plan.....	39,844	11.38 to 17.03	576,000	10.88 to 17.00(c)	542,000
Exercised In:					
1973					
1961, 1964, 1970 Plans..... (Granted 1963)	15,407	12.02 to 12.03	185,000	13.94(d)	215,000
1971 Plan.....	None	None	None	None	None
1974					
1964, 1970 Plans..	None	None	None	None	None
1971 Plan..... (Granted in 1971-1974)	59,345	12.69 to 17.25	921,000(f)	17.00 to 18.94(d)	1,078,000
1975					
1970 Plan.....	None	None	None	None	None
1971 Plan..... (Granted in 1971-1974)	38,794	12.41 to 15.85	544,000(f)	14.19 to 17.19(d)	632,000
Outstanding at:					
December 31, 1974					
1970 Plan..... (Granted in 1970-1973)	106,975	13.19 to 18.15	1,793,000	13.19 to 18.15(b)	1,793,000
1971 Plan..... (Granted in 1971-1974)	226,048	12.01 to 17.33(e)	3,385,000	12.56 to 18.13(b)	3,558,000
December 31, 1975					
1970 Plan..... (Granted in 1971-1973)	51,983	13.19 to 17.25	685,000	13.19 to 17.25(b)	685,000
1971 Plan (Granted in 1971-1973)	126,380	10.81 to 16.13(e)	1,695,000	12.56 to 18.13(b)	1,937,000

(a) Adjusted for stock dividends and stock split.
(b) At dates of grant.
(c) At dates options became exercisable.
(d) At dates exercised.
(e) Adjusted for cash dividends declared and paid subsequent to May 14, 1974.
(f) Optionees received in cash $157,000 and $88,000 for the years 1974 and 1975 representing the excess of market value at date of exercise over the option price. Shares available for future options under the 1971 Plan at December 31, 1975 and 1974 were 296,476 and 196,808, respectively.

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10. SHAREHOLDERS' EQUITY

On September 7, 1973, Cerro made a tender offer to purchase up to 500,000 shares of its common stock at $15.00 per share. A total of 419,039 shares, or 84% of the original offer, which expired October 15, 1973, was tendered. Cerro repurchased on the open market in 1974 and 1973, 36,000 and 112,400 of its shares, respectively. The shares purchased are being held as treasury stock. No shares have been reacquired in the year ended December 31, 1975.

Authorized preferred stock of 1,000,000 shares, without par value is unissued.

Reappraisal surplus ($52,959,000), which arose on the re-evaluation of Cerro's Peruvian mining properties in 1943 and 1951, has been transferred to retained earnings in 1973 to offset the charges to retained earnings for depletion and amortization of appraised values and the write-off of Peruvian assets.

11. PENSIONS

Cerro has several pension plans covering most of its employees. The Company is in the process of estimating the impact of the Pension Reform Act of 1974 on net income for 1976. Management believes that additional expense and funding requirements expected to result from any required amendments to the Company's plans should not be material in relation to present expense for these plans. The unfunded vested benefits are expected to increase, but the amount of such increase will not be determinable until management decides how present vesting provisions may have to be amended to conform with the new law and regulations thereunder.

The actuarially computed value of vested benefits for certain plans exceeded, as of December 31, 1975, the respective pension funds assets and related balance sheet accruals by approximately $7,500,000. At that date unfunded past service costs totalled approximately $13,000,000.

12. LITIGATION

In April and May 1975, several lawsuits were commenced against various defendants including Cerro. A class action alleges (1) that certain transactions between Cerro and a former officer of Cerro were entered into solely to permit Marmon (See Note 13) and Marmon's parent company and its principal stockholders to obtain control of Cerro and (2) that efforts were made by certain of the defendants to depress the market value of Cerro's common stock in order to effectuate a merger between Cerro and Marmon on terms unfavorable to the Cerro stockholders, other than Marmon, in violation of the anti-fraud provisions of the Federal securities laws and in violation of their fiduciary duties to Cerro. The relief sought includes compensation for damages sustained by the class as a result of the matters alleged in the complaint and an injunction for a period of at least five years against the voting of shares of Cerro common stock owned by Marmon. No relief is sought from Cerro. On March 24, 1976 an agreement in principle was reached among all counsel to settle this class action whereby certain defendants would pay approximately $2,365,000 (including attorneys' fees) to members of the class. No part of this payment is to be made by Cerro or its successor, Cerro-Marmon (see Note 13).

A series of shareholders' derivative actions, alleges, among other things, that there occurred in connection with a 1974 agreement between Cerro and a former officer of Cerro, violations of the anti-fraud provisions of the Federal securities law and breaches of the defendants' fiduciary duties to Cerro pursuant to an alleged plan among the defendants to permit Marmon and the principal stockholders of Marmon's parent company to acquire control of Cerro. These complaints demand that the defendants account for any profits realized by them and any losses and damages sustained by Cerro as a result of the matters alleged therein.

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One additional suit, commenced in May 1975, in which Cerro, certain of its present and former directors, and Cerro's independent accountants were defendants, alleged that Cerro's financial reporting practices for 1972-74 had not accurately reflected the difficulties of certain subsidiaries, including Leadership Housing, Inc. and Cerro de Pasco Corporation, Cerro's former Peruvian mining subsidiary. On January 27, 1976 this suit was dismissed conditionally. Such dismissal became final March 26, 1976.

See Note 13 for additional lawsuits filed subsequent to December 31, 1975.

13. SUBSEQUENT EVENT (UNAUDITED)

On February 24, 1976, as a result of the vote of the common stockholders of Cerro, a business combination between Cerro and The Marmon Group, Inc. (Michigan) ("Marmon") was consummated. The transaction was accomplished by having GL Corporation, owner of all of Marmon's capital stock, transfer those shares to a newly-formed Delaware corporation, Cerro-Marmon Corporation, in exchange for 5,000,000 newly-issued common shares thereof, each with four votes per share. Cerro immediately thereafter, merged into Cerro-Marmon. As a result, Marmon became a wholly-owned subsidiary of Cerro-Marmon. At the time of the merger, Cerro common stock held in the treasury was cancelled.

Former common stockholders of Cerro, other than Marmon, (which owned 45.33% of Cerro's common stock), by virtue of their approval of the terms of the merger, received for each share of common stock, one share of $1 par value Series A Preferred Stock, with a cumulative annual dividend of $2.25 per share and a liquidation preference and redemption price of $22.00 per share, each with one vote. The Preferred may be called for redemption, in whole or in part, beginning April 1, 1981 and will be entitled, beginning January 1, 1982 and annually thereafter to sinking fund payments, sufficient to retire annually 6-2/3% of the issued Preferred Stock and the entire issue fifteen years later. Dividends and sinking fund payments are subject to restrictive provisions in one of Cerro's pre-existing debt instruments (see Note 8) which agreement was amended in contemplation of the business combination. Under such amended note agreement, Cerro-Marmon would have had approximately $14,800,000 available for dividend and sinking fund payments in respect of the Preferred Stock at December 31, 1975.

Available dividend capacities will vary under this latter limitation from time to time in accordance with changes in current assets and current liabilities of Cerro-Marmon. Marmon is subject to a loan agreement relating to Marmon indebtedness in the principal amount of $68 million (reduced to $43 million as a result of a capital contribution by Cerro-Marmon to Marmon after the business combination) which limits annual dividend payments and requires substantial payments of principal beginning November 1976, which payments will reduce its available cash and thereby further restrict, during the term of the loan, its ability to pay dividends to Cerro-Marmon.

Two individuals claiming to be shareholders of Cerro commenced a class action on February 18, 1976 in the Supreme Court of the State of New York against Cerro, Cerro-Marmon, Marmon and all of the present directors of Cerro, seeking to enjoin the merger. The New York court denied the plaintiffs' motion in all respects after which plaintiffs filed a notice of appeal. Such appeal is scheduled to be heard on April 9, 1976. One of these individuals commenced a similar class action on February 20, 1976 in the Federal District Court for the Southern District of New York, additionally alleging violations of the anti-fraud provisions of the Federal securities laws. Another individual claiming to be a shareholder has filed a class action in the Southern District of New York alleging violations of the anti-fraud provisions of the Federal securities laws. In the opinion of counsel, the claims in these class actions should not be sustained.

LS 001310

MARGRP CDA dm - 1601

14. CONDENSED REAL ESTATE FINANCIAL STATEMENTS

Presented below are the condensed financial statements of the real estate operations ("Leadership Housing, Inc."), together with related footnotes. Intercompany transactions, including interest charges, have been eliminated from these financial statements.

LEADERSHIP HOUSING, INC.

STATEMENT OF OPERATIONS
($ in Thousands)

	Year Ended December 31,	
	1975	1974
Sales:		
Single family housing	$ 32,704	$ 81,098
Multi-family housing	4,758	8,968
Land sales	3,154	2,942
Other	3,571	2,998
	44,187	96,006
Other revenue including interest income of $6,368 and $6,751, and equity in joint venture income (loss) of $(554) and $2,214	6,117	9,055
	50,304	105,061
Cost of Sales	46,199	92,767
Provision for writedowns of inventories and related items (Note 1 & 3)	8,700	5,300
	54,899	98,067
	(4,595)	6,994
Selling and administrative expenses	(11,589)	(12,740)
Write-off of goodwill (Note 1)	(8,040)	
Interest cost accrued	(14,451)	(16,321)
Less interest capitalized (Note 9)	6,198	8,461
Income (loss) before income taxes	($ 32,477)	($ 13,606)

Numerical note references are to the Notes to The Condensed Real Estate Financial Statements; alphabetical note references are to the Statement of Earnings (Loss) of Cerro Corporation and Consolidated Subsidiaries.

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LEADERSHIP HOUSING, INC.

BALANCE SHEET
($ in Thousands)

ASSETS

	December 31, 1975	December 31, 1974*
Cash (Note 6)	$ 1,951	$ 4,688
Notes and other receivables (Notes 2, 4 & 6)	36,846	46,500
Inventories (Notes 3, 6 & 8)	112,833	118,262
Investments in joint ventures (Notes 4 & 6)	8,007	8,522
Property, plant & equipment, net (Notes 5 & 6)	4,093	17,951
Goodwill (Notes 1 & 8)		8,262
Other assets	2,876	4,801
	$166,606	$208,986

LIABILITIES AND SHAREHOLDER'S EQUITY AND ADVANCES

Notes payable (Note 6 & A)	$102,090	$112,724
Accounts payable	3,622	9,062
Accrued liabilities	7,231	6,603
Customer deposits	5,527	6,219
Rent guarantee reserves	2,839	2,757
Estimated cost to complete property sold	187	479
Deposits on property subject to repurchase (Note 7)	7,244	7,236
Deferred income	3,160	4,403
	131,900	149,483
Shareholder's equity & advances (Note 6)	34,706	59,503
	$166,606	$208,986

*Reclassified for comparative purposes.

Numerical note references are to the Notes to the Condensed Real Estate Financial Statements; alphabetical note references are to the Statement of Earnings (Loss) of Cerro Corporation and Consolidated Subsidiaries.

LS 001312

MARGRP CDA dm - 1603

NOTES TO CONDENSED FINANCIAL STATEMENTS OF
REAL ESTATE OPERATIONS (LEADERSHIP HOUSING, INC.)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES:

The major accounting principles and methods used by Leadership are described below.

(A) Recognition of Revenue

Sale of single family houses and condominiums are recorded when escrow closes and title has passed to the buyer, at which time cash has been received for substantially the full sales price. At that time, land costs, allocated site development costs, specific construction costs, related capitalized interest and real estate taxes are relieved from inventory and charged to cost of sales along with a provision for sales commissions and estimated miscellaneous warranty costs. Customer down payments and payments of specified amounts at certain stages of construction prior to closing are recorded as customer deposits.

Sales of recreational facilities and developed and undeveloped land are recorded at the time escrow closes and the Company has received the required cash down payment and all other conditions necessary for profit recognition have been satisfied.

Revenues and profits on sales of land which the Company is required to develop are recognized over the development period in the ratio of costs incurred to estimated total costs at completion providing future costs can be reasonably quantified.

Sales of land whereby the Company intends or is obligated to repurchase such property are treated as financing arrangements and are not recorded as sales. Costs of land and improvements applicable to such sales are included in inventory and cash received from the buyer is recorded as deposits on property subject to repurchase. Notes receivable on such transactions have not been recorded in the balance sheet. Interest received on such unrecorded notes is recorded as additional deposits on property subject to repurchase.

Multi-family projects are generally sold to investors subject to physical construction and minimum cash flow guarantees. Where minimum cash flow guarantees exist, a sale is not recorded until the project achieves a cash flow sufficient to provide for all operating expenses and guarantee requirements. Once this level of operation is achieved, profits are recognized in the ratio of costs incurred to date to estimated total costs at completion over the period of performance including the guarantee period. Costs include anticipated operating expenses of the property during the guarantee period. Anticipated gross rental income during the guarantee period is reduced by an appropriate margin and is recorded as additional rent guarantee reserve. Costs of land and improvements on multi-family projects which have not satisfied all conditions for income recognition are included in inventory, amounts of investors' payments are reflected as deposits and the related notes receivable secured by all-inclusive trust deeds are not recorded on the balance sheet. Certain profits from projects sold in years prior to 1972 which have continuing seller involvement or cash flow guarantees over extended periods up to 30 years have been deferred and included as additional rent guarantee reserve in the accompanying balance sheet.

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(B) Inventories

Inventories are carried at cost or estimated net realizable value whichever is lower. The estimated net realizable value of inventories is evaluated based on disposition of inventories in the normal course of business under existing and anticipated market conditions. The evaluation takes into consideration the current status of the property, various restrictions, carry costs, debt service requirements, and any other circumstances which may affect net realizable value including management plans for the property. Due to the large acreage of certain land holdings, disposition in the normal course of business may extend over a number of years. Land is carried at average cost plus interest and real estate taxes. Site development is at average cost and construction is at specific cost. Single and multi-family inventory consists of land, land improvements, construction costs and other capitalizable costs including interest and real estate taxes for projects currently under development. Land and improvements applicable to single family construction and multi-family projects are transferred to such inventory captions when construction commences.

Consistent with the above method of valuing inventories, the Company has provided for reductions of inventories to their estimated net realizable values where appropriate.

(C) Property, Plant and Equipment

Property, plant and equipment is carried at cost and is depreciated by the straight-line method over the estimated useful lives of the assets. Costs of additions and major improvements are capitalized and expenditures for maintenance and repairs are expensed. When property or equipment is retired or sold, any profit or loss on the transaction is recognized currently.

The estimated useful lives of property, plant and equipment are indicated below:

	Years
Buildings and structures.....	25
Utility system.....	40
Leasehold improvements.....	Term of Lease
Machinery and equipment.....	4
Furniture and fixtures.....	6

(D) Goodwill

The excess of the price paid by Cerro over the book value of Leadership was allocated 50% to land and 50% to goodwill. The amount included in land is charged to cost of sales when land is sold and amounted to $147,000 in 1975 and $1,040,000 in 1974, respectively. Goodwill amortization was over forty years commencing in 1972 and amounted to $222,000 to June 30, 1975 and $443,000 in 1974, respectively.

The unamortized balance of goodwill of $8,040,000 at June 30, 1975 was charged to operations at that date after the determination that there was no continuing benefit. See Note M to the Statement of Earnings (Loss).

LS 001314

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(E) Deferred Income

Deferred income consists of interest, which is amortized into income over a specified term; deferred profit, which is amortized into income over the construction and guarantee period of multi-family projects; and deferred profit on a sale of land recorded on the installment method.

(F) Income Taxes

The real estate operations are included in Cerro's consolidated tax return. See Note E to the Statement of Earnings (Loss) and Note 1 to Cerro's Financial Statements for additional information.

NOTE 2 - RECEIVABLES:

Notes and other receivables at December 31, 1975 and 1974 consist of the following (in thousands):

	1975	1974
Notes		
First trust deeds	$ 16,142	$ 18,807
Second trust deeds	7,524	13,153
Secured by all-inclusive trust deeds, net	8,880	9,351
	32,546	41,311
Other receivables (including $1,719,000 and $1,687,000 due from Pritzker Trusts*) less allowance for uncollectibility of $406,000 and $833,000 respectively	4,300	5,189
	$ 36,846	$ 46,500

*The beneficiaries of the Pritzker Trusts are members of the Pritzker family, including Mr. J. A. Pritzker (Chairman of the Board of Directors of Cerro) and Mr. R. A. Pritzker (President of Cerro). The Pritzker family is also the beneficial owner of 100% of the outstanding common shares of Cerro.

First trust deed notes receivable arise from the sales of land and recreational facilities which mature from the date of sale within 10 years for land and 30 years for recreational facilities. Such receivables are secured by the related land and recreational facilities.

Second trust deeds arise primarily from the sales of single family residences and certain sales of land. Receivables due from single family home sales, which are subordinated to first trust deeds held by financial institutions are due in monthly installments of principal and interest for periods averaging nine years. The Company has imputed interest on these receivables arising from single family home sales to yield a 12% effective interest rate.

Second trust deeds include a $955,000 receivable due December 31, 1975 which is currently in default and which is secured by real estate. The Company is involved in litigation seeking to improve its security position. The holder of the first trust deed has filed an action of foreclosure on the total property. If the first trust deed holder is successful and the Company is not successful in its litigation efforts, collectibility of the second trust deed is unlikely. The status of the above matter at December 31, 1975 is such that the ultimate collectibility cannot be determined.

LS 001315

MARGRP CDA dm - 1606

Other receivables include a $610,000 unsecured receivable due from the Pritzker Trusts representing approximately 50% of the profit from the sales of property in 1974 by the Trusts to third parties. Certain of the purchasers are seeking recission of the contracts, and if they are successful, the Company would be required to reverse the $610,000 profit recorded in 1974. The ultimate collectibility cannot be determined as at December 31, 1975.

Notes receivable secured by all-inclusive trust deeds less underlying trust deed notes payable are due in annual instalments of up to 30 years.

Notes and other receivables (including notes receivable secured by all-inclusive trust deed notes less underlying trust deed notes payable) mature by their terms in varying instalments. At December 31, 1975 and 1974, the net amount due within one year is $4,756,000 and $7,143,000, respectively.

At December 31, 1975 and 1974, there are unrecorded notes receivable aggregating $16,965,000 ($2,980,000 from Pritzker Trusts) and $12,365,000 ($2,989,000 from Pritzker Trusts), respectively, which resulted from sales treated as financing arrangements and sales of multi-family projects which have not satisfied all conditions for income recognition. The portion of these notes due within one year by their terms aggregates $1,558,000 and $1,347,000, respectively. Certain unrecorded notes have been pledged as collateral securing the Company's term loan.

NOTE 3 - INVENTORIES:

Inventories at December 31, 1975 and 1974 consist of the following (in thousands):

	1975	1974
Land and improvement costs	$ 75,981	$ 67,494
Single family construction	22,546	40,291
Multi-family projects	10,504	6,675
Land subject to repurchase from Pritzker Trusts (Note 7)	3,802	3,802
	$112,833	$118,262

Land and improvement costs at December 31, 1975 include $7,577,000 for properties in the process of foreclosure.

The provisions for the writedowns of inventories to estimated net realizable values and related items consist of the following (in thousands):

	December 31,	
	1975	1974
Reduction of inventories to estimated net realizable value:		
Housing	$ 800	$ 1,700
Land and improvements	7,900	2,400
Abandoned land options and related costs		1,200
	$ 8,700	$ 5,300

Of these amounts, $4,200,000 and $2,400,000 were provided in the fourth quarters of 1975 and 1974, respectively.

LS 001316

MARGRP CDA dm - 1607

NOTE 4 - INVESTMENTS IN JOINT VENTURES:

The investments in joint ventures at December 31, 1975 and 1974 consist of the following (in thousands):

	1975	1974
Equity in net earnings	$ 5,963	$ 6,516
Notes receivable due in annual instalments of principal and interest through 1979	4,596	4,762
Notes payable due in annual instalments of principal and interest through 1979	(2,809)	(2,957)
Interest receivable, net	257	201
	$ 8,007	$ 8,522

In connection with a mortgage modification agreement, the Company has subordinated its $4,596,000 notes receivable from a second to a third position, extended the maturity date to December 31, 1979 and waived all principal payments through December 31, 1976.

The accounting policies and principles followed by the joint ventures insofar as they relate to revenue and profit recognition are the same as those noted as being followed by the Company.

The Company is a participant in two joint ventures with the Pritzker Trusts each of which provides for participation in 50% of the profits and losses. At December 31, 1975 and 1974, these two ventures which hold unimproved property have not made any sales. In addition, the Company is a participant in another joint venture, which is developing and selling property, in which the Company participates in 50% of profits only (not losses) for approximately 40% of the unsold property at December 31, 1975 being developed and 50% of profits and losses for the other 60% of the property. In January 1975, two golf courses and related facilities were transferred from this joint venture to a new joint venture in which the Company participates in 50% of profits and losses.

In all four of these ventures the Company has no obligation to make any capital contributions except in the event of dissolution of the ventures. However, to the extent the other participants make such contributions preference will be made as to ultimate distributions for such contributions as well as an interest factor thereon.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

At December 31, 1975 and 1974 the major classifications of property, plant and equipment (at cost) are as follows (in thousands):

	1975	1974
Land and land improvements	$ 1,078	$ 1,359
Buildings and structures	193	994
Utility system		15,060
Machinery, equipment, etc.	955	1,266
Golf course and related facilities	2,493	1,042
	$ 4,719	$ 19,721

LS 001317

Depreciation amounted to $373,000 and $514,000 for the years ended December 31, 1975 and 1974, respectively.

On June 18, 1975, and in connection with the banking arrangement made on that date as described in Note 6, the utility system was sold to Cerro Corporation.

MARGRP CDA dm - 1608

NOTE 6 - NOTES PAYABLE:

At December 31, 1975 and 1974, notes payable consist of the following (in thousands):

	1975	1974
Obligations to banks:		
Notes payable - bank term loan agreement (a) (Note A)	$ 44,281	$ 42,500
Other:		
7% to prime plus 5.5% real estate mortgages payable in instalments through 2011	55,278	66,031
6-8% unsecured notes payable in instalments through 1982	2,531	4,193
	$102,090	$112,724

(a) On October 4, 1973, as amended November 1, 1974, the Company entered into an agreement with a group of banks providing for a one year line of credit aggregating $42,500,000 to become payable in eight quarterly installments begining January 1976 and to bear interest at the Bank's Alternate Base Rate (a rate which approximates the prime rate) and 1½% over such rate until October 1, 1975 and 1¼% over such rate thereafter, payable quarterly. Based on an understanding with the banks the Company agreed to maintain compensating balances equal to 10% of the aggregate commitment and 10% of the principal amount borrowed. In 1974, Cerro deposited $6,500,000 with the banks on behalf of Leadership. Cerro charged the Company interest for this amount at approximately 9%. The compensating balance arrangements were terminated in 1975.

The credit line was secured by mortgage receivables and the utility system having a collateral value equal to 125% of the aggregate commitment. The Company paid a commitment fee equal to ½ of 1% per annum on the average daily portion of the unused commitment.

On June 18, 1975, Leadership and certain of Leadership's subsidiaries collectively referred to as the "Borrowers" entered into an Amended and Restated Loan Agreement dated as of April 1, 1975 (the "Restated Agreement") with First National City Bank (the "Bank") acting for itself and as representative for others. The Restated Agreement amends and restates the Loan Agreement, dated as of October 4, 1973, as amended, so as to provide, among other things, for the making of additional loans by the Bank (and Cerro) to the Borrowers from time to time in an aggregate amount not to exceed $12,000,000. Such loans (both those existing as of June 18, 1975 and the additional loans to be made pursuant to the Restated Agreement) are evidenced by two promissory notes. As explained below, the Bank's note is in the principal amount of $44,500,000 and Cerro's note is in the principal amount of $10,000,000. Both notes have a maturity date of April 1, 1977, subject to acceleration as provided in the Restated Agreement.

Of the $12,000,000 in additional loans, the participating banks have furnished $2,000,000 and Cerro has furnished $7,675,000 at December 31, 1975, which is included in the financial statements in stockholder's equity and advances.

LS 001318

MARGRP CDA dm - 1609

In connection with the amendment of the loan agreement, on June 18, 1975, Cerro purchased the utility system formerly operated by the Company for an approximate aggregate purchase price of $15,750,000 of which $12,000,000 was paid in cash and the balance of $3,750,000 was paid by issuance of a Cerro note, payable $93,750 quarterly plus interest at the Bank's Alternate Base Rate until October 1, 1980 when the final payment of $1,875,000 is due.

The Restated Agreement provides among other things for maintenance of minimum tangible net worth, limitations on the purchase of real estate, the sale of certain assets and investments in new properties or joint ventures. In addition, the Company is required to maintain certain collateral coverage ratios and meet specified cash flow objectives (based on quarterly projections) which, if not met, could be deemed events of default by the Bank. At December 31, 1975, the Company was not in compliance with all the requirements of the agreement. On March 11, 1976, the agreement was amended to eliminate all such existing events of default. (See Note A).

The Bank's $44,500,000 note bears interest at the rate of 1½% above the Bank's Alternate Base Rate, defined above. Two percent of such interest is payable monthly in cash and the difference between the 2% and the 1½% over the Bank's Alternate Base Rate shall be accrued until the total accrued interest equals $5,000,000, after which the Company shall pay to the Bank in cash the full 1½% above the Bank's Alternate Base Rate. The balance of the accrued interest shall be paid at maturity.

Borrowings from Cerro under the "Restated Agreement" will bear interest at the rate of 1½% above the Bank's Alternate Base Rate, which interest shall be paid on the maturity date of April 1, 1977. Generally, the loans under the Restated Agreement, the existing loans as well as the additional loans, are secured by the assignment of notes, mortgages and deeds of trust; a pledge of the capital stock of one of the Company's wholly owned subsidiaries; the granting to the Bank of a first mortgage on most of the Company's unencumbered real estate; an agreement to assign notes and mortgages acquired after the closing date; an agreement to grant first mortgages on real estate acquired after the closing date; the assignment of the Company's beneficial interest in two land trusts; an assignment of its interest in a joint venture and its right to cash distributions from its other two joint ventures; the assignment of Excess Cash Proceeds, as defined, if any, from any future sale of Tamarac Utilities, Inc. by Cerro to third parties; and the assignment to the Bank of all of the Company's rights in a Tax Allocation Agreement dated July 31, 1972, between Cerro and Behring Corporation (a predecessor of Leadership). In addition, the Company has assigned the $3,750,000 purchase money note issued by Cerro in connection with the acquisition of the utility system, with all principal prepayments thereon to be applied to the Bank's note.

LS 001319

MARGRP CDA dm - 1610

Cerro was required under the terms of the loan agreement to subordinate amounts owing to it from the Company (other than the $10,000,000 to be advanced under the loan agreeement and $5,000,000 evidenced by two notes which are pari passu to the lending banks' claims under the loan agreement) to the claims of the lending banks. Such subordination covers past advances only.

(b) The Company has additional notes payable secured by multi-family projects, which amounts have been deducted from notes receivable secured by all-inclusive trust deeds on those projects. The principal remedy in the event of default, under such notes, is recourse solely against the property secured thereby through a trustee's sale under provisions of the trust deed. In relatively rare instances, the statutory provisions allowing a deficiency judgement to be obtained through judicial processes are utilized in lieu of the rights under the sale provision of the trust deed. Such judicial processes are rarely used by lenders inasmuch as they may take several years and are subject to a right of redemption by the property owner following a judgement.

At December 31, 1974 notes payable of $610,000 were due to the Pritzker Trusts, and were paid in 1975. Notes payable mature in varying instalments; however, acceleration of payments may be required to release mortgaged property sold.

(c) The following is a debt repayment schedule for each of the twelve months ending December 31,:

1976	$ 20,731,000
1977	68,665,000
1978	2,107,000
1979	1,570,000
1980	704,000

NOTE 7 - COMMITMENTS AND CONTINGENCIES:

The Company is liable for obligations in the normal course of business for the completion of contracts relating to construction of houses, purchases of land, improvements of property sold and guarantees to purchasers of apartment projects. In addition, the Company is a defendant in lawsuits arising in the normal course of business which in the opinion of management and counsel will not have a material effect upon the Company. The Company is obligated for annual rentals under long term leases which in the aggregate are not material.

In connection with a sale of land in 1972 to the Pritzker Trusts (treated as a financing arrangement for financial statement purposes) the Company is required to repurchase such land zoned for an aggregate of 4,500 housing units and has an option to repurchase land zoned for an aggregate of 2,700 housing units at a repurchase price consisting of the Company's selling price to the Trusts, the Trust's development and carrying costs and a premium of $760 per housing unit. If the Company fails to make the required repurchases, the Trusts will have a cause of action against the Company for damages sustained as a result of the breach of contract and in addition, may terminate all of the Company's rights under the agreement, including the Company's option rights on the land zoned for an aggregate of 2,700 housing units, and may set off against the purchase money second mortgage owed to the Company the difference, if any, between the price at which the Trust sells the property to third parties and the price at which the Company would have been required to repurchase the property.

LS 001320

MARGRP CDA dm - 1611

During 1974 and 1973, the Company repurchased land zoned for 779 units with respect to the required repurchases and land zoned for 991 units with respect to the optional repurchases for $1,849,000 and $2,848,000, respectively, which included $592,000 and $753,000, respectively of premium. The premium remaining to be paid on required repurchases aggregates approximately $2,850,000 at December 31, 1975.

During 1975, the Company and the Trusts amended their agreement to defer the Company's obligation and option to repurchase property for 1974 and 1975 to June 30, 1977 except that the Company's option to repurchase land zoned for 753 units was forfeited.

Deposits on the land subject to repurchase amounting to $7,244,000 and $7,236,000 at December 31, 1975 and 1974, respectively were made by the Trusts in connection with the sale in 1972 as shown separately in the balance sheet. The purchase money second mortgage owed to the Company in connection with the sale has not been recorded on the books of the Company since the transaction was treated as a financing arrangement for financial statement purposes. (See Notes 2 and 3).

NOTE 8 - OTHER MATTERS:

On August 13, 1975 a plan was announced whereby the Company intends to reduce total assets, of which inventories are the significant portion, to less than one-half the December 31, 1974 amount. To the extent the reduction results in the disposition of inventories other than in the normal course of business and during a period in which adverse market conditions prevail, the estimated net realizable value may be adversely affected by an undeterminable amount.

Because of this inventory reduction program, it was determined that goodwill in the amount of $8,040,000, representing the unamortized excess of purchase price over the net assets of the Company as of June 30, 1975, had no continuing benefit and it was therefore written off (see Note 1).

The Company has historically utilized its own sales transactions as well as sales of comparable land and improvements by others as one of the primary factors in the determination of estimated net realizable value. Based upon information available in 1975, the Company has made a determination of net realizable value which resulted in provisions for write-down of inventories (see Note 3). However, the decline in comparable transactions together with adverse market conditions and the inventory reduction plan mentioned above have created significant uncertainties with respect to the Company's determination of estimated net realizable value. Accordingly, uncertainties are created as to the timing of and amount ultimately to be realized upon disposition of land and improvement inventories carried on the books of the Company as of December 31, 1975.

The estimated net realizable value of unimproved property held by the two joint ventures in which the Company is a participant with the Pritzker Trusts (see Note 4) is subject to the same uncertainties as described in the preceding paragraph. While the Company has no investment in these particular ventures, it is contingently liable to lenders for approximately $18,800,000 of the notes payable by the joint ventures at December 31, 1975. The Company, however, would have recourse to the joint ventures.

LS 001321

MARGRP CDA dm - 1612

As indicated in Note 6, events of default existed at December 31, 1975 under the covenants of the Restated Agreement between the Company and its lenders. Although such events of default were eliminated by amendments to the Restated Agreement on March 11, 1976, the Company anticipates that additional events of default will probably occur in 1976 as a result of continuing unprofitable operations and adverse cash flow, which may be affected by the outcome of litigation involving certain receivables aggregating $1,565,000 (see Note 2). If events of default occur the Restated Agreement provides that upon notification from the principal lenders the debt covered thereby would become due and payable. The Company and its lenders are currently studying alternatives to the April 1, 1977 maturity date of the loan. It is anticipated that discussions will begin in 1976 to renegotiate the existing loan agreement, the outcome of which cannot be determined at this time.

Funds available under the revolving and term loan agreement amounted to $800,000 at March 19, 1976.

NOTE 9 - INTEREST CAPITALIZATION:

It has been the Company's historical practice to capitalize interest relating to obligations incurred in connection with land, construction and land improvements. Management believes this policy results in the most appropriate matching of costs and revenues. Had the Company followed the policy of expensing all interest as incurred, (loss) before income taxes would have been as follows:

	(Loss) Before Income Taxes ($ in Thousands)
Year ended December 31:	
1975	$(37,370)
1974	(18,867)

Interest applicable to other obligations including the revolving and term loan agreement has been expensed as incurred.

LS 001322

MARGRP CDA dm - 1613

CERRO CORPORATION

(Registrant)

STATEMENT OF EARNINGS

($ in Thousands)

	Year ended December 31, 1975	1974
Net sales	$296,364	$342,836
Other revenue, including interest of $9,176 ($6,607 interest on marketable securities) and $9,657 ($5,954 interest on marketable securities) respectively	11,518	11,357
	307,882	354,193
Costs and expenses:		
Cost of products sold	256,383	284,112
Selling and administrative	21,661	29,638
Interest on long-term debt	3,626	5,331
Depreciation	4,660	3,994
	286,330	323,075
Earnings before taxes and equity in earnings of subsidiaries	21,552	31,118
Provision for income taxes (Note R-2)	(526)	(18,203)
Equity in earnings (losses) of subsidiaries, net of tax (Schedule III)	(23,436)	3,012
Net earnings (loss)	$ (2,410)	$ 15,927
Earnings (loss) per common share (in dollars)*	$ (.30)	$ 2.01
Cash dividends	$ 1.20	$ 1.05
*Based upon the weighted average number of shares outstanding during each year (Thousands of shares) (Note L)	7,911	7,925

This statement should be read in conjunction with the accompanying notes prefaced with the letter R - signifying Registrant.

Reference is also made to the Notes to Financial Statements (numerical) and Notes to Statement of Earnings (Loss) (alphabetical) of Cerro Corporation and Consolidated Subsidiaries contained elsewhere herein.

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MARGRP CDA dm - 1614

CERRO CORPORATION

(Registrant)

STATEMENT OF RETAINED EARNINGS

($ in Thousands)

	Year ended December 31, 1975	1974
Balance at beginning of year	$161,935	$154,323
Net earnings (loss)	(2,410)	15,927
Cash dividends	(9,494)	(8,315)
Balance at end of year	$150,031	$161,935

STATEMENT OF PAID-IN CAPITAL

	Year Ended December 31, 1975	1974
Balance at beginning and end of year	$178,218	$178,218

This statement should be read in conjunction with the accompanying notes prefaced with the letter R - signifying Registrant.

Reference is also made to the Notes to Financial Statements (numerical) and Notes to Statement of Earnings (Loss) (alphabetical) of Cerro Corporation and Consolidated Subsidiaries contained elsewhere herein.

LS 001324

MARGRP CDA dm - 1615

CERRO CORPORATION

(Registrant)

BALANCE SHEET

DECEMBER 31, 1975 and 1974

($ in Thousands)

ASSETS

	1975	1974
Current Assets:		
Cash	$ 481	$ 14,026
Time and certificates of deposit (includes restricted deposits of $104,000 in 1974) (Note 2)	45,800	113,968
Marketable securities at cost less valuation allowance of $1,926 in 1975 and $2,069 in 1974 - approximately market (Schedule I)	76,012	41,843
Accounts receivable, less allowance of $951 in 1975 and $634 in 1974 for doubtful accounts (Schedules II and XII):		
Trade	28,669	23,693
Chile (Note 4)	4,261	4,859
Subsidiaries	67,670	---
Other	2,890	1,726
Inventories (Note R-4)	51,978	60,536
Prepaid expenses	6,145	674
Total current assets	283,906	261,325
Notes due from Chile (Note 4)	13,239	25,251
Future income tax benefit (Notes R-2 and E)	35,789	38,297
Investments (Schedule III)	120,942	155,793
Less: reserve (Schedule XII)	(9,997)	(10,145)
Property, plant and equipment, net (Note 6) (Schedules V and VI)	46,851	44,123
Other assets (Note 5)	2,000	---
	$492,730	$514,644

This statement should be read in conjunction with the accompanying notes prefaced with the letter R - signifying Registrant.

Reference is also made to the Notes to Financial Statements (numerical) and Notes to Statement of Earnings (Loss) (alphabetical) of Cerro Corporation and Consolidated Subsidiaries contained elsewhere herein.

LS 001325

MARGRP CDA dm - 1616

CERRO CORPORATION

(Registrant)

BALANCE SHEET

DECEMBER 31, 1975 and 1974

($ in Thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current Liabilities:		
Long-term debt due within one year (Note R-5)	$ 5,536	$ 5,344
Accounts payable (including in 1974 $4,726 due subsidiaries) (Note 2)	75,435	82,809
Accrued liabilities:		
Payroll	3,899	4,237
Income taxes (Note R-2)	14,899	11,130
Pensions (Note R-1)	2,910	---
Interest	1,058	1,390
Other	7,065	10,304
Total current liabilities	110,802	115,214
Long-term debt (Note R-5)	40,179	45,771
Deferred income	554	560
Total liabilities	151,535	151,545
Commitments and contingencies (Notes 5,8,9,11,12,13 and 14)	---	---
Shareholders' equity (Notes 8,9,10 and 12):		
Common stock, par value $3.33-1/3 per share, authorized 15,000,000 shares, issued 8,779,654 shares	29,265	29,265
Paid-in capital	178,218	178,218
Retained earnings (Note 8)	150,031	161,935
	357,514	369,418
Treasury stock, at cost, 868,387 shares	(16,319)	(16,319)
Total shareholders' equity	341,195	353,099
	$492,730	$514,644

This statement should be read in conjunction with the accompanying notes prefaced with the letter R - signifying Registrant.

Reference is also made to the Notes to Financial Statements (numerical) and Notes to Statement of Earnings (Loss) (alphabetical) of Cerro Corporation and Consolidated Subsidiaries contained elsewhere herein.

LS 001326

MARGRP CDA dm - 1617

CERRO CORPORATION

(Registrant)

STATEMENT OF CHANGES IN FINANCIAL POSITION

($ in Thousands)

SOURCES OF FUNDS

	Year ended December 31, 1975	1974
Net earnings (loss)	$ (2,410)	$ 15,927
Operations not (providing) or requiring funds:		
Income taxes not payable due to expropriation loss (Cerro de Pasco)	2,508	26,503
Deferred income taxes, net	---	(10,273)
Equity in earnings of subsidiaries and affiliates, less dividends	34,473	(1,752)
Investment reserves	(148)	290
Depreciation	4,660	3,994
Total funds from operations	39,083	34,689
Funds from other sources:		
Collection of receivable from U.S. Government	---	10,000
Reduction in long-term portion of notes due from Chile	12,012	10,423
Long-term borrowings	2,033	
Sale of property, plant and equipment	343	209
Other, net	(6)	(127)
Total funds from other sources	14,382	20,505
Total sources of funds	53,465	55,194

USES OF FUNDS

Investment in subsidiaries and affiliates	(378)	37,836
Increase in other assets	2,000	---
Purchase of property, plant and equipment	7,731	5,766
Purchase of treasury stock	---	561
Cash dividends	9,494	8,315
Reduction of long-term debt	7,625	25,347
Total funds used	26,472	77,825
Increase (decrease) in working capital	$ 26,993	$(22,631)

This statement should be read in conjunction with the accompanying notes prefaced with the letter R - signifying Registrant.

Reference is also made to the Notes to Financial Statements (numerical) and Notes to Statement of Earnings (Loss) (alphabetical) of Cerro Corporation and Consolidated Subsidiaries contained elsewhere herein.

LS 001327

MARGRP CDA dm - 1618

CERRO CORPORATION

(Registrant)

STATEMENT OF CHANGES IN FINANCIAL POSITION - (Continued)
($ in Thousands)

INCREASE (DECREASE) IN WORKING CAPITAL

	Year ended December 31, 1975	1974
Cash, deposits and marketable securities	$(47,544)	$ 80,580
Receivable from Peru Government	---	(30,415)
Accounts, notes and other receivables, net	73,212	(13,615)
Inventories	(8,558)	2,072
Prepaid expenses	5,471	(76)
	22,581	38,546
Long-term debt due within one year	(192)	(557)
Accounts payable	7,374	(51,832)
Accrued liabilities	(2,770)	(8,788)
	4,412	(61,177)
Increase (decrease) in working capital	$ 26,993	$(22,631)

This statement should be read in conjunction with the accompanying notes prefaced with the letter R - signifying Registrant.

Reference is also made to the Notes to Financial Statements (numerical) and Notes to Statement of Earnings (Loss) (alphabetical) of Cerro Corporation and Consolidated Subsidiaries contained elsewhere herein.

LS 001328

MARGRP CDA dm - 1619

CERRO CORPORATION

(Registrant)

NOTES TO FINANCIAL STATEMENTS

R-1. PENSIONS

Pension expense charged to earnings was $2,109,000 and $1,865,000 for 1975 and 1974 respectively. Changes in various actuarial assumptions and methods for 1975 had the effect of decreasing pension costs for the year by approximately $1,400,000.

The actuarially computed value of vested benefits for certain plans exceeded, as of December 31, 1975, the respective pension funds assets and related balance sheet accruals by approximately $6,600,000. At December 31, 1975 unfunded past service costs totalled approximately $11,200,000.

R-2. INCOME TAXES

Cerro and its subsidiaries file a consolidated U.S. income tax return. See Note E for an analysis of the consolidated tax provision, and for additional information. The consolidated tax provision has been allocated as follows:

	Year ended December 31,	
	1975	1974
	($ in Thousands)	
Allocated to:		
Earnings from continuing operations:		
Cerro Corporation:		
United States	$(3,675)	$14,762
State and foreign	4,201	3,441
	526	18,203
Equity in earnings of subsidiaries:		
United States	5,133	3,780
State and foreign	2,541	1,367
	$ 8,200	$23,350

The tax provisions of $526,000 and $18,203,000 for the years 1975 and 1974 represent effective tax rates as follows:

	1975	1974
Federal income tax at statutory rate	48.0%	48.0%
State and local income taxes, net of Federal income tax benefit	9.0	4.9
Tax benefit of subsidiary losses not reflected in equity in earnings of subsidiaries	(54.4)	----
Capital losses without tax benefit	.5	5.3
Other, net	(.7)	.3
Effective tax rate	2.4%	58.5%

LS 001329

MARGRP CDA dm - 1620

The tax benefit of subsidiary losses reflected in the Registrant's provision results from real estate losses for which Leadership Housing, Inc. has not received benefit pursuant to a Tax Allocation Agreement entered into during 1972. Under said agreement, Leadership pays taxes to, or receives refunds from, the Registrant as if Leadership and its subsidiaries filed a separate consolidated return. During 1975, Leadership was unable to carry back its current losses to income of previous years on a separate consolidated basis.

R-3. SUPPLEMENTARY INCOME STATEMENT INFORMATION

Supplementary income statement information is as follows:

	Year ended December 31,	
	1975	1974
	($ in Thousands)	
Maintenance and repairs	$ 5,424	$ 6,740
Depreciation of property, plant and equipment	4,660	3,994
Taxes, other than income taxes	4,336	5,225
Rents	2,289	2,377

Note: Royalties, advertising, exploration, research and product development costs and amortization of intangibles were not significant in amount.

R-4. INVENTORIES

Manufacturing inventories, at the lower of cost or market, were comprised of the following:

	December 31,		
	1975	1974	1973
	($ in Thousands)		
Finished goods	$23,140	$23,457	$15,246
Work-in process	14,171	15,515	18,080
Raw materials	13,181	19,862	23,713
Operating supplies	1,486	1,702	1,425
	$51,978	$60,536	$58,464

See Note 3 to Financial Statements contained elsewhere herein for additional information.

R-5. LONG-TERM DEBT

	Interest Rate	Due	December 31, 1975	December 31, 1974
			($ in Thousands)	
Promissory notes to institutions (a)	6-3/8%	1976-1987	$24,000	$26,000
Promissory notes to an institution (b)	6%	1976-1981	9,000	10,500
Subordinated promissory notes to an individual (c)	12%	1976-1984	8,330	11,468
Other	5 to 9-2/3%	1976-1990	4,385	3,147
			45,715	51,115
Less: Current portion			5,536	5,344
			$40,179	$45,771

LS 001330

MARGRP CDA dm - 1621

Payable in annual installments of:

(a) $2,000,000 (b) $1,500,000

(c) $1,207,000; On August 1, 1975, $1,931,000 of debt maturing in 1982-84 was paid

Payments of long-term debt during the next five years are as follows:

1976	$5,536,000
1977	5,410,000
1978	5,148,000
1979	5,053,000
1980	5,080,000

See Note 8 to Financial Statements for additional information.

LS 001331

MARGRP CDA dm - 1622

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE I - MARKETABLE SECURITIES
($ in Thousands)

December 31, 1975

Col. A Name of Issuer and Title of Each Issue	Col. B Number of Shares of Units - Principal Amount of Bonds and Notes	Col. C Amount at Which Shown in the Balance Sheet (a)
Securities issued by the U.S. government and agencies thereof	$ 23,000	$ 22,974
Short-term cash investments:		
General Motors Acceptance Corp. Note due 3/18/76	$ 5,000	4,927
CBT Corp. Note due 3/19/76	$ 5,000	4,920
NCNB Corp. Note due 3/24/76	$ 2,000	1,966
Southeast Banking Corp. Note due 3/18/76	$ 4,000	3,937
Engelhard Minerals & Chemicals Corp. Note due 3/22/76	$ 5,000	4,921
First Chicago Corp. Note due 3/26/76	$ 4,000	4,000
Ford Motor Credit Corp. Note due 3/24/76	$ 2,000	2,000
General Electric Credit Corp. Note due 3/25/76	$ 4,000	4,000
Citicorp. Note due 3/16/76	$ 5,000	4,935
Bank of Tokyo Ltd. Bankers Accept. Note due 3/15/76	$ 5,200	5,132
Walter E. Heller & Co. Note due 3/11/76	$ 5,000	5,000
International Harvester Credit Corp. Note due 3/12/76	$ 5,000	5,000
Walter E. Heller Corp. Note due 1/12/76	$ 1,000	1,000
Westinghouse Notes due 1976	$ 3,000	3,000
International Harvester Note due 1/29/76	$ 500	500
Private Export Funding Corp. Note, due 3/9/76	$ 50	50
Common stock:		
Hecla Mining Co.	148,083	2,092
Inspiration Consolidated Copper Corp.	10,000	208
		$ 80,562

(a) Value based on market quotations is same as Col. C.

LS 001332

MARGRP CDA dm - 1623

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CERRO CORPORATION (Registrant)

SCHEDULE II - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS AND EMPLOYEES

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	
			Deductions		
Name of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Balance at End of Period Current	Balance at End of Period Not Current
1975					
Accounts Receivable - Other					
Directors, Officers and Employees:					
R. E. Fritts.....	$ ---	$ 22	$ ---	$ 22 (1)	$ ---
C. Linke.....	---	48	---	48 (2)	---
	$ ---	$ 70	$ ---	$ 70	$ ---
1974					
Accounts Receivable - Other					
Directors, Officers and Employees:					
H. M. Lasky.....	$ 42	$ --	$(42)	$ --	$ --
L. B. Rubin.....	42	--	(42)	--	--
	$ 84	$ --	$(84)	$ --	$ --

(1) Bears interest at 6%; due June, 1977.

(2) Repaid February 20, 1976. Amount is due from an employee of the Registrant.

LS 001333

MARGRP CDA dm - 1624

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

(Excludes Real Estate Operations)

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost Acquisitions	Additions at Cost Other	Retirements	Other Changes	Balance At End of Period
1975						
Land and buildings.....	$ 40,841	$ 694	$ 2,489	$ (1,381)	$ 5,172	$ 47,815
Machinery and equipment..	84,474	7,923	16,923	(4,905)	(1,241)	103,174
Mining properties.....	31,966	5,775	1,547	---	(33)	39,255
Revenue equipment, etc...	21,194	---	920	(660)	---	21,454
Utility plant.....	---	---	---	---	11,946	11,946
Construction in progress.	3,728	---	5,201	(106)	(375)	8,448
	$182,203	$ 14,392(3)	$ 27,080	$ (7,052)	$ 15,469(4)	$232,092
1974						
Land and Buildings.....	$ 30,817	$ 5,244	$ 3,364	$ (45)	$ 1,461	$ 40,841
Machinery and equipment..	66,714	13,037	1,871	(1,061)	3,913	84,474
Mining Properties.....	---	29,391	764	---	1,811	31,966
Revenue equipment, etc...	14,855	358	7,782	(1,801)	---	21,194
Construction in progress.	722	638	3,674	(81)	(1,225)	3,728
	$113,108	$ 48,668(2)	$17,455	$(2,988)	$ 5,960(1)	$182,203

Notes:

(1) Transferred from investments as a result of initial consolidation of company in 1974.

(2) Principally acquistions of Golconda Corporation and Fetterolf Coal Group (Note H).

(3) Acquisitions of GM&W Coal Company, Delta Mining, Inc., Stott Coal Company and James M. Stott Coal Company. (Note H).

(4) Principally the acquisition of Tamarac Utilities, Inc. from Leadership Housing, Inc. (Note 6 to Note 14).

LS 001334

MARGRP CDA dm - 1625

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT (continued)

(Real Estate Operations)

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost Acquisitions	Additions at Cost Other	Retirements	Other Changes (1)	Balance at End of Period
1975:						
Land and land improvements.....	$ 1,359	$ ----	$ ----	$ (261)	$ (20)	$ 1,078
Buildings and structures.....	994	----	1	(711)	(91)	193
Utility system.....	15,060	----	436	----	(15,496)	----
Machinery, equipment, etc.	1,266	----	30	(509)	168	955
Golf courses and related facilities.....	1,042	----	65	----	1,386	2,493
	$19,721	$ ----	$ 532	$(1,481)	$(14,053)	$ 4,719
1974:						
Land and land improvements.....	$ 1,168	$ ----	$ 211	$----	$ (20)	$ 1,359
Buildings and structures.....	1,036	----	6	----	(48)	994
Utility system.....	10,297	----	4,763	----	----	15,060
Machinery, equipment, etc.	1,184	----	82	----	----	1,266
Golf courses and related facilities.....	----	----	92	----	950	1,042
	$13,685	$ ----	$5,154	$----	$ 882	$19,721

(1) Principally the sale of Tamarac Utilities, Inc. to Cerro Corporation (Note 6 to Note 14).

LS 001335

MARGRP CDA dm - 1626

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Excludes Real Estate Operations)

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E.	Col. F
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes	Balance at End of Period
1975					
Land and buildings	$ 12,683	$ 1,585	$ (173)	$ (339)	$ 13,756
Machinery and Equipment...	43,569	7,347	(1,301)	577	50,192
Mining properties.....	98	383	---	---	481
Utility plant.....	---	149	---	1,058	1,207
Revenue equipment, etc....	6,241	3,364	(372)	---	9,233
	$ 62,591	$ 12,828	$ (1,846)	$ 1,296(1)	$ 74,869
1974					
Land and Buildings.....	$ 11,477	$ 1,234	$ (28)	$ ---	$ 12,683
Machinery and Equipment...	39,802	4,370	(603)	---	43,569
Mining properties.....	---	98	---	---	98
Revenue equipment, etc....	5,017	2,476	(1,252)	---	6,241
	$ 56,296	$ 8,178	$(1,883)	$ ---	$ 62,591

(1) Principally the acquisition of Tamarac Utilities, Inc. from Leadership Housing, Inc. (Note 6 to Note 14).

LS 001336

MARGRP CDA dm - 1627

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND

AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT (continued)

(Real Estate Operations)

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E	Col. F
		Additions				
Description	Balance at Beginning of Period	Acquisitions	Charged to Costs and Expenses	Retirements	Other Changes (1)	Balance at End of Period
1975:						
Land and land improvements	$ 9	----	$ 8	$ (3)	$ ----	$ 14
Buildings and structures	142	----	26	(97)	(16)	55
Utility system	970	----	172	---	(1,142)	---
Machinery, equipment, etc.	643	----	135	(285)	24	517
Golf courses and related facilities	6	----	32	---	2	40
	$1,770	----	$373	$(385)	$(1,132)	$ 626
1974:						
Land and land improvements	$ 3	$ ----	$ 6	$---	$ ----	$ 9
Buildings and structures	98	----	42	---	2	142
Utility system	744	----	301	---	(75)	970
Machinery, equipment, etc.	401	----	165	---	77	643
Golf courses and related facilities	----	----	---	---	6	6
	$1,246	$ ----	$514	$---	$ 10	$1,770

(1) Principally the sale of Tamarac Utilities, Inc. to Cerro Corporation (Note 6 to Note 14).

LS 001337

MARGRP CDA dm - 1628

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Acquisitions	Charged to Costs and Expenses	Deductions	Balance at End of Period
Excluding Real Estate Operations					
1975					
Current trade receivables.....	$ 1,096	$ 159	$ 1,038	$ (580)(1)	$ 1,713
Reserve for investments.....	$10,145	$ ---	$ 8	$ (156)	$ 9,997
Inventory valuation reserve.....	$ 900	$ ---	$ 1,260	$ (510)	$ 1,650
1974					
Current trade receivables.....	$ 1,363	$ 118	$ 597	$ (982)(1)	$ 1,096
Reserve for investments.....	$ 9,855	$ ---	$ 290	$ ---	$10,145
Inventory valuation reserve.....	$ ---	$ ---	$ 900	$ ---	$ 900
Real Estate Operations					
1975					
Current trade receivables.....	$ 833	$ ---	$ 256	$ (683)(1)	$ 406
1974					
Current trade receivables.....	$ 641	$ ---	$ 287	$ (95)(1)	$ 833

Note:

(1) Uncollectible accounts written off net of recoveries.

LS 001338

MARGRP CDA dm - 1629

CERRO CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE XIII - CAPITAL SHARES (2)

as at December 31, 1975

Col. A	Col. B	Col. C	Col. D		Col. E		Col. F		Col. G	
			Number of Shares Included In Col. C Which Are		Shares Issued or Outstanding as shown on or Included in Related Balance Sheet Under Caption "Capital Shares"		Number of Shares held by Affiliates for which Statements are Filed Herewith		Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	
Name of Issuer and Title of Issue	Number of Shares Authorized by Charter	Number of Shares Issued and not Retired or Cancelled	Held by or for Account of Issuer Thereof	Not Held by or for Account of Issuer Thereof	Number	Amount at Which Shown	Persons Included in Consolidated Statements	Others	Number of Shares Reserved for Officers and Employees	Others
Cerro Corporation										
Preferred stock, no par value....	1,000,000	None	None	None	None	None	None	None	None	None
Common stock, $3.33-1/3 par value	15,000,000	8,779,654	868,387	7,911,267	8,779,654	$29,265,000	None	None	(1)	(1)
ICX Industries, Inc.										
Common stock $.10 par value..	2,500,000	2,314,037	1,176	2,312,861	None	None	2,180,000	None	150,000	None
Golconda Corporation										
Preferred stock, $1.00 par value.	934,406	383,157	None	383,157	None	None	281,635	None	None	None
Common stock, no par value....	7,500,000	2,856,845	71,250	2,785,595	None	None	2,411,425	None	None	None

Notes:

(1) See Note 9 to Financial Statements.

(2) Capital stock of the consolidated subsidiaries, other than ICX Industries, Inc. and Golconda Corporation are ommitted from this schedule because such subsidiaries are wholly owned. The answer to Column G in respect to such subsidiaries is "None".

LS 001339

MARGRP CDA dm - 1630

SCHEDULE I
(Registrant)

CERRO CORPORATION
(Registrant)
SCHEDULE I - MARKETABLE SECURITIES
($ in Thousands)

December 31, 1975

Col. A Name of Issuer and Title of Each Issue	Col. B Number of Shares of Units - Principal Amount of Bonds and Notes	Col. C Amount at Which Shown in the Balance Sheet (a)
Securities issued by the U.S. government and agencies thereof	$ 23,000	$ 22,974
Short-term cash investments:		
General Motors Acceptance Corp. Note due 3/18/76	$ 5,000	4,927
CBT Corp. Note due 3/19/76	$ 5,000	4,920
NCNB Corp. Note due 3/24/76	$ 2,000	1,966
Southeast Banking Corp. Note due 3/18/76	$ 4,000	3,937
Engelhard Minerals & Chemicals Corp. Note due 3/22/76	$ 5,000	4,921
First Chicago Corp. Note due 3/26/76	$ 4,000	4,000
Ford Motor Credit Corp. Note due 3/24/76	$ 2,000	2,000
General Electric Credit Corp. Note due 3/25/76	$ 4,000	4,000
Citicorp. Note due 3/16/76	$ 5,000	4,935
Bank of Tokyo Ltd. Bankers Accept. Note due 3/15/76	$ 5,200	5,132
Walter E. Heller & Co. Note due 3/11/76	$ 5,000	5,000
International Harvester Credit Corp. Note due 3/12/76	$ 5,000	5,000
Common stock:		
Hecla Mining Co.	148,083	2,092
Inspiration Consolidated Copper Corp.	10,000	208
		$ 76,012

(a) Value based on market quotations is same as Col. C.

LS 001340

MARGRP CDA dm - 1631

CERRO CORPORATION
(Registrant)
SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS OF, AND
DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS
For the Years Ended December 31, 1975 and 1974
($ in Thousands)

Col. A	Col. B		Col. C		Col. D		Col. E	
			Additions		Deductions			
	Balance at Beginning of Period		Equity Taken up in Earnings (Losses) of Affiliates and Other Persons for the Period		Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up		Balance at End of Period	
Name of Issuer and Description of Investment	Number of Shares or Principal Amount of Notes	Amount in Dollars		Other		Other	Number of Shares or Principal Amount of Notes	Amount in Dollars(6)
1975								
Cerro Sales Corporation*	1,000	$ 8,296	$ 1,936	$ ----	$ ----	$ ----	1,000	$10,232
Cerro Motor Express Corp.*	1,000	26,757	1,424	----	(490)	----	1,000	27,691
Leadership Housing, Inc.*	1,000 Common	46,516	(31,221)	1,041(1)	----	----	1,000 Common	16,336
	116,950 Preferred						116,950 Preferred	
Tamarac Utilities, Inc.*	----	----	(65)	3,735(3)	----	----	50,000	3,670
Cerro International Finance N.V.*	1,000	3,995	----	----	----	(3,995)(5)	----	----
Cerro Spar Corporation*	1,000	1,690	(884)	----	----	----	1,000	806
Cerro CATV Devices Inc.*	1,000	438	46	----	----	----	1,000	484
Fetterolf Coal & Construction, Inc.*	200	16,395	8,614	----	(10,000)	----	200	15,009
Jenner Mining Corporation*	----	----	57	1(2)	----	----	1,000	58
J.M.S. Mining Corporation*	----	----	1,031	1(2)	----	----	1,000	1,032
Cerro Purchasing Corp.*	1,000	263	124	----	----	----	1,000	387
Golconda Corporation (85% owned)	2,411,425 Common	26,651	(4,581)	----	(282)	----	2,411,425 Common	21,788
	281,635 Preferred						281,635 Preferred	
Industrias de Cobre, S.A. (55.5% owned)	114,855	4,374	----	----	----	----	114,855	4,374
Southern Peru Copper Corp. (22½% owned)	174,084						174,084	
Southern Peru Copper Sales Corp. (22½% owned)	11,125	13,375	----	----	----	----	11,125	13,375
Northwest Iron Co., Ltd. (24% owned)	700,000 Common	1,950	----	----	----	----	700,000 Common	1,950
	3,600,000 Preferred						3,600,000 Preferred	
Other affiliates, principally foreign	Various	5,093	83	30(2)	(269)	(1,191)(4)	Various	3,750
		$155,793	$(23,436)	$ 4,808	$(11,037)	$(5,186)		$120,942

* 100% owned

SCHEDULE III
(Registrant)

LS 001341

MARGRP CDA dm - 1632

CERRO CORPORATION
(Registrant)
SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS OF, AND
DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS
For the Years Ended December 31, 1975 and 1974
($ in Thousands)

Col. A	Col. B		Col. C		Col. D		Col. E	
			Additions		Deductions			
	Balance at Beginning of Period		Equity Taken up in Earnings (Losses) of Affiliates and Other Persons for the Period		Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up		Balance at End of Period	
Name of Issuer and Description of Investment	Number of Shares or Principal Amount of Notes	Amount in Dollars		Other		Other	Number of Shares or Principal Amount of Notes	Amount in Dollars(6)
1974								
Cerro Sales Corporation*	1,000	$ 5,527	$ 2,769	$ ----	$ ----	$ ----	1,000	$ 8,296
Cerro Motor Express Corp.*	1,000	24,922	2,434	----	(599)	----	1,000	26,757
Leadership Housing, Inc.*	1,000 Common 40,000 Preferred	47,258	(7,731)	2,500(1)	----		1,000 Common 116,950 Preferred	46,516
Richmar Development Corporation*(5).....	51,950	4,489						
Cerro International Finance N.V.*.....	1,000	3,995	----	----	----	----	1,000	3,995
Cerro Spar Corporation*.	1,000	5,006	(125)	----	----	(3,191)(4)	1,000	1,690
Cerro CATV Devices Inc.*			(28)	466(2)	----		1,000	438
Fetterolf Coal & Construction, Inc.*.....	----	----	5,595	10,800(2)	----	----	200	16,395
Cerro Purchasing Corporation*.....	----	----	262	1	----	----	1,000	263
Golconda Corporation (85% owned).....	----	----	167	26,624(2)	(140)	----	2,411,425 Common 281,635 Preferred	26,651
Industrias de Cobre, S.A. (55.5% owned).....	114,855	4,728	----	----	(354)	----	114,855	4,374
Southern Peru Copper Corp. (22½% owned).....	174,084	13,375	----	----	----	----	174,084	13,375
Southern Peru Copper Sales Corp. (22½% owned)....	11,125		----	----	----	----	11,125	
Northwest Iron Co., Ltd. (24% owned).....	700,000 Common 3,600,000 Preferred	1,950					700,000 Common 3,600,000 Preferred	1,950
Other affiliates, principally foreign.....	Various	4,955	(331)	1,262	(167)	(626) (3)	Various	5,093
* 100% owned		$116,205	$ 3,012	$ 41,653	$ (1,260)	$ (3,817)		$155,793

SCHEDULE III (Registrant)

LS 001342

MARGRP CDA dm - 1633

CERRO CORPORATION

(Registrant)

SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS OF, AND

DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

1975
(1) Additional investment.
(2) Initial investment.
(3) Represents purchase from Leadership Housing, Inc. See Note 6 to Note 14.
(4) Sales and transfers to marketable securities.
(5) Liquidated in current year.

1974
(1) Additional investment.
(2) Initial investment.
(3) Sales and repayments, etc.
(4) Transfers to other accounts.
(5) Merged into Leadership Housing, Inc.
(6) Excludes current amounts due to or due from subsidiaries. At December 31, 1974 approximately $13,000,000 was due from Leadership Housing, Inc.

LS 001343

MARGRP CDA dm - 1634

SCHEDULE V
(Registrant)

CERRO CORPORATION

(Registrant)

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes - Add (Deduct)	Balance at End of Period
1975					
Land and buildings.....	$ 28,781	$ 145	$ (234)	$ 525 (1)	$ 29,217
Machinery and equipment...	65,720	4,270	(581)	1,459 (1)	70,868
Construction in progress..	2,641	3,316	---	(2,353) (1)	3,604
	$ 97,142	$ 7,731	$ (815)	$ (369) (2)	$103,689
1974					
Land and buildings.....	$ 26,737	$ 2,022	$ (32)	$ 54(1)	$ 28,781
Machinery and equipment...	64,775	841	(511)	615(1)	65,720
Construction in progress..	488	2,903	(81)	(669)(1)	2,641
	$ 92,000	$ 5,766	$ (624)	$ ---	$ 97,142

Notes:

(1) Reclassification between accounts.
(2) Writeoff of fully-depreciated assets. See Schedule VI

LS 001344

MARGRP CDA dm - 1635

CERRO CORPORATION

(Registrant)

SCHEDULE VI - ACCUMULATED DEPRECIATION AND

AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

For the Years Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes - Add (Deduct)	Balance at End of Period
1975					
Land and buildings.....	$ 11,773	$ 796	$ (91)	$ (369)	$ 12,109
Machinery and equipment...	41,246	3,864	(381)	---	44,729
	$ 53,019	$ 4,660	$ (472)	$ (369) (1)	$ 56,838
1974					
Land and buildings.....	$ 10,927	$ 874	$ (28)	$ ---	$ 11,773
Machinery and equipment...	38,513	3,120	(387)	---	41,246
	$ 49,440	$ 3,994	$ (415)	$ ---	$ 53,019

NOTE:

(1) Writeoff of fully-depreciated assets. See Schedule V.

LS 001345

MARGRP CDA dm - 1636

SCHEDULE XII
(Registrant)

CERRO CORPORATION

(Registrant)

Schedule XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Year Ended December 31, 1975 and 1974

($ in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E
	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
1975				
Current trade receivables	$ 634	$ 431	$ (114) (1)	$ 951
Reserve for investments..	$ 10,145	$ 8	$ (156) (2)	$ 9,997
1974				
Current trade receivables	$ 1,086	$ ---	$ (452) (1)	$ 634
Reserve for investments..	$ 9,855	$ 290	$ ---	10,145

Notes:

(1) Uncollectible accounts written off net of recoveries
(2) Represents reserve applicable to an investment which was sold during the current year.

LS 001346

MARGRP CDA dm - 1637

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1977

Commission File Number 1-7285

THE MARMON GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-104-5483**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
39 South LaSalle Street, Chicago, Illinois	**60603**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
$2.25 Cumulative Series A Preferred Stock	**American Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

5,000,000 shares of common stock were issued and outstanding at December 31, 1977.

LS 001373

Part I

ITEM 1

BUSINESS

The name of the corporation was changed from Cerro-Marmon Corporation to The Marmon Group, Inc. (Marmon) in June 1977. Marmon was inactive until February 24, 1976. On that date, GL Corporation (GL), a Delaware corporation, exchanged all of the outstanding shares of capital stock of The Marmon Group, Inc. (Michigan) (TMG) for all of the newly issued common shares of Marmon, and Cerro Corporation (Cerro) then merged into Marmon, with the outstanding common shares of Cerro held by persons other than TMG being converted into and exchanged for an equal number of preferred shares of Marmon.

Marmon is primarily engaged in manufacturing operations, world-wide metals trading activities, coal mining and real estate operations. A common carrier motor freight operation was sold in August 1977.

A description of Marmon's principal products, services, markets and sources of supply follows:

MANUFACTURING

Pipe and Tubing

Marmon is engaged in the distribution of carbon, alloy and stainless steel pipe and tubing which it purchases primarily from domestic steel mills. Products are sold to a variety of customers, including manufacturers of capital goods, refinery and petrochemical industries. Since competition is based on service and price, Marmon maintains a wide variety of inventory and supplies technical assistance in conjunction with its sales activities. There are eleven warehouses located in different areas of the United States. Numerous companies are engaged in the distribution of steel pipe and tubing; however, the sales by any one company do not account for any significant portion of total sales of this industry.

Marmon also produces and sells copper plumbing tube, thin wall industrial copper tube, electrolytic copper cathode, small diameter drawn copper and extruded and drawn aluminum tubing and related items. These products are used primarily by the general construction, appliance and automotive equipment industries. Plumbing tube is sold principally to plumbing wholesalers direct from the mill. Copper and aluminum industrial tube is sold primarily to original equipment manufacturers through Marmon's sales force and manufacturers' representatives. Competition is based primarily on price and service. Electrolytic copper cathodes are sold on the open market directly to the ultimate user and through Marmon's metals trading operations (see Metals Trading).

Copper is purchased from foreign and domestic producers and scrap dealers. Extruded aluminum billets are purchased from prime aluminum producers in the United States and Canada.

Metal Products

Mill products, including brass and bronze rod, bar, shapes, wire, forgings, screw machine parts and die castings, as well as certain low melting point alloys, are manufactured for sale principally to original equipment manufacturers, general contractors and metal distributors. There are seven major competitors producing substantially similar metal products as well as over 100 foreign and domestic companies competing in various lesser degrees with metal products produced by Marmon. Competition is on the basis of quality and geographic location of facilities.

Marmon also manufactures and sells valves, fittings, regulators and other control equipment for gases (principally propane gas) and liquids. Products are sold primarily in the United States by a variety of methods, including both direct sales and sales through distributors, dealers and manufacturers' agents. This business is subject to intense competition and has had a number of product liability claims filed in 1977.

Wire and Cable

Marmon produces single and multi-conductor building wire and cable, power and instrumentation cable, aerospace and marine cable, copper wire rod, electrical metallic tubing and co-axial cable. These products are sold through sales offices, manufacturers' representatives and distributors.

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Wire and Cable operations depend on non-captive sources of supply for raw materials (principally copper), including purchases from domestic and foreign producers of primary copper and scrap dealers.

There are a large number of competitors no one of which necessarily produces the same product line. The competitive position, therefore, varies with each product. The wire and cable operations are not dependent on a single customer, or a small number of customers, the loss of which would have a materially adverse effect.

Automotive Products

Truck flat leaf springs are manufactured for sale primarily to four original equipment manufacturers (OEM) and secondarily to the replacement market. In addition, Marmon manufactures for sale, primarily to OEM, gray iron castings for use in automotive parts such as brake and master brake cylinders, power steering pumps, etc. Compressors made with Marmon castings are used in refrigeration and air conditioning systems. A broad line of automotive parts is also manufactured, including automobile and truck transmission gears, shafts and synchronizers, clutch plates, U-bolts, chassis and related parts for sale primarily to the replacement market. Automotive products are manufactured to customer specifications and for inventory.

The principal raw materials used in automotive products are bar spring steel, steel forgings and steel plate. The materials used in castings are pig iron, cast scrap, coke, sand and limestone. Such materials are purchased from domestic and foreign sources.

Competition is based on price, quality and service. Although Marmon believes itself to be an important factor in the medium and heavy duty truck flat leaf spring market, it is not an important factor in the other areas which comprise this business segment.

Apparel Accessories

Gloves and other apparel are manufactured for sale through Marmon's sales force and manufacturers' representatives to retail merchandisers. The principal raw materials are cotton, leather and vinyl synthetics, which are purchased from a variety of suppliers.

Marmon believes that it has become a leading manufacturer of work gloves in the United States as a result of the January 26, 1977 acquisition of Hammond Corporation (Hammond), now known as Marmon Company.

Mining Equipment

Marmon designs and manufactures underground mining equipment which is used principally in the coal mining industry and sold in response to customer orders, primarily in the United States.

Steel used to manufacture mining equipment is purchased from domestic and foreign sources. Certain components are purchased from various manufacturers.

Competition is based on design, service, quality and price. Marmon believes that there are at least four companies having greater sales of coal mining equipment, but that it is a significant factor in the market for conveyors and feeder breakers.

Other Manufacturing

Consists principally of the manufacture and sale of musical equipment (part of Hammond, acquired January 26, 1977), agricultural equipment, general merchandise display and storage equipment and all-steel doors and door frames.

METALS TRADING

Marmon is engaged in world-wide metals trading activities, generally in a hedged position in metal contracts on domestic and foreign exchange markets. It deals primarily in nonferrous refined metals and acts as exclusive copper sales agent in the United States and Canada for an agency of the Government of Chile.

COAL MINING

Low volatile metallurgical coal is sold domestically and abroad with a substantial portion of the present production dedicated to a long-term Coal Sales Agreement (Agreement) with two Japanese corporations. The remaining production is sold to domestic and foreign steel producers through the spot market and sales agreements. Medium volatile metallurgical coal is sold principally to a major domestic steel producer through an affiliated coal broker.

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The price of coal under the Agreement is subject to adjustments for certain cost fluctuations, quality requirements and ash and sulfur content. If shipments fail to meet such ash and sulfur specifications, the buyers may reject such shipments unless a reduced price is negotiated. In the event of a failure to successfully negotiate such price, the buyers may terminate the Agreement.

Expansions are underway which are expected to increase annual processing capacity and to increase annual raw coal production capacity of low volatile metallurgical coal. Production capacity is expected to increase from 1,050,000 short tons to 2,500,000 short tons at an estimated aggregate cost of $43.8 million, of which approximately $33.1 million had been expended as of December 31, 1977. The expansion of processing capacity is scheduled for completion in 1978 and increases in raw coal production capacity are scheduled for completion in 1980.

See Coal Mining Operations on page 4 of this Annual Report for information on coal reserves.

REAL ESTATE

Marmon's real estate operations are engaged primarily in the sale of improved and unimproved land. In addition, the real estate operations participate in joint ventures engaged in land development and ownership and operation of a shopping center. In 1977 Marmon significantly curtailed its housing construction activities.

TRUCKING

Marmon sold its common carrier trucking subsidiary to ICX Incorporated, a newly created corporation formed by certain employees of the trucking concern, in August 1977. Pursuant thereto, Marmon acquired a minority interest in ICX Incorporated.

EMPLOYEES

At December 31, 1977 Marmon employed approximately 15,000 persons.

ENVIRONMENTAL MATTERS

Marmon is subject to various federal, state and local laws, ordinances and regulations relating to plant safety and air and water pollution. Marmon has not received any material citations for violations of such laws, ordinances or regulations. Marmon believes that it is presently in substantial compliance with all such laws, ordinances and regulations and does not anticipate making major capital expenditures in connection with environmental matters. Because of the continued development of new regulations and reinterpretation of existing regulations in this area, Marmon is unable to predict the effect, if any, which any such regulation may have on its business in the future.

INDUSTRY SEGMENT INFORMATION

Information with respect to industry segments, which appears on pages 28 and 29 of Marmon's 1977 Annual Report to Shareholders, is hereby incorporated by reference.

ITEM 2

SUMMARY OF OPERATIONS

The summary of operations for the five years ended December 31, 1977, the pro forma industry segment information and Management's Discussion and Analysis of Results of Operations, which appear on pages 28 and 30 through 33 of Marmon's 1977 Annual Report to Shareholders, are hereby incorporated by reference.

ITEM 3

PROPERTIES

Manufacturing Operations

Marmon's manufacturing operations are conducted at 58 principal locations having an aggregate of approximately 7.3 million square feet of floor space. All significant manufacturing facilities are owned or subject to capitalized leases and, in the opinion of management, suitable for their intended use.

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Coal Mining Operations

Marmon owns and leases operating properties, principally in Somerset and Clearfield Counties, Pennsylvania, containing coal reserves, principally of metallurgical quality. Properties, covering approximately 15,000 acres, contain reserves of approximately 53 million short tons of clean recoverable low and medium volatile metallurgical coal. In addition, Marmon owns or leases parcels of land containing coal deposits for which there are no comprehensive exploratory studies. Marmon, therefore, is unable to determine the amount of coal in such parcels which will be mined.

Real Estate Operations

The major landholdings, excluding those owned by the joint ventures, are: 500 acres in Broward County, Florida; 3,800 acres in Pinellas and Hillsborough Counties, Florida; 700 acres in Palm Beach County, Florida; and 102 acres in Kauai, Hawaii.

ITEM 4

PARENTS AND SUBSIDIARIES

GL owns all the common shares of Marmon, which represents 82% of the voting interest in Marmon.

Following is a list of all subsidiaries (excluding a number of subsidiaries which, considered in the aggregate, would not constitute a significant subsidiary), the percentage of voting securities owned by Marmon and the state or foreign country of incorporation of each:

*Name of subsidiary**	*Percentage of voting securities owned*	*State or foreign country of incorporation*
The Marmon Group, Inc. (Michigan)	100	Delaware
Pikrose and Company, Limited	100	England
Keystone Tubular Service Corporation	100	Delaware
The Marmon Group of Canada, Inc.	100	Canada
The Boykin Company	100	Delaware
Cerro Mining Company of Canada Limited	100	Canada
Cerro Sales Corporation	100	Delaware
Cerro Metals (U.K.) Limited	100	England
Cerro International S.A.	100	Belgium
Fetterolf Coal and Construction, Inc.	100	Delaware
M.F. Fetterolf Coal Co., Inc.	100	Pennsylvania
M.F. Land Company, Inc.	100	Pennsylvania
Marmon Company	100	Delaware
The RegO Group, Inc.	88	Delaware
RegO Company	100	Delaware
Leadership Housing, Inc.**	100	Delaware
The Housing Group	100	Delaware
Tamarac Utilities, Inc.	100	Florida

* Included in the consolidated financial statements, except for Leadership and Housing Group which are accounted for on the equity method. Separate company financial statements are filed for Leadership as it is a significant subsidiary. Housing Group financial statements have not been filed as it is not a significant subsidiary.

** Leadership has 6 subsidiaries engaged in real estate and related activities.

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ITEM 5

LEGAL PROCEEDINGS

A discussion of pending legal proceedings, which appears on pages 23 and 24 of Marmon's 1977 Annual Report to Shareholders, is hereby incorporated by reference. See also "Environmental Matters" under Item 1—Business.

ITEM 6

INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

NONE

ITEM 7

CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

NONE

ITEM 8

DEFAULTS UPON SENIOR SECURITIES

There have been no defaults with respect to any indebtedness of Marmon or any of its significant subsidiaries exceeding 5 per cent of total assets of Marmon and its consolidated subsidiaries.

ITEM 9

APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

Title of class	*Number of record holders at December 31, 1977*
Common Stock	1
$2.25 Cumulative Series A Preferred Stock	14,652*

*Excludes shareholders who through December 31, 1977 have not converted Cerro Common shares into Marmon Preferred shares.

ITEM 10

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information required by this item is contained in Marmon's Form 10-Q for the quarter ended June 30, 1977.

ITEM 11

EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Listed below are the names and ages of all executive officers of Marmon at December 31, 1977 and the positions and offices held by each:

Jay A. Pritzker	Chairman of the Board	55
Robert A. Pritzker	President and Treasurer	51
Robert C. Gluth	Executive Vice President	53
George A. Jones	Executive Vice President	57
L. William Emmert	Vice President	57
Walter S. Rogowski	Vice President and Assistant Secretary	48
Carlos M. Echavarria	Vice President	41
Thomas L. Seifert	Secretary and Legal Counsel	37
Lynn Snyder	Assistant Secretary	46
John Spevacek	Controller	50

Messrs. Jay A. Pritzker and Robert A. Pritzker are brothers. There are no other family relationships among the executive officers of Marmon.

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(b) Business experience of each executive officer during the past five years:

Jay A. Pritzker

Mr. Pritzker was elected Chairman of the Board of Marmon in January 1976. He became a Director of Cerro in March 1974 and Chairman of the Board of Cerro in February 1975. He is presently Chairman of the Board of TMG (since 1963) as well as an attorney and member of the law firm of Pritzker and Pritzker.

Robert A. Pritzker

Mr. Pritzker was elected a Director of Marmon in November 1975, President in February 1976 and Treasurer in January 1978. He became a Director of Cerro in December 1974 and its President in February 1975. He is the President and a Director of TMG, which positions have been held for more than five years.

Robert C. Gluth

Mr. Gluth was elected Executive Vice President of Marmon in September 1976. He was elected a Director of Marmon in November 1975 and Vice President of Marmon in February 1976. He was elected a Vice President of Cerro in May 1975 and a Director in June 1975. He became a Vice President of TMG in 1970 and an Executive Vice President in 1977.

George A. Jones

Mr. Jones was elected Executive Vice President of Marmon in September 1976. He became a Vice President and Director in February 1976. He was elected a Director of Cerro in June 1975. Mr. Jones has held the position of Executive Vice President and Director of TMG for more than five years.

L. William Emmert

Mr. Emmert has been Director of Personnel of TMG since 1965 and Vice President-Director of Personnel since April 1975. He has been Vice President of Marmon since June 1977.

Walter S. Rogowski

Mr. Rogowski has been Vice President, Secretary and General Counsel of TMG since 1967 and Vice President and Assistant Secretary of Marmon since July 1977.

Carlos M. Echavarria

Mr. Echavarria was employed by TMG in 1976 and was elected a Vice President of Marmon in July 1977. He was President and owner of Fabrica de Medias Crystal Textile Company located in Medellin, Colombia, from 1958 until 1973 and President of Industrias Metalicas Sudamericanas, a metal manufacturing company located in Medellin, Colombia, from 1973 to 1976.

Thomas L. Seifert

Mr. Seifert was elected Secretary and Legal Counsel of Marmon in January 1976. He has been Secretary and General Counsel of The RegO Group, Inc. since December 1975. He became Associate General Counsel and Assistant Secretary of Cerro in October 1975. Prior to joining Cerro, Mr. Seifert was Associate General Counsel and Assistant Secretary for Canteen Corporation.

Lynn Snyder

Miss Snyder was elected Assistant Secretary of Marmon in July 1977 and Assistant Secretary of TMG in 1972.

John Spevacek

Mr. Spevacek was elected Controller of Marmon in September 1976. He was formerly Vice President and Controller of Cerro since June 1975. Prior to joining Cerro, he was President and Chief Executive Officer of Anderson Manufacturing Company, Inc. from September 1973 to June 1975. Prior thereto, Mr. Spevacek served as Group Vice President—Finance of Amphenol Components Group, Bunker Ramo Corporation.

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MARGRP CDA dm - 1644

ITEM 12

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The General Corporation Law of the State of Delaware provides authority for the indemnification of directors and officers in the defense of civil and criminal actions. The Bylaws of Marmon provide for the indemnification of directors and officers to the full extent and in the manner permitted by the laws of the State of Delaware. Marmon does not have indemnification insurance covering its directors and officers.

ITEM 13

FINANCIAL STATEMENTS AND EXHIBITS

(a) Listed below are the financial statements and exhibits filed as part of this report:

(1) Financial Statements—see pages 9 and 10.

(2) Exhibits:

1. Certificate of Amendment of Certificate of Incorporation filed June 3, 1977.
2. Board of Directors Resolution dated June 2, 1977 reducing number of directors from nine to eight.
3. Letter dated November 18, 1977 from The Prudential Insurance Company of America amending Note Agreement dated February 6, 1967.
4. Letter dated January 19, 1977 from The Prudential Insurance Company of America amending Note Agreement dated February 6, 1967 regarding Hammond Corporation.
5. Letter dated January 19, 1977 from The Prudential Insurance Company of America amending Note Agreement dated February 6, 1967 regarding Cerro Motor Express Corporation.
6. Letter dated December 2, 1977 from Aetna Life Insurance Company amending Note Agreement dated February 6, 1967.
7. Certificate of Ownership and Merger filed October 31, 1977 merging Jenner Mining Corporation and JMS Mining Corporation into The Marmon Group, Inc.
8. Termination Agreement dated January 1, 1977 by and between The Marmon Group, Inc. and certain former employees.
9. Letter dated February 14, 1978 from The Prudential Insurance Company of America amending Note Agreement dated February 6, 1967.
10. Letter dated March 20, 1978 from Aetna Life Insurance Company amending Note Agreement dated February 6, 1967.
11. Letter from Kenneth Leventhal & Company, certified public accountants, commenting on changes in the accounting principles or practices followed by Leadership Housing, Inc.

(b) No report on Form 8-K was required to be filed during the three months ended December 31, 1977.

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Part II

ITEMS 14 through 18, inclusive

Information called for by Items 14 through 18, inclusive, is not filed at this time pursuant to General Instruction H which permits omission if a definitive proxy statement is filed not later than 120 days after the close of the year.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE MARMON GROUP, INC.
(Registrant)

BY: ROBERT C. GLUTH
Robert C. Gluth
Executive Vice President
THE MARMON GROUP, INC.

BY: THOMAS L. SEIFERT
Thomas L. Seifert
Secretary and Legal Counsel
THE MARMON GROUP, INC.

Date: April 6, 1978

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THE MARMON GROUP, INC.

INDEX TO FINANCIAL STATEMENTS

COVERED BY REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

	References	
	Form 10-K (Page)	Annual report to shareholders (Page)
The Marmon Group, Inc.		
Report of Certified Public Accountants	F-1	
Data incorporated by reference from attached Marmon 1977 Annual Report to Shareholders:		
Consolidated balance sheets at December 31, 1977 and 1976		4-5
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Consolidated statement of income		6
Consolidated statement of shareholders' equity		7
Consolidated statement of changes in financial position		8-9
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Schedules for the years ended December 31, 1977 and 1976		
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III—Investments in, equity in earnings of, and dividends received from affiliates and other persons	F-6	
IV—Indebtedness of affiliates and other persons—not current	F-7	
V—Property, plant and equipment	F-7	
VI—Accumulated depreciation, depletion and amortization of property, plant and equipment	F-8	
XII—Valuation and qualifying accounts and reserves	F-9	
The Marmon Group, Inc. (Parent Company)		
Balance sheets at December 31, 1977 and 1976	F-10-11	
For the years ended December 31, 1977 and 1976		
Statement of income	F-12	
Statement of changes in financial position	F-13-14	
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Schedules for the years ended December 31, 1977 and 1976		
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III—Investments in, equity in earnings of, and dividends received from affiliates and other persons	F-20-21	
IV—Indebtedness of affiliates and other persons—not current	F-22	
V—Property, plant and equipment	F-23	
VI—Accumulated depreciation, depletion and amortization of property, plant and equipment	F-23	
XII—Valuation and qualifying accounts and reserves	F-24	
XVI—Supplementary income statement information	F-24	

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THE MARMON GROUP, INC.

INDEX TO FINANCIAL STATEMENTS

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	References	
	Form 10-K (Page)	Annual report to shareholders (Page)
ICX Industries, Inc.		
Report of Independent Accountants	F-25	
Leadership Housing, Inc.		
Reports of Independent Certified Public Accountants	F-26-26a	
Consolidated balance sheets at December 31, 1977 and 1976	F-27	
For the years ended December 31, 1977 and 1976—		
Consolidated statement of operations and accumulated deficit	F-28	
Consolidated statement of changes in financial position	F-29	
Notes to consolidated financial statements	F-30-51	
Schedules for the years ended December 31, 1977 and 1976		
II—Amounts receivable from directors, officers and employees	F-52	
V—Property, plant and equipment	F-53	
VI—Accumulated depreciation and amortization of property, plant and equipment	F-54	
XII—Valuation and qualifying accounts and reserves	F-55	
XVI—Supplementary income statement information	F-56	
The Housing Group		
Report of Certified Public Accountants	F-57	
The Communities Group, Inc. of Broward County		
Report of Certified Public Accountants	F-58	
Boca del Mar Associates and Boca del Mar Golf and Tennis Clubs (Partnerships)		
Report of Certified Public Accountants	F-59	

All other schedules for Marmon (Parent Company and consolidated) and Leadership have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the respective financial statements or the notes thereto.

Financial statements of the nonconsolidated subsidiaries, other than the financial statements of Leadership, and the affiliated companies have been omitted since, in the aggregate, these companies do not constitute a significant subsidiary.

The Marmon consolidated financial statements listed in the above index are included in Marmon's Annual Report to Shareholders for the year ended December 31, 1977, and are hereby incorporated herein by reference. All other pages of Marmon's Annual Report to Shareholders are incorporated elsewhere herein by reference, with the exception of the Letter from Chairman and President, General Information and Report of Certified Public Accountants on pages 1, 2 and 3 which are not deemed to be filed as part of this annual report.

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MARGRP CDA dm - 1648

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
The Marmon Group, Inc.

We have examined the Parent Company and consolidated financial statements of The Marmon Group, Inc. (Marmon) (Note 1) listed in the accompanying index to financial statements. 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. We have received the reports of other independent accountants on their examinations of the 1977 and 1976 consolidated financial statements of the major real estate subsidiary (Leadership) and of the 1976 consolidated financial statements of the trucking subsidiary which was sold in 1977. Our opinion expressed herein on the Parent Company and consolidated financial statements of Marmon, insofar as it relates to amounts included in such financial statements that were derived from the 1977 and 1976 consolidated financial statements of Leadership and the 1976 consolidated financial statements of the trucking subsidiary, is based solely on the reports of the other independent accountants.

The reports of other independent accountants referred to above on the consolidated financial statements of Leadership are qualified as to the effects of such adjustments, if any, as might have been required had the outcome of certain specified uncertainties been known. Two of the significant uncertainties have been substantially resolved and the financial statement effect has been reflected in 1977 as described in Note 8 to the consolidated financial statements. The remaining significant uncertainties are discussed in the fourth paragraph of Note 16 to the consolidated financial statements.

The allocation of Marmon's purchase cost of Cerro Corporation (Cerro) to the net assets acquired, as reflected in the Parent Company and consolidated balance sheets at December 31, 1977 and 1976, and the related effects reflected in the Parent Company and consolidated statement of income for 1977 and 1976, are subject to retroactive revision to reflect the outcome of certain federal income tax matters relating to Cerro as discussed in Note 3 to the consolidated financial statements. The outcome of these income tax matters and, therefore, the effects of such retroactive revisions as will be required cannot be determined at this time.

Matters relating to significant pending and threatened litigation and product liability claims involving Marmon or certain of its subsidiaries, including Leadership, are discussed in Note 16 to the consolidated financial statements. The outcome of these matters and the ultimate effects, if any, on Marmon's Parent Company and consolidated financial statements cannot be determined at this time. In our report dated April 22, 1977, our opinion on the 1976 financial statements contained no reference to the matters referred to in this paragraph that were then existing. Additional pending and threatened litigation arose in 1977, a major portion of which relates to events occurring prior to 1977, as to which the outcome cannot be determined at this time. Accordingly, our present opinion on the 1976 Parent Company and consolidated financial statements as presented herein includes a qualification as to these matters.

In our opinion, based on our examinations and the reports of other independent accountants, and subject to the effects on the Parent Company and consolidated financial statements of (1) such retroactive revisions of the financial statements as will be required to reflect the outcome of the matters referred to in the second preceding paragraph, and (2) the effects, if any, of the outcome of the matters referred to in the preceding paragraph, the Parent Company and consolidated statements of Marmon listed in the accompanying index to financial statements present fairly the Parent Company and consolidated financial position of The Marmon Group, Inc. at December 31, 1977 and 1976, and the Parent Company and consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 31, 1978

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THE MARMON GROUP, INC.

SUPPLEMENTARY INFORMATION

Inventories and Cost of Goods Sold

Inventories and supplies at December 31, 1975 used to determine cost of goods sold were $50,781,000.

For purposes of determining the lower of cost or market for coal and manufacturing inventories, market is generally considered to be net realizable value. Cost consists principally of raw materials and purchased components, direct labor and direct and indirect manufacturing or mining costs.

Plant and Equipment

Depreciation rates used were as follows:

Buildings and Improvements (Note)	2% to 20%
Machinery and equipment	4% to 40%
Utility plant	2.5% to 10%

NOTE:

Leasehold improvements are depreciated over the lesser of the term of the lease or the useful life of the asset.

Current Replacement Cost Information (Unaudited)

The determination of estimated replacement cost requires subjective judgments and estimates. Because of such subjective judgments and the errors inherent in estimates, the data may not be fully comparable between companies providing such data.

Simplistic use of the replacement cost information should be avoided. The effect on net income of calculating cost of sales and depreciation on a current replacement cost basis is not required by the Securities and Exchange Commission (SEC) regulations because there are substantial theoretical problems in determining an income effect and because users should not be encouraged to convert the data into a single revised net income figure. The factors of subjective judgment, errors inherent in estimation and the many specific factual circumstances involved make the data inappropriate to the determination of "true income" or comparability between companies.

The replacement cost information is based upon the hypothetical assumption that replacement of inventory and productive capacity would be on an "instant" basis. The replacement cost estimates do not take into account the problems resulting from such hypothetical change and accordingly would require studies in depth before undertaking actual replacement. The estimates are not necessarily indicative of management's intentions with respect to replacement or of costs that might be incurred; nor should the information be interpreted as to indicate that present plans to replace productive capacity or actual replacement would or could take place in the manner assumed in estimating the information.

Replacement cost data is not necessarily indicative of current value or sales value or adjusted book value.

The information does not reflect all the effects of inflation and other economic factors on Marmon's current cost of operations, nor does it reflect considerations of these effects on assets other than inventories and productive capacity and the related effects on other costs.

It must also be recognized that a comparison between Marmon's historical cost and replacement cost information requires consideration of the adjustments to Cerro's historical costs arising out of the purchase of Cerro by Marmon. The purchase cost allocation had the effect of completely eliminating the carrying value of property, plant and equipment as of August 1, 1974, and subsequent depreciation thereon, with respect to Marmon's 45.33% purchase of Cerro and significantly reducing such carrying value at February 24, 1976, and subsequent depreciation thereon, with respect to Marmon's 54.67% purchase of Cerro.

The estimated replacement cost of a substantial portion of Marmon's plant and equipment relates to plant and equipment acquired in used condition, largely as a result of Marmon's purchase

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of Cerro. The useful lives assigned to such assets were necessarily shorter than would have been assigned to comparable new assets. However, for purposes of calculating depreciation on used plant and equipment on a current replacement cost basis, Marmon's policy with respect to the useful lives of new assets has been reflected. Additionally, for purposes of calculating accumulated depreciation on used plant and equipment on a current replacement cost basis, expired lives have been determined by subtracting estimated remaining lives from new asset lives.

Marmon computes depreciation on plant and equipment principally on accelerated methods. Pursuant to SEC requirements, depreciation on a replacement cost basis is computed on a straight line basis. *Additionally, improvements to existing assets may have significantly extended the* originally assigned useful lives of such assets. These factors further complicate interpretation of the accompanying information.

In recognition of the unique problems involved in the determination of replacement cost of mineral resource assets, the SEC has granted an exemption from the determination of such information. Accordingly, the replacement cost of inventories and cost of sales include depletion of Marmon's coal reserves on a historical cost basis. For the year ended December 31, 1977, expenditures for acquiring mineral rights, leases, and properties and the related exploration activities approximated $650,000, of which $400,000 was capitalized and $250,000 was charged to current expense. Amortization of capitalized expenditures was $3,920,000, including $3,555,000 resulting from the write-off of unrecoverable development costs of which $1,400,000 was incurred in 1977. Amortization of capitalized exploration and development costs is significantly affected by the adjustments to Cerro's historical costs arising out of the purchase of Cerro by Marmon. Amounts related to stripping of overburden have not been included in the above disclosed amounts because, in the opinion of management, these costs relate directly to the production of coal.

This information, in the opinion of management, has very limited analytic value. Any analysis must consider the limitations noted above and the methods of estimation described below.

(All amounts in the table below are in thousands of dollars.)	1977		1976	
	Historical cost	*Estimated Replacement cost*	*Historical cost*	*Estimated Replacement cost**
Balances at end of year:				
Inventories	$272,303	$ 312,810	$202,120	$234,020
Property:				
Buildings and improvements and construction in progress	$ 43,810	$ 215,440	$ 37,834	$144,397
Machinery and equipment (including processing plant for coal and utility operations)	85,408	373,324	70,356	337,812
	129,218	588,764	108,190	482,209
Less accumulated depreciation	41,583	343,340	31,629	252,789
	87,635	$ 245,424	76,561	$229,420
Land	4,147		3,779	
Mineral resource assets net of accumulated depletion of $877 in 1977 ($512 in 1976)	19,380		19,752	
Property—net	$111,162		$100,092	
For the year then ended:				
Cost of sales, excluding depreciation and depletion	$967,009	$ 971,246	$694,795	$696,949
Depreciation	12,395	29,396	8,427	22,692
Depletion	365	365	293	293
Total cost of sales	$979,769	$1,001,007	$703,515	$719,934
Depreciation expense (exclusive of amounts allocated to cost of sales)	$ 864	$ 1,542	$ 740	$ 1,132

*Restated from amounts reported in the prior year.

The methods of estimation of replacement costs were as follows:

Buildings and improvements—Current estimated construction costs to obtain equivalent space within acceptable geographical locations. Such costs for 1976 and for used properties

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acquired during 1977 were obtained from vendors or available appraisal reports or were obtained through application of "unit of space" costing techniques. For 1977, such costs were generally based upon the application of a composite building index to the replacement values determined in 1976. The historical cost of new additions in 1977 was deemed to be replacement cost.

Machinery and equipment—For 1976, replacement costs were obtained from vendor quotations on the major items of equipment, use of engineering estimates and the use of productive capacity cost per unit in the case of the coal processing and utility plants. Replacement cost of the remaining equipment was estimated based upon the relationship of replacement cost to historical cost developed as described above. For 1977, such costs were generally based upon the application of a composite index to the replacement values determined in 1976. The historical cost of new additions in 1977 was deemed to be replacement cost.

Inventories—Raw materials: current prices or quotations reflecting the terms and conditions under which Marmon generally purchases its materials. Work in process and finished goods: current raw material costs plus estimated labor and overhead costs, including depreciation on a replacement cost basis, which would be incurred in replacement of inventory based upon current cost experience and production volumes.

Cost of sales—Adjustment of historical cost of sales for the replacement cost effect on opening and closing inventory, replacement cost of materials that were significantly different in price throughout the year and replacement cost depreciation. With respect to metals trading inventories and inventories valued under the LIFO method, which comprises 59% of consolidated ending inventories in 1977 (53% of consolidated ending inventories in 1976), cost of sales on a historical cost basis was generally determined to closely approximate cost of sales on a replacement cost basis.

Marmon is generally not subject to unusually rapid technological change in its manufacturing processes. Nonetheless, it is important to note that the above replacement cost data generally contemplates a continuation of manufacturing techniques and processes presently employed by Marmon. Prior to actual replacement, different manufacturing techniques and processes would be subjected to extensive review and evaluation and might significantly impact the replacement cost data stated above.

The replacement cost data presented above does not reflect operating cost savings which might result from the replacement of existing productive capacity. If Marmon's productive capacity were to be replaced in the manner assumed in the determination of replacement cost, many costs other than depreciation (e.g. direct labor costs, repairs and maintenance and other indirect costs) would be altered.

Supplementary Income Statement Information

Supplementary income statement information is as follows:

	Years ended December 31,	
	1977	1976
	(In thousands of dollars)	
Maintenance and repairs	$23,563	$17,196
Payroll taxes	13,281	7,814
Interest expense		
Long-term obligations	9,251	10,236
Other interest	7,798	1,106

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THE MARMON GROUP, INC.

SCHEDULE I—MARKETABLE SECURITIES—OTHER SECURITY INVESTMENTS

Year Ended December 31, 1977

(In thousands of dollars)

Column A	*Column B*	*Column C*
Name of issuer and title of each issue	*Number of shares or units—principal amount of bonds and notes*	*Amount at which shown in the balance sheet*
First Chicago Corporation		
Promissory Notes	$62,000	$62,000(1) (2)

Notes:

(1) Short term investments on the Consolidated Balance Sheet consist of the following:

	1977
Promissory Notes	$62,000
Certificates of deposit	10,452
	$72,452

(2) See Note 5 of Notes to Consolidated Financial Statements included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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THE MARMON GROUP, INC.

SCHEDULE III—INVESTMENT IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATED AND OTHER PERSONS

(In thousands of dollars)

Column A	Column B		Column C		Column D		Column E		Column F
	Balance at beginning of period		Additions				Balance at end of period		
Name of issuer and description of investment	Number of shares	Amount in dollars	Equity in net earnings (loss)	Other	Distribution of earnings	Other	Number of shares	Amount in dollars	Dividends received during the period from investments not accounted for by the equity method
Year ended December 31, 1977:									
Real estate subsidiaries	Various	$ 542	$(9,515)	$ 4,127(6)		$ 1,195(5)	Various	$(6,041)(1)	
Trucking subsidiary	2,180,000	$17,009	$ 1,440	$ 54	$ 163(2)	$18,340(3)			
Other persons not accounted for by the equity method	Various						Various		$1,581
Year ended December 31, 1976:									
Cerro	3,586,297	$78,896	$ 1,782		$ 650(2)	$80,028(4)			
Real estate subsidiaries				$ 542(4)			Various	$ 542 (1)	
Trucking subsidiary			$ 3,219	$14,444(4)	$ 654(2)		2,180,000	$17,009	
Other persons not accounted for by the equity method	Various						Various		$ 577

Notes:

(1) Reconciliation to the consolidated financial statements:

	Amount shown above	Advances (Schedule IV)	Amount shown in consolidated financial statements
December 31, 1977	$(6,041)	$25,340	$19,299
December 31, 1976	$ 542	$19,493	$20,035

(2) Cash dividends.

(3) Represents carrying value at date of sale. See Note 2(c) of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

(4) Amounts related to the merger of Cerro and Marmon. See Notes 1 and 2(a) of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

(5) Consists principally of tax sharing agreement amounts due to Marmon.

(6) Adjustments of purchase cost allocated to net assets of the real estate subsidiaries. See Note 8 of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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Schedule IV
Consolidated

THE MARMON GROUP, INC.

SCHEDULE IV—INDEBTEDNESS OF AFFILIATES AND OTHER PERSONS—NOT CURRENT

(In thousands of dollars)

Column A Name of Person	Column B Balance at beginning of period	Column C Balance at end of period
Real estate subsidiaries		
1977	$19,493	$25,340(1)
1976		$19,493

Note:

(1) Increase represents additional advances from Marmon.

Schedule V
Consolidated

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

For the Years Ended December 31, 1977 and 1976

(In thousands of dollars)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions, at cost			
Classification	Balance at beginning of period	Acquisitions	Other	Retirements	Balance at end of period
1977					
Land	$ 3,779	$ 117	$ 355	$ 104	$ 4,147
Buildings and improvements	31,562	1,868	1,362	818	33,974
Machinery and equipment	64,158	3,691	18,514	7,848	78,515
Mining properties	20,264		132	139	20,257
Utility plant	6,198		699	4	6,893
Construction in progress	6,272	106	7,013	3,555(3)	9,836
	$132,233	$ 5,782(1)	$28,075	$12,468	$153,622
1976					
Land	$ 2,064	$ 850	$ 865	$	$ 3,779
Buildings and improvements	21,590	7,014	3,392	434	31,562
Machinery and equipment	34,027	19,697	13,664	3,230	64,158
Mining properties		21,537		1,273	20,264
Utility plant		2,916	3,306	24	6,198
Construction in progress	424	9,710	(3,570)	292	6,272
	$ 58,105	$61,724(2)	$17,657	$ 5,253	$132,233

Notes:

(1) Acquisition of Hammond (see Note 2(b) of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders; incorporated herein by reference).

(2) Acquisition of Cerro (see Notes 1 and 2 of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference).

(3) Write-off of unrecoverable coal mine development costs.

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THE MARMON GROUP, INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

For the Years Ended December 31, 1977 and 1976

(In thousands of dollars)

Col. A Description	Col. B Balance at beginning of period	Col. C Additions charged to costs and expenses	Col. D Retirements	Col. E Other changes	Col. F Balance at end of period
1977					
Buildings and improvements	$ 6,821	$ 1,417	$ 300	$ 647	$ 8,585
Machinery and equipment	24,654	11,665	4,964	1,315	32,670
Mining properties	512	365			877
Utility plant	154	177	3		328
	$32,141	$13,624	$5,267	$1,962(1)	$42,460
1976					
Buildings and improvements	$ 5,448	$ 1,533	$ 295	$ 135	$ 6,821
Machinery and equipment	16,436	7,504	1,194	1,908	24,654
Mining properties		293		219	512
Utility plant		130		24	154
	$21,884	$ 9,460	$1,489	$2,286(2)	$32,141

Notes:

(1) Represents accumulated depreciation on 41.97% of Hammond's assets from dates of acquisition by GL of its interest in Hammond to January 26, 1977, the date GL contributed its interest to Marmon (see Note 2(b) of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference).

(2) Represents Marmon's basis in accumulated depreciation of Cerro at February 24, 1976 on 45.33% of assets acquired by Cerro subsequent to August 1, 1974 (See Notes 1 and 2 of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference).

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THE MARMON GROUP, INC.

SCHEDULE XII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 31, 1977 and 1976

(In thousands of dollars)

Col. A Description	Col. B Balance at beginning of period	Col. C Additions charged to costs and expenses	Col. D Deductions	Col. E Balance at end of period
1977				
Current trade receivables	$2,629	$1,240	$ 527(1)	$3,342
Inventory valuation reserves	$4,497	$ 853(2)		$5,350
1976				
Current trade receivables	$1,464	$1,713	$ 548(1)	$2,629
Inventory valuation reserves	$1,939	$2,558(2)		$4,497

Notes:

(1) Write-off of uncollectible accounts, net of recoveries.

(2) Provisions for obsolescence, net of disposals.

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THE MARMON GROUP, INC.

PARENT COMPANY BALANCE SHEET

(In thousands of dollars)

ASSETS

(Notes 1, 2 and 3)

	December 31, 1977	December 31, 1976*
Current assets		
Cash	$ 1,629	$ 4,074
Short term investments (Schedule I) (Note 5)	54,229	48,225
Marketable securities		1,837
Receivables		
Trade accounts, less allowances of $922 in 1977 and $742 in 1976 (Schedule XII)	29,472	33,119
Notes due from Chile (Note 6)	4,386	5,473
Refundable income taxes (Note 15)	2,395	
Other	4,002	4,482
Inventories (Note B)		
Metals trading		15,842
Manufacturing and supplies	68,209	67,292
	68,209	83,134
Other current assets	3,296	5,988
Total current assets	167,618	186,332
Investments in and advances to consolidated subsidiaries (Note B)		
Investments (Schedule III)	156,232	82,962
Advances (Schedule IV)	54,387	50,034
Investments in and advances to non-consolidated subsidiaries (Note B)		
Trucking (Schedule III) (Note 2(c))		17,009
Realty (Schedule III) (Note 8)	19,299	20,035
Notes due from Chile (Note 6)	389	3,064
Property, plant and equipment, less accumulated depreciation of $2,338 in 1977 and $1,664 in 1976 (Schedules V and VI) (Note C)	15,684	15,060
Other assets	8,734	7,467
	$422,343	$381,963

*Amounts for 1976 have been reclassified for comparability with the 1977 presentation.

See accompanying notes (alphabetical) and Notes to Consolidated Financial Statements (numerical) included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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THE MARMON GROUP, INC.

PARENT COMPANY BALANCE SHEET

(In thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

(Notes 1, 2 and 3)

	December 31, 1977	December 31, 1976*
Current liabilities		
Long-term debt due within one year (Note D)	$ 7,478	$ 5,492
Investment agreement payable to a consolidated subsidiary	8,411	
Current obligations under capital leases (Note E)	460	411
Accounts payable (Note 5)	14,475	64,934
Income taxes (Note 15)	17,901	17,534
Accrued liabilities		
Compensation	3,387	3,327
Pensions	2,833	2,271
Insurance	3,394	2,112
Interest	2,978	821
Other	5,436	5,289
Total current liabilities	66,753	102,191
Long-term debt (Note D)	27,918	29,660
Long-term obligations under capital leases (Note E)	4,512	4,936
Deferred credit from acquisition (Note 3)	34,894	11,454
Other non-current amounts	5,856	6,625
Contingencies and litigation (Notes 3, 14, 15 and 16)		
Shareholders' equity (Notes D, G and 17)		
Preferred stock, $1 par value; 10,000,000 shares authorized, 4,259,057 shares issued and outstanding; liquidation preference and mandatory redemption value of $93,699	90,295	89,248
Common stock, $1 par value; 10,000,000 shares authorized, 5,000,000 shares issued and outstanding	5,000	5,000
Other paid-in capital	26,452	10,241
Retained earnings	160,663	122,608
Total shareholders' equity	282,410	227,097
	$422,343	$381,963

*Amounts for 1976 have been reclassified for comparability with the 1977 presentation.

See accompanying notes (alphabetical) and Notes to Consolidated Financial Statements (numerical) included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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THE MARMON GROUP, INC.

PARENT COMPANY STATEMENT OF INCOME

(In thousands of dollars)

(Notes 1, 2 and 3)

	Years ended December 31,	
	1977	1976*
Revenues		
Net sales	$413,867	$369,737
Miscellaneous—net	8,896	6,132
	422,763	375,869
Costs and expenses		
Cost of sales	371,722	334,068
Selling and administrative	16,542	15,820
Interest	5,437	2,640
	393,701	352,528
Income before amounts shown below	29,062	23,341
Allocation of income taxes (Note 15)		
Current	4,772	1,361
Deferred	(3,194)	527
Provision in lieu of income taxes	8,937	6,501
	10,515	8,389
Income before equity in net income of subsidiaries and discontinued operations	18,547	14,952
Equity in net income of consolidated subsidiaries (Schedule III)	36,350	24,267
Equity in loss of real estate subsidiaries (Schedule III) (Note 8)	(9,515)	
Income from continuing operations	45,382	39,219
Discontinued operations (Note 2(c))		
Equity in net income from operations (Schedule III)	1,440	3,540
Gain on disposal, less income taxes of $2,397	1,863	
	3,303	3,540
Net income	$ 48,685	$ 42,759

*Amounts for 1976 have been reclassified for comparability with the 1977 presentation.

See accompanying notes (alphabetical) and Notes to Consolidated Financial Statements (numerical) included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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THE MARMON GROUP, INC.

PARENT COMPANY STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	Years ended December 31, 1977	1976*
Sources of working capital		
Income from continuing operations	$ 45,382	$ 39,219
Charges (credits) not involving working capital		
Provision in lieu of income taxes	15,221	6,030
Depreciation and amortization	1,983	1,182
Equity in undistributed loss of real estate subsidiaries	9,515	
Equity in undistributed net income of consolidated subsidiaries	(31,038)	(22,064)
Deferred income taxes	(1,176)	(667)
Other—net	(1,514)	582
Total from continuing operations	38,373	24,282
Income of discontinued business	3,303	3,540
Charge (credit) not involving working capital		
Provision in lieu of income taxes	3,094	1,367
Equity in undistributed net income of discontinued operations	(1,277)	(2,886)
Total from discontinued operations	5,120	2,021
Total from operations	43,493	26,303
Carrying value of trucking subsidiary sold	18,340	
Common stock issued for all outstanding common stock of The Marmon Group, Inc. (Michigan)		100,886
Investment in Marmon at January 1, 1976		(100,886)
Merger of Cerro Corporation at February 24, 1976		115,913
Reduction in long-term portion of notes due from Chile	3,535	12,669
Long-term borrowings—debt	5,378	3,188
—obligations under capital leases	117	2,264
Sale of investments		1,369
Disposition of property, plant and equipment	1,668	226
Other—net	1,715	(1,666)
Total sources	74,246	160,266
Dispositions of working capital		
Capital contribution to The Marmon Group, Inc. (Michigan)		25,000
Additional investment in consolidated subsidiaries	7,948	
Additional investment in and advances to real estate subsidiaries—net	5,847	5,091
Basis of Hammond at date of acquisition	33,822	
Less capital contribution of 48% of Hammond common stock	(16,211)	
Cash paid for outstanding common and preferred stock of Hammond	17,611	
Investment in Southern Peru Copper Corporation		5,450
Net advances to consolidated subsidiaries	4,353	22,523
Reduction in long-term obligations—debt	7,364	6,269
—obligations under capital leases	541	276
Purchase of property, plant and equipment	4,275	3,380
Preferred dividends paid	9,583	8,136
Total dispositions	57,522	76,125
Increase in working capital	$ 16,724	$ 84,141

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THE MARMON GROUP, INC.

PARENT COMPANY STATEMENT OF CHANGES IN FINANCIAL POSITION—(Continued)

(In thousands of dollars)

Changes in Elements of Working Capital

	Years ended December 31,	
	1977	1976*
Increase (decrease) in current assets		
Cash, short term investments and marketable securities	$ 1,722	$ 54,136
Receivables	(2,819)	43,074
Inventories	(14,925)	83,134
Other current assets	(2,692)	5,988
	(18,714)	186,332
(Increase) decrease in current liabilities		
Long-term debt due within one year	(1,986)	(5,492)
Investment agreement payable to a subsidiary	(8,411)	
Current obligations under capital leases	(49)	(411)
Accounts payable	50,459	(64,934)
Income taxes	(367)	(17,534)
Accrued liabilities	(4,208)	(13,820)
	35,438	(102,191)
Increase in working capital	$ 16,724	$ 84,141

*Amounts for 1976 have been reclassified for comparability with the 1977 presentation.

See accompanying notes (alphabetical) and Notes to Consolidated Financial Statements (numerical) included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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THE MARMON GROUP, INC.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

December 31, 1977 and 1976

(Tabular amounts are in thousands.
Numerical footnote references are to Notes
to Consolidated Financial Statements
included in Marmon's 1977 Annual Report
to Shareholders, incorporated
herein by reference.)

A. Organization and Basis of Financial Statements

Pursuant to a vote of shareholders on June 3, 1977, the name of the corporation was changed from Cerro-Marmon Corporation to The Marmon Group, Inc. (Marmon).

Marmon, Incorporated on November 25, 1975, was inactive until February 24, 1976. On that date (1) Marmon issued all of its common shares to GL Corporation (GL) for all of the outstanding common shares of The Marmon Group, Inc. (Michigan) (TMG), in a transaction accounted for as if it was a pooling of interests, (2) Marmon became obligated to issue preferred stock to holders of Cerro Corporation (Cerro) common stock, other than TMG, on a share-for-share basis and (3) Cerro was merged into Marmon in a transaction accounted for as a purchase. Cerro common stock owned by TMG, representing 45.33% of the Cerro common stock outstanding, was cancelled. As a result of the above described transactions, GL owns 100% of the outstanding Marmon common stock, which represents approximately 82% of the total voting interest in Marmon, and TMG is a wholly-owned subsidiary of Marmon. See Notes 2 and 3 of Notes to Consolidated Financial Statements for additional information concerning the acquisition of Cerro, the allocation for Marmon's purchase cost to Cerro's net assets and uncertainties related thereto.

The Parent Company results of operations consist of (1) Marmon's equity in the net income of TMG (Marmon's accounting predecessor company) for the period January 1 to February 24, 1976 and (2) the historical results of Marmon, including Marmon's equity in the net income of all significant subsidiaries, except for the real estate subsidiaries through December 31, 1976 (Note 8), commencing February 25, 1976. The trucking subsidiary was sold (Note 2(c)) and is accounted for as a discontinued operation.

Unaudited pro forma revenues and net income in 1976 would have been approximately $421,140,000 and $45,210,000, respectively, had the acquisition of Cerro taken place on January 1, 1976.

B. Summary of Significant Accounting Policies

(1) Investments in and advances to consolidated and nonconsolidated subsidiaries—

The Parent Company uses the equity method of accounting for its consolidated subsidiaries and the nonconsolidated trucking subsidiary which was sold (Note 2(c)). The investment in the real estate subsidiaries in 1976 is carried at cost to Marmon, adjusted beginning January 1, 1977 for Marmon's equity in the subsidiaries' loss (Note 8).

Advances to consolidated and nonconsolidated subsidiaries are classified as long-term assets as it is not expected that such advances will be repaid within one year. However, advances fluctuate on a daily basis and are due on demand. At December 31, 1977 advances of $26,000,000 to TMG bear interest at 8½%, advances of $23,770,000 to a real estate subsidiary bear interest at varying rates, a $6,856,000 mortgage on a utility plant bears interest at prime plus 2½% and advances of $10,059,000 to Marmon Company bear interest at 9%.

(2) Inventories—

Inventories, other than metals trading inventories, are valued at the lower of cost or market. Cost represents current cost (standard, average or first-in, first-out) and consists principally of raw materials and purchased components, direct labor and indirect manufacturing costs. Market is generally considered to be net realizable value for purposes of determining the lower of cost or market.

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Metals trading inventories and outstanding futures contracts are valued at market and the resultant gain or loss is reflected in results of operations.

The classification of manufacturing inventories by stage of production is not available from the accounting records.

(3) Plant and Equipment—

Depreciation rates used were as follows:

Buildings and improvements (Note)	2% to 20%
Machinery and equipment	4% to 40%

Note: Leasehold improvements are depreciated over the lesser of the term of the lease or the useful life of the asset.

(4) Other Policies—

Other significant accounting policies of the Parent Company are presented in Note 4.

C. Property, Plant and Equipment

	December 31,	
	1977	1976
Land	$ 2,532	$ 2,572
Buildings and improvements	3,606	3,597
Machinery and equipment	10,369	9,908
Construction in progress	1,515	647
	18,022	16,724
Less accumulated depreciation	2,338	1,664
	$15,684	$15,060

D. Debt

The following table summarizes long-term debt obligations:

	Stated interest rate	Due	December 31, 1977	December 31, 1976
Notes to institutions (a)	6%–6⅝%	1978–1987	$24,360	$27,636
Subordinated notes	12%	1978–1981	2,656	3,863
Other	5%–9%	1978–1982	8,380	3,653
			35,396	35,152
Less current portion			7,478	5,492
			$27,918	$29,660

(a) Discounted to an effective interest rate of 9%.

Scheduled maturities of the long-term debt in the calendar years 1979-1982 are $6,509,000 in 1979, $6,805,000 in 1980, $3,347,000 in 1981 and $1,865,000 in 1982.

The various debt agreements impose certain restrictions on Marmon, including restrictions on the payment of cash dividends and the repurchase of capital stock. Pursuant to the most restrictive provisions of the agreements, Marmon could not pay dividends on or repurchase common stock at December 31, 1977. However, under the agreements approximately $77,000,000 was available for the payment of dividends on and redemptions of Preferred Stock at that date.

E. Leasing Arrangements

(1) The following properties under capital leases are included in property, plant and equipment:

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	December 31, 1977	December 31, 1976
Buildings and improvements	$ 600	$ 255
Machinery and equipment	2,443	2,330
	3,043	2,585
Less accumulated amortization	568	253
	$2,475	$2,332

Minimum future obligations under capital leases in effect at December 31, 1977 follow:

Years ending December 31	
1978	$ 793
1979	781
1980	779
1981	1,157
1982	459
Later years	3,356
	7,325
Less amount representing interest	2,353
Present value of total minimum capital lease payments	$4,972

The above amounts do not include licenses, taxes, insurance and maintenance costs which the Parent Company is required to pay.

(2) Future minimum rental payments due under various noncancelable operating leases having an initial term of more than one year as of December 31, 1977 follow:

Years ending December 31	
1978	$ 993
1979	917
1980	833
1981	538
1982	456
Later years	4,792
	$8,529

Minimum future sublease rentals of $5,651,000 have not been deducted from the above operating lease data. Rental expense included in the Parent Company statement of income for all operating leases follows:

	Years Ended December 31, 1977	Years Ended December 31, 1976
Minimum rentals	$2,492	$1,841
Contingent rentals	456	288
	2,948	2,129
Less sublease rentals	624	378
	$2,324	$1,751

F. Retirement Plans

The Parent Company has several pension plans covering substantially all of its employees.

The actuarially computed value of vested benefits under the pension plans exceeded, as of December 31, 1977, the respective pension fund assets and related balance sheet accruals by

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approximately $1,480,000. At that date unfunded, past service costs totalled approximately $10,480,000.

Pension expense included in the 1977 and 1976 Parent Company statement of income was $2,674,000 and $2,432,000, respectively.

G. Other

Information with respect to transactions with affiliates by Marmon and its consolidated subsidiaries is presented in Note 19.

See the Consolidated Statement of Shareholders' Equity included in Marmon's 1977 Annual Report to Shareholders for changes during the years ended December 31, 1977 and 1976, incorporated herein by reference.

The effective income tax rates in 1977 and 1976 differed from the theoretical 48% federal rate principally due to an excess of tax basis depreciation over financial statement amounts and greater gains or lesser losses on disposition of assets for financial statement purposes than for income tax purposes due to the effects of the allocations of purchase cost to acquired companies (see Note 15). Additionally, the 1977 income tax benefit from the loss of the real estate subsidiaries has been included as a reduction of the Parent Company income tax provision.

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THE MARMON GROUP, INC.

SCHEDULE I—MARKETABLE SECURITIES—OTHER SECURITY INVESTMENTS

Year ended December 31, 1977

(In thousands of dollars)

Column A	*Column B*	*Column C*
Name of issuer and title of each issue	*Number of shares or units—principal amount of bonds and notes*	*Amount at which shown in the balance sheet*
First Chicago Corporation		
Promissory Notes	$49,000	$49,000(1)(2)

Notes:

(1) Short term investments on the Parent Company Balance Sheet consist of the following:

Promissory Notes	$49,000
Certificates of deposit	5,229
	$54,229

(2) See Note 5 of Notes to Consolidated Financial Statements included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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Schedule III
Parent Company

THE MARMON GROUP, INC.

INVESTMENT IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

Years Ended December 31, 1977 and 1976

(In thousands of dollars)

Column A	Column B		Column C		Column D		Column E		Column F
	Balance at beginning of period		Additions				Balance at end of period		Dividends received during the period from investments not accounted for by the equity method
Name of issuer and description of investment	Number of shares	Amount in dollars	Equity in net earnings (loss)	Other	Distribution of earnings	Other	Number of shares	Amount in dollars	
1977									
Nonconsolidated subsidiaries:									
Real estate	Various	$ 542	$(9,515)	$ 4,127(8)		$ 1,195(7)	Various	$(6,041)(4)	
Trucking	2,180,000	$ 17,009	$ 1,440	$ 54	$ 163(2)	$18,340(6)			
Consolidated subsidiaries:									
TMG	1,000	$ 62,992	$17,342				1,000	$80,334	
Other	Various	$ 19,970	$19,008	$42,232(5)	$ 5,312(2)		Various	$75,898	
Other persons not accounted for by the equity method:									$1,528
1976									
Nonconsolidated subsidiaries:									
Real estate				$ 542(1)			Various	$ 542 (4)	
Trucking			$ 3,219	$14,444	$ 654(2)		2,180,000	$17,009	
Consolidated subsidiaries:									
TMG	1,000	$100,886	$16,257	$25,877(3)		$80,028(1)	1,000	$62,992	
Other	Various		$ 8,331	$11,973(1)	$ 334(2)		Various	$19,970	
Other persons not accounted for by the equity method									$ 494

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NOTES TO SCHEDULE III

(In thousands of dollars)

(1) Amounts related to the merger of Cerro and Marmon. See Notes 1 and 2(a) of Notes to Consolidated Financial Statements included in Marmon's 1977 Annual Report to Shareholders.

(2) Cash dividends.

(3) Consists of:

Additional cash investment	$25,000
Elimination of deferred income taxes related to equity in undistributed net income of Cerro	877
	$25,877

(4) Reconciliation to the Parent Company balance sheet:

	Amount shown above	Advances (Schedule IV)	Amount shown in Parent Company balance sheet
Real estate subsidiaries			
December 31, 1977	$(6,041)	$25,340	$19,299
December 31, 1976	$ 542	$19,493	$20,035

(5) Consists principally of the acquisition of Hammond. See Note 2(b) of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

(6) Represents carrying value at date of sale. See Note 2(c) of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

(7) Consists principally of tax sharing agreement amounts due to Marmon.

(8) Adjustments of purchase cost allocated to net assets of the real estate subsidiaries. See Note 8 of Notes to Consolidated Financial Statements included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference.

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THE MARMON GROUP, INC.

INDEBTEDNESS OF AFFILIATES AND OTHER PERSONS—NONCURRENT

Years ended December 31, 1977 and 1976

(In thousands of dollars)

Column A Name of person	Column B Balance at beginning of period	Column C Balance at end of period
1977		
Advances to nonconsolidated real estate subsidiaries	$19,493	$25,340(1)
Due from consolidated subsidiaries		
Advances	$16,892	$11,472
8½% demand note from TMG	26,000	26,000
9% demand note from Hammond		10,059
Prime plus 2½% mortgage note from Tamarac Utilities, Inc.	7,142	6,856
	$50,034	$54,387

Note:

(1) Increase represents additional advances from Marmon.

1976	
Advances to nonconsolidated real estate subsidiaries	$19,493
Due from consolidated subsidiaries	
Advances	$16,892
8½% demand note from TMG	26,000
Prime plus 2½% mortgage note from Tamarac Utilities, Inc.	7,142
	$50,034

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Schedule V
Parent Company

THE MARMON GROUP, INC.

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

Years ended December 31, 1977 and 1976

(In thousands of dollars)

Column A	Column B	Column C		Column D	Column E
		Additions at cost			
Classification	Balance at beginning of period	Acquisition	Other	Retirements	Balance at end of period
1977					
Land	$ 2,572		$	$ 40	$ 2,532
Buildings and improvements	3,597		217	208	3,606
Machinery and equipment	9,908		3,190	2,729	10,369
Construction in progress	647		868		1,515
	$16,724		$ 4,275	$ 2,977	$18,022
1976					
Land		$ 2,572	$	$	$ 2,572
Buildings and improvements		2,351	1,246		3,597
Machinery and equipment		4,428	5,480		9,908
Construction in progress		4,219	(3,346)	226	647
		$13,570(1)	$ 3,380	$ 226	$16,724

Note:

(1) Acquisition of Cerro (see Notes 1 and 2 of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference).

Schedule VI
Parent Company

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Years ended December 31, 1977 and 1976

(In thousands of dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Other changes—add	Balance at end of period
1977					
Buildings and improvements	$ 303	$ 225	$ 65		$ 463
Machinery	1,361	1,758	1,244		1,875
	$1,664	$1,983	$1,309		$2,338
1976					
Buildings and improvements		$ 219		$ 84	$ 303
Machinery and equipment		963		398	1,361
		$1,182		$ 482(1)	$1,664

Note:

(1) Represents Marmon's basis in accumulated depreciation of Cerro at February 24, 1976 on 45.33% of assets acquired by Cerro subsequent to August 1, 1974 (see Notes 1 and 2 of Notes to Consolidated Financial Statements, included in Marmon's 1977 Annual Report to Shareholders, incorporated herein by reference).

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Schedule XII
Parent Company

THE MARMON GROUP, INC.

SCHEDULE XII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years ended December 31, 1977 and 1976

(In thousands of dollars)

Column A Description	Column B Balance at beginning of period	Column C Additions charged to costs and expenses	Column D Deductions	Column E Balance at end of period
1977				
Current trade receivables	$ 742	$ 247	$ 67(1)	$ 922
Inventory valuation reserves	$ 994		$ 258(2)	$ 736
1976				
Current trade receivables		$ 742		$ 742
Inventory valuation reserves		$ 994		$ 994

Notes:

(1) Write-off of uncollectible accounts, net of recoveries.

(2) Disposals, net of provisions for obsolescence.

Schedule XVI
Parent Company

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years ended December 31, 1977 and 1976

(In thousands of dollars)

Column A Item	Column B Charged to costs and expenses
1977	
Maintenance and repairs	$8,256
Taxes, other than income taxes	5,733
Depreciation and amortization of property, plant and equipment	1,983
1976	
Maintenance and repairs	$6,523
Taxes, other than income taxes	4,681
Depreciation and amortization of property, plant and equipment	1,182

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MARGRP CDA dm - 1672

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
of ICX Industries, Inc.

In our opinion, the consolidated balance sheet and the related consolidated statements of earnings, of changes in stockholders' equity and of changes in financial position of ICX Industries, Inc. (not presented separately herewith) present fairly the financial position of ICX Industries, Inc. and its subsidiary at December 31, 1976, and the results of their operations and the changes in their financial position for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was 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.

Price Waterhouse & Co.

PRICE WATERHOUSE & CO.

2300 Colorado National Building
Denver, Colorado 80202
February 3, 1977, except as
to the fourth paragraph of
Note 8, which is as of
February 23, 1977

LS 001408

MARGRP CDA dm - 1673

Kenneth Leventhal & Company
Certified Public Accountants
1401 Brickell Avenue
Miami, Florida 33131
(305) 358-5733

To the Board of Directors and Stockholders
Leadership Housing, Inc.
(A wholly-owned subsidiary of The Marmon Group, Inc.)
Ft. Lauderdale, Florida

We have examined the consolidated balance sheet of Leadership Housing, Inc. and its subsidiaries as of December 31, 1977 and the related consolidated statements of operations and accumulated deficit, and changes in financial position for the year then ended and Schedules II, V, VI, XII and XVI. Our examination was 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.

As described in Note 13, the Company is involved in pending and threatened litigation related to existing and potential claims, the outcome of which is uncertain.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph had been known, the consolidated financial statements referred to above present fairly the consolidated financial position of Leadership Housing, Inc., and its subsidiaries at December 31, 1977, and the consolidated results of their operations and changes in their financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, with which we concur, in the method of accounting for interest and real estate taxes associated with inventories as more fully described in Note 2 to the consolidated financial statements. Further, it is our opinion that the additional schedules referred to above present fairly the information set forth therein.

Kenneth Leventhal & Company

March 3, 1978

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MARGRP CDA dm - 1674

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholder of

Leadership Housing, Inc.
(A wholly-owned subsidiary of The Marmon Group, Inc.)

We have examined the consolidated balance sheet before quasi-reorganization (not shown herein) of Leadership Housing, Inc. and its subsidiaries as of December 31, 1976, and the related consolidated statements of operations and accumulated deficit and of changes in financial position for the year then ended. We have also examined the consolidated balance sheet after quasi-reorganization of Leadership Housing, Inc. and its subsidiaries as of December 31, 1976. 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. We did not examine the financial statements for 1976 of Boca del Mar Associates and Boca del Mar Golf and Tennis Club, partnerships in which the Company has net investments in and advances to of $6,537,000 and $6,188,000, respectively before and after the quasi-reorganization as of December 31, 1976 and equity in losses of $1,414,000 for the year ended December 31, 1976. In addition, we did not examine the financial statements for 1976 of The Housing Group and The Communities Group, Inc. of Broward County, in which the Company has investments in and advances to amounting to $4,755,000 as of December 31, 1976. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the above mentioned partnerships and affiliated companies, is based solely upon the reports of the other auditors.

As discussed in Note 1, on March 15, 1977, the Company's parent, The Marmon Group, Inc. (formerly Cerro-Marmon Corporation), authorized the Company to effect a quasi-reorganization to establish a new accounting basis for its consolidated assets and liabilities based on their fair values as of December 31, 1976 and to eliminate the accumulated deficit by transferring it to additional paid-in capital. The consolidated balance sheet after quasi-reorganization of Leadership Housing, Inc. and its subsidiaries as of December 31, 1976 has been prepared accordingly.

LS 001410

MARGRP CDA dm - 1675

In our report dated March 23, 1977, in addition to the matters discussed in the subsequent paragraph, our opinion on the 1976 financial statements was qualified as being subject to the effects on the 1976 financial statements of such adjustments, if any, as might have been required had the outcome of the following matters been known (1) a note and another receivable were involved in litigation and their collectibility was uncertain and (2) the Company was contingently liable for approximately $18,200,000 of notes payable of one of its joint ventures. These notes payable were in default and actions for foreclosure had been filed by certain note holders. It could not be determined at that time whether a loss related to this contingency was probable and no provision had been recorded in the financial statements as of December 31, 1976 for any such loss that might have resulted therefrom. As discussed in Note 1, the litigation related to the receivables referred to in (1) above was settled subsequent to December 31, 1976 and there were no additional provisions for losses required in 1977. As discussed in Note 7, the Company and its partner during 1977 decided to terminate the joint venture referred to in (2) above and the Company is no longer contingently liable for notes payable of approximately $18,200,000. The Company has charged operations with the estimated loss relating to the termination of this joint venture in 1977 as required by generally accepted accounting principles. Accordingly, our present opinion on the 1976 financial statements, as presented herein, is no longer qualified with respect to these matters.

As described in Note 13, the Company is involved in pending and threatened litigation related to existing and potential claims, the outcome of which is uncertain. It is probable that losses related to certain claims have been incurred and provisions for such losses, where reasonably estimable, have been recorded as of December 31, 1976 before quasi-reorganization. In the quasi-reorganization additional provision has been made for the maximum losses on such claims, where reasonably estimable.

In our opinion, based upon our examinations and the reports of other auditors, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the consolidated financial statements examined by us present fairly (1) the financial position before quasi-reorganization of Leadership Housing, Inc. and its subsidiaries at December 31, 1976,

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MARGRP CDA dm - 1676

and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and (2) the financial position after quasi-reorganization of Leadership Housing, Inc. and its subsidiaries at December 31, 1976 in conformity with generally accepted accounting principles.

Price Waterhouse & Co.
PRICE WATERHOUSE & CO.

Fort Lauderdale, Florida

March 23, 1977
(except for the third
paragraph of our
report as to which
the date is
March 3, 1978)

LS 001412

MARGRP CDA dm - 1677

LEADERSHIP HOUSING, INC.

(A Wholly-Owned Subsidiary of The Marmon Group, Inc.)

CONSOLIDATED BALANCE SHEET
(In Thousands)

(See Note 1 regarding Quasi-Reorganization)

ASSETS

	December 31	
	1977	1976*
CASH, including restricted cash of $760 in 1976	$ 776	$ 2,582
NOTES AND OTHER RECEIVABLES - Notes 3, 9 and 13	4,715	17,573
NOTES RECEIVABLE SECURED BY ALL-INCLUSIVE DEEDS OF TRUST, LESS UNDERLYING TRUST DEED NOTES PAYABLE - Notes 3 and 9	1,025	8,937
INVENTORIES - Notes 4, 9 and 13	36,963	66,819
INVESTMENTS IN AND ADVANCES TO:		
Affiliated companies - Note 5	6,471	4,755
Joint ventures, net - Notes 7 and 13	4,220	7,013
GOLF COURSES AND RELATED FACILITIES, net - Note 8	4,333	4,745
OTHER ASSETS	133	179
Total Assets	$ 58,636	$112,603

LIABILITIES

NOTES PAYABLE - Note 9	$ 26,329	$ 64,697
ACCOUNTS PAYABLE	266	789
ACCRUED LIABILITIES	6,375	7,677
CUSTOMER DEPOSITS	1,342	4,107
RENT GUARANTEES	1,050	1,544
DEPOSITS ON PROPERTY SOLD SUBJECT TO REPURCHASE - Note 13		7,244
DUE TO CO-VENTURER - Note 7	6,658	
DUE TO PARENT COMPANY, net - Note 11	24,054	14,849
Total Liabilities	66,074	100,907
STOCKHOLDER'S EQUITY (DEFICIT) - Notes 1 and 12		
SERIES A PREFERRED STOCK	11,695	11,695
COMMON STOCK	1	1
DEFICIT SINCE JANUARY 1, 1977	(19,134)	
Total Stockholder's Equity (Deficit)	(7,438)	11,696
Total Liabilities and Stockholder's Equity	$ 58,636	$112,603

*As reclassified for comparative purposes.

See accompanying notes.

LS 001413

MARGRP CDA dm - 1678

LEADERSHIP HOUSING, INC.

(A Wholly-Owned Subsidiary of The Marmon Group, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT
(In Thousands)

(See Note 1 regarding Quasi-Reorganization)

	For the years ended December 31	
	1977	1976* (Note 1)
Sales:		
Single family - Note 6	$ 1,613	$ 14,078
Multi-family	9,879	5,848
Land - Note 6	8,023	4,694
Sales to affiliates - Notes 5 and 13	11,465	2,993
Other	1,032	2,266
	32,012	29,879
Cost of sales:		
Single family	1,568	13,570
Multi-family	9,580	5,864
Land	8,081	4,767
Sales to affiliates - Notes 5 and 13	11,465	2,993
Other	2,443	3,770
	33,137	30,964
Costs in excess of sales	(1,125)	(1,085)
Provision for writedowns of inventories		(6,034)
	(1,125)	(7,119)
Other (costs) income:		
Interest income	1,525	5,418
Net losses of joint ventures - Note 7	(11,622)	(1,483)
Sales and marketing	(159)	(1,140)
General and administrative - Note 13	(2,373)	(6,241)
Interest expense (net of $2,347 capitalized in 1976) - Note 2	(5,380)	(9,081)
	(18,009)	(12,527)
Net Loss	(19,134)	(19,646)
Accumulated deficit:		
At beginning of year		(33,062)
Adjustment in quasi-reorganization - Note 1		52,708
At end of year	$(19,134)	$ -

*As reclassified for comparative purposes.

See accompanying notes.

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MARGRP CDA dm - 1679

LEADERSHIP HOUSING, INC.

(A Wholly-Owned Subsidiary of The Marmon Group, Inc.)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(In Thousands)

(See Note 1 regarding Quasi-Reorganization)

	For the years ended December 31	
	1977	1976*
Financial resources were provided by:		
Proceeds from borrowings and parent company advances	$ 10,130	$ 4,968
Sales of notes receivable and notes receivable secured by all-inclusive deeds of trust, less underlying trust deed notes payable	21,083	
Transfer of assets to affiliated company	1,941	25,101
Decrease in inventories	29,856	15,776
Decrease in notes and other receivables		6,125
Decrease in other assets		1,308
Increase in accounts payable and accrued liabilities		1,824
Other resources provided	757	1,171
Decrease in cash	1,806	
Total provided	$ 65,573	$ 56,273
Financial resources were applied to:		
Net loss from operations	$ 19,134	$ 19,646
Add (deduct) items not requiring cash:		
Depreciation and amortization	(51)	(166)
Undistributed losses of joint ventures	(1,117)	(1,483)
Losses from sale or terminations of joint ventures	(10,503)	
Amortization of imputed interest	(1,486)	
Provision for writedowns		(6,034)
Gain on rent guarantee settlement		410
	5,977	12,373
Reductions of borrowings and parent company advances	15,181	17,461
Reductions of borrowings from exchange of assets	25,293	
Liabilities assumed by an affiliated company	860	18,123
Cancellation of debt by an affiliated company		1,478
Increase in preferred stock in an affiliated company		2,500
Increase in investments in and advances to affiliated companies	2,216	2,255
Increase in investments in and advances to joint ventures	2,328	
Increase in notes and other receivables	1,946	
Decrease in accounts payable and accrued liabilities	1,419	
Decrease in deposits on property sold subject to repurchase	7,244	
Decrease in customer deposits	2,765	1,420
Other resources used	344	32
Increase in cash		631
Total applied	$ 65,573	$ 56,273

*As reclassified for comparative purposes.

See accompanying notes.

LS 001415

MARGRP CDA dm - 1680

LEADERSHIP HOUSING, INC.

(A Wholly-Owned Subsidiary of The Marmon Group, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 1 - THE COMPANY

Leadership Housing, Inc. is a wholly-owned subsidiary of The Marmon Group, Inc. (Marmon), formerly Cerro-Marmon, which is the successor to Cerro Corporation as the result of a merger on February 24, 1976. Marmon is a majority owned subsidiary of GL Corporation (GL), which is owned by the Pritzker Family. Certain members of the Pritzker Family are owners of beneficial interests in trusts (Pritzker Trusts) which are in certain joint ventures with the Company.

During 1976, the Company changed its manner of operation and is no longer involved in the construction and sale of single family houses, condominiums and multi-family projects. In connection with the change, the Company transferred and sold a significant amount of assets and liabilities to affiliated companies as more fully described in Note 5. In addition, substantially all operating and administrative personnel employed by the Company became employees of affiliated companies on January 1, 1977. On February 22, 1977, the Company and its major bank creditors agreed to the restructuring of the Company's debt (Note 9) and the Company and the Pritzker Trust agreed to cancel each other's rights and obligations in connection with the repurchase and other related agreements referred to in Note 13.

In view of the significance of the changes in operation and financial position, the Company, with the formal approval of Marmon as the sole stockholder, effected a quasi-reorganization of the Company as of December 31, 1976. In the quasi-reorganization, the Company established a new accounting basis where appropriate and as more fully described herein for its consolidated assets and liabilities based on their fair values as of December 31, 1976, received an additional capital contribution of approximately $4,449,000 of amounts previously due Marmon, and eliminated the accumulated deficit by charging it against additional paid-in capital. The restructuring of debt and the cancellation of agreements subsequent to December 31, 1976 referred to in the preceding paragraph were considered in establishing the new accounting basis for the related assets and liabilities in the quasi-reorganization.

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MARGRP CDA dm - 1681

LEADERSHIP HOUSING, INC.

(A Wholly-Owned Subsidiary of The Marmon Group, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 1 - THE COMPANY (Continued)

The adjustments in quasi-reorganization are summarized in the following analysis of changes in additional paid-in capital for the year ended December 31, 1976 (in thousands):

At end of year prior to quasi-reorganization (no changes during the year)	$41,249
Adjustments in quasi-reorganization:	
Net writedowns of inventories and property, plant and equipment	(3,266)
Elimination of deferred income	2,804
Net effect of present value adjustment of notes receivable and notes payable excluding notes involved in subsequent restructuring of debt	562
Provision for notes receivable, claims and litigation	(2,732)
Other, net	(133)
Adjustment resulting from subsequent restructuring of debt (Note 9)	8,276
Increase in inventories resulting from subsequent cancellation of repurchase obligation (Note 13)	1,499
Capital contribution	4,449
Accumulated deficit as of December 31, 1976, charged to additional paid-in capital	(52,708)
At end of year after quasi-reorganization	$ -

The tax benefits of loss carry-forwards arising prior to the quasi-reorganization, if realized in subsequent years, will be added to additional paid-in capital (Note 10).

LS 001417

MARGRP CDA dm - 1682

NOTE 1 - THE COMPANY (Continued)

The following procedures were used by the Company in determining the fair value of assets and liabilities.

Notes receivable, excluding the notes sold subsequent to December 31, 1976, were discounted to yield effective interest rates of eight to ten percent (8-10%), which is considered appropriate for the Company's notes receivable. Notes receivable sold subsequently by the Company were adjusted to their sales value (Note 9).

Certain receivables aggregating approximately $1,609,000 were in litigation as of December 31, 1976 and the collectibility of the receivables was uncertain at that time. Based on the information available, it was probable that losses on these receivables had been incurred and, in accordance with Accounting Research Bulletin No. 43, the Company provided for the estimated maximum loss of $1,494,000 in the quasi-reorganization. The litigation related to these receivables was settled subsequent to December 31, 1976 and there were no additional provisions for losses required in 1977.

Inventories and golf courses and related facilities were increased or decreased to their estimated fair values based upon independent appraisals, contracts and management estimates as of December 31, 1976. In addition, land previously sold with an obligation to repurchase, which was not recorded as a sale and therefore included in inventory, was valued at its sales price (which is equivalent to cash previously received and shown as deposits on property sold subject to repurchase) since the obligation to repurchase was subsequently cancelled in 1977 (Note 13). Of the combined inventories and golf courses and related facilities before the quasi-reorganization, 59% was valued based on appraisals and 25% was based upon contracts and cancellation of the buy-back agreement, with the balance determined by management estimates.

The investments in and advances to affiliated companies and the amount due to parent company were not adjusted due to the nature of the relationship which exists between such related parties.

The fair value of the investment in two joint ventures was determined to reasonably approximate the book value as of December 31, 1976 based on independent appraisals. Another joint venture, which was appraised by an independent appraiser, was not adjusted in that the Company had no investment and was not required to make any capital contributions. North Broward Associates, a joint venture in which the Company had no investment, was in default on its notes payable and, because of possible alternative courses of action which the Company was considering, a determination of fair value was not considered practicable at that time. In 1977, the

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NOTE 1 - THE COMPANY (Continued)

Company and its partner agreed to terminate the joint venture and return the property to the respective lenders. As a result of termination the Company charged a loss of $6,500,000 to operations in 1977 (Note 7).

Notes payable (other than notes payable with interest rates that are based upon the prime rate and considered to be stated at fair value) were discounted to provide for effective annual interest rates of eight to ten percent (8-10%), which was considered to be appropriate for the Company's notes payable.

Accrued liabilities were reduced by the subsequent forgiveness of accrued interest on the bank term loan agreement (Note 9).

As described in Note 13, the Company is involved in pending and threatened litigation related to existing and potential claims, the outcome of which is uncertain at this time. Based on the information available it is probable that losses have been incurred and the provision for losses from such claims, recorded before the quasi-reorganization, has been increased to the estimated maximum loss of $2,150,000 in the quasi-reorganization.

Deferred income which consisted principally of deferred profit and prepaid interest income was eliminated in the process of valuing the related assets.

The statement of operations for the year ended December 31, 1976 is not comparable to the statement of operations for the year ended December 31, 1977 because of the quasi-reorganization as of December 31, 1976. The major differences in 1977 result from the change in accounting for interest and other carrying costs associated with inventories, the rates used to determine interest income and interest expense, certain litigation expenses, and cost of sales in 1977 which reflected the new accounting basis established in the quasi-reorganization.

NOTE 2 - ACCOUNTING PRINCIPLES AND POLICIES

The major accounting principles and policies used by the Company are described below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All material intercompany balances and transactions have been eliminated.

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NOTE 2 - ACCOUNTING PRINCIPLES AND POLICIES (Continued)

Recognition of Revenue

Sales of single family houses and condominiums are recorded when escrow closes, title has passed to the buyer and cash has been received for substantially the full sales price. At that time, land costs, allocated site development and construction costs are relieved from inventory and charged to cost of sales along with a provision for sales commissions and estimated warranty costs. Customer down payments and payments of specified amounts at certain stages of construction prior to closing are recorded as customer deposits.

Sales of developed and undeveloped land are recorded at the time escrow closes and the Company has received the required cash down payment and all other conditions necessary for profit recognition have been satisfied.

Multi-family projects were sold to investors subject to physical construction and minimum cash flow guarantees. Sales and profits are recorded when the required cash down payment has been received and all other conditions necessary for profit recognition have been satisfied. Where minimum cash flow guarantees exist, a sale is not recorded until the project achieves a cash flow sufficient to provide for all operating expenses and guarantee requirements or the guarantee period terminates. For projects recorded as sold, the Company provides for estimated losses related to the guarantee period.

Sales of land which the Company is obligated to repurchase are considered financing arrangements and are not recorded as sales, and cash received from the buyer is recorded as deposits on property sold subject to repurchase. Costs of land and improvements applicable to such sales are retained in inventories and the related notes receivable are not recorded. Interest received on the unrecorded notes is recorded as additional deposits on property sold subject to repurchase.

Other Sales and Cost of Sales

Other sales and cost of sales include operations, such as country clubs, which do not fall within the principal product lines and certain production-related costs expensed currently which cannot be practicably allocated to specific product lines.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 2 - ACCOUNTING PRINCIPLES AND POLICIES (Continued)

Inventories

Inventories are carried at the basis established at December 31, 1976 (Note 1) or market (net realizable value), whichever is lower. The estimated net realizable value of inventories is the anticipated future sales value of the property based on disposition in the normal course of business, reduced by carrying costs such as real estate taxes, debt service requirements for each property, if any, and the estimated effect of any other circumstances which may affect net realizable value including management plans for the property. Due to the large acreage of certain land holdings, disposition in the normal course of business may extend over a number of years.

Land development costs have been allocated on an average cost basis and construction is at specific cost. Single and multi-family inventory cost of sales consist of land, land improvements, construction costs and other capitalizable costs. Land and improvements applicable to single family construction and multi-family projects were transferred to such inventory captions when construction commenced.

The cost of properties included in inventories as a result of foreclosure by the Company includes the unpaid balance of the note receivable and accrued interest plus the balance of any related notes payable to be assumed by the Company at completion of the foreclosure action. Such properties are included in inventories when the note receivable secured only by real estate is in default, the Company has determined that payments will not be received, and legal action to recover the property has been instituted.

Golf Courses and Related Facilities (Notes 1 and 8)

Cost of additions and major improvements are capitalized and expenditures for maintenance and repairs are expensed. When property or equipment is retired or sold, any profit or loss on the transaction is recognized.

Depreciation is provided on the straight-line method based on estimated useful lives as indicated below:

	Years
Buildings and structures	25
Machinery and equipment	4
Furniture and fixtures	6

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 2 - ACCOUNTING PRINCIPLES AND POLICIES (Continued)

Change in Accounting Principles

Due to the significant reduction in the housing operations of the Company as more fully described in Note 1, effective January 1, 1977, the Company elected to expense interest and real estate taxes associated with inventories, principally land.

The Company believes that the expensing of such interest and taxes will result in a more appropriate measurement of income and expense in 1977 and future years. Had the Company followed this policy for the year ended December 31, 1976, there would have been no material impact on the results of operations for that year.

The cumulative effect of this change as normally required by the Accounting Principles Board Opinion No. 20 is not appropriate in view of the quasi-reorganization as of December 31, 1976 in which the components of inventory were not carried forward in the new basis.

NOTE 3 - RECEIVABLES

Notes and other receivables at December 31, 1977 and 1976 consist of the following (in thousands):

	1977	1976
Notes (effective rates of 8% to 10%)		
First trust deeds	$ 1,547	$13,125
Second trust deeds	1,679	2,128
Other	184	443
	3,410	15,696
Other receivables (including $84,000 and $358,000 due from Pritzker Trusts*) less allowance for uncollectibility of $425,000 and $346,000, respectively	1,305	1,877
	$ 4,715	$17,573

*The beneficiaries of the Pritzker Trusts are members of the Pritzker Family, including Mr. J. A. Pritzker (Chairman of the Board of Directors of Marmon) and Mr. R. A. Pritzker (President of Marmon). The Pritzker Family is also the beneficial owner of 100% of the outstanding common shares of Marmon.

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NOTE 3 - RECEIVABLES (Continued)

The notes receivable above are net of imputed interest. The face value of total notes receivable at December 31, 1977 and 1976 was (in thousands) $3,436 and $16,317, respectively. The stated interest rates ranged from 7% to 10% or prime plus 2%.

Notes receivable secured by all-inclusive deeds of trust less underlying trust deed notes payable are summarized as follows (in thousands):

	1977	1976
Receivables	$ 4,634	$ 44,164
Payables - Note 9	(3,609)	(35,227)
Net	$ 1,025	$ 8,937

As described in Note 9, during 1977 the Company sold certain notes receivable.

First trust deed notes receivable arise from the sales of land and recreational facilities and mature from the date of sale within 10 years for land and 30 years for recreational facilities. Such receivables are secured by the related land and recreational facilities.

Second trust deeds arise primarily from the sales of single family residences and sales of land. Receivables due from single family home sales, which are subordinated to first trust deeds held by financial institutions are due in monthly installments of principal and interest for periods averaging nine years.

Notes receivable secured by all-inclusive deeds of trust less underlying trust deed notes payable are due in annual installments of up to 30 years.

Notes and other receivables (including notes receivable secured by all-inclusive deeds of trust less underlying trust deed notes payable) mature by their terms in varying installments. The net amount due within one year at December 31, 1977 is $2,196,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 3 - RECEIVABLES (Continued)

At December 31, 1977 and 1976, there are unrecorded notes receivable aggregating $3,251,000 and $10,908,000 ($2,980,000 and $2,980,000 from Pritzker Trusts), respectively, which resulted from sales of land and sales of multi-family projects which have not satisfied all conditions for sales and income recognition. There are no recorded inventory costs at December 31, 1977 relating to the receivables from the Pritzker Trusts (Note 13).

NOTE 4 - INVENTORIES

Inventories at December 31, 1977 and 1976 consist of the following (in thousands):

	1977	1976
Land and improvement costs	$36,963	$47,736
Completed single family homes		1,819
Multi-family projects		10,020
Land sold subject to repurchase from Pritzker Trusts - Note 13		7,244
	$36,963	$66,819

As of December 31, 1977, substantially all of the inventory of real estate was pledged as security for notes payable.

It is the present plan and intention of Marmon to continue its financial support of the Company to the extent necessary to achieve the orderly disposition of the Company's remaining inventories in the normal course of business.

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LEADERSHIP HOUSING, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 5 - INVESTMENT IN AND ADVANCES TO AFFILIATED COMPANIES

The investment in and advances to affiliated companies at December 31, 1977 and 1976 consist of the following (in thousands):

	1977	1976
Investment in preferred stock of The Housing Group	$ 2,000	$ 2,500
Note receivable at 8%, and accounts receivable from The Housing Group	431	
Accounts receivable from The Communities Group	1,386	505
Accounts payable (bearing interest at 10%) to The Communities Group, secured by 10% note receivable	(799)	
Notes receivable from The Communities Group at 8%, secured by real estate	3,453	1,750
	$ 6,471	$ 4,755

The Housing Group

In connection with the decision to significantly change the operations of the Company (Note 1), effective April 1, 1976 the Company transferred certain assets and liabilities to The Housing Group, a newly formed wholly-owned subsidiary of Marmon. The assets transferred were principally the Company's single family inventories of land, construction in progress and finished homes located in California and the related debt. The assets of $25,101,000 and liabilities of $18,123,000 were transferred at their book value to The Housing Group. In consideration for the transfer of the assets the Company received $2,500,000 of preferred stock Series A, $1.00 par value, a note receivable of $3,000,000 (subsequently collected) and the cancellation of certain intercompany debt of $1,478,000. The sales and cost of sales related to the Company's single family operations in California for the three months ended March 31, 1976 (the period prior to the transfer) included in the statements of operations are as follows: sales - $3,316,000 and cost of sales - $3,024,000.

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NOTE 5 - INVESTMENT IN AND ADVANCES TO AFFILIATED COMPANIES (Continued)

The Series A preferred stock provides for 1% dividends, non-cumulative and preference in liquidation to the extent of the par value plus declared and unpaid dividends. Commencing with the year ending December 31, 1977 a sinking fund must be established to be used to redeem shares annually. The Housing Group is required to contribute to the sinking fund an amount approximately equal to fifty percent (50%) of its net income. In the event that the required dividends or sinking fund payments are not made, the Company becomes entitled to elect a majority of the Board of Directors of The Housing Group. During 1977, The Housing Group redeemed $500,000 of the preferred stock and paid $14,000 in dividends.

During 1977, The Housing Group paid $874,000 for certain notes receivable held by the Company net of guarantees and other obligations associated with the receivables. The Company's net carrying value was $1,081,000 and a loss of approximately $207,000 on the sale is included in the statement of operations. The purchase price was paid $437,000 in cash and a one-year 8% note for $437,000.

The Communities Group

During 1976, GL Corporation formed The Communities Group, Inc. of Broward County (The Communities Group) for the purpose of purchasing land from the Company for the construction of housing projects. As of December 31, 1977 and 1976, the Company has sold to The Communities Group approximately $4.221,000 and $2,243,000, respectively, of land subject to existing indebtedness of approximately $928,000 and $333,000 for which the Company received approximately $3,293,000 and $1,750,000 of notes secured by the real estate, subject to future subordination, and unsecured receivables of approximately $160,000 in 1976. These properties were sold to The Communities Group at the Company's book value and are included in sales and cost of sales.

NOTE 6 - SALES TO FORMER OFFICERS

During 1977, the Company sold land and houses under construction totaling $2,529,000 to HLR, Inc. The properties were sold at the Company's book value and are included in sales and cost of sales. At the time of this transaction the two stockholders of HLR were then the Chairman of the Board and President of the Company. The stockholders of HLR resigned their positions with the Company concurrent with the sale. The property was sold at the Company's carrying value and no profit or loss was recorded. HLR

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NOTE 6 - SALES TO FORMER OFFICERS (Continued)

assumed the existing nonrecourse debt of $1,833,000 and issued a note secured by the related real estate for the balance of the purchase price. The note is due April 30, 1980, bears interest at 10% and provides for releases at a 25% premium. The Company has agreed to subordinate up to $300,000 of the note at any one time to new financing secured by HLR. At December 31, 1977, approximately $268,000 of the subordination had been utilized and payments totaling approximately $600,000 had been received by the Company. The Company does not participate in the management of HLR. The Company is entitled to receive additional amounts, if any, from the ultimate disposition of these properties by HLR.

The Company also sold certain other properties to other former officers of the Company and a subsidiary for $1,833,000 resulting in a net gain of $33,000.

NOTE 7 - INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND EQUITY IN NET LOSSES OF JOINT VENTURES

The net losses of joint ventures for the years ended December 31, 1977 and 1976 were as follows (in thousands):

	Years Ended December 31	
	1977	1976
Loss from operations	$ 1,118	$ 1,483
Losses from sale or termination:		
Boca Del Mar Associates and Boca Del Mar Golf and Tennis Club (Boca)	4,004	
North Broward Associates	6,500	
	$ 11,622	$ 1,483

The investment in and advances to joint ventures at December 31, 1977 and 1976 consist of the following (in thousands):

	1977	1976*
Investment - Continuing	$ 1,456	$ 973
- Terminated	3,612	4,515
Notes receivable	4,142	4,247
Provision to reduce investment and notes to amount realized upon sale	(4,004)	
Note payable, due through 1979	(986)	(2,722)
	$ 4,220	$ 7,013

*As reclassified for comparative purposes.

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NOTE 7 - INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND EQUITY IN NET LOSSES OF JOINT VENTURES (Continued)

The two Boca joint ventures were formed to develop and sell property in Boca Raton, Florida and to operate the related golf and tennis facilities. Prior to January 1, 1976, the Company's participation was 50% of profits (not losses) for approximately 40% of the unsold property. The Company's participation in the golf and tennis joint venture was 50% of profits and losses. Effective January 1, 1976, the joint venture agreement was amended whereby the Company will be allocated all losses until such time as the Company and its partner have an equal interest in cumulative profits.

In December 1977, the Company and its Boca partner agreed to a plan whereby the Company's joint venture interest would be purchased and the Company's note receivable would be paid by the joint venture. In February 1978, the Company received $3,750,000 for its note receivable and its interest in profits and losses as of December 31, 1977. Accordingly, a provision for the loss on this transaction of $4,004,000 has been included in the consolidated statement of operations for the year ended December 31, 1977.

The note payable to the Boca joint venture in the amount of $986,000 as of December 31, 1977, which is related to the purchase of land by the Company in prior years, is due in annual installments of principal and interest through 1979 and is secured only by the property purchased.

North Broward Associates is a joint venture between the Company and a Pritzker Trust formed to develop and sell approximately 4,800 acres of land in Broward County, Florida. At December 31, 1976, although the Company had no investment in this joint venture other its 50% of profits and losses in accordance with the joint venture agreement, it was contingently liable to lenders for approximately $18,200,000 of notes payable by the joint venture which were in default and actions for foreclosures and deficiency judgements had been filed by the note holders. As a result of the foreclosure actions, negotiations with the note holders and joint valuation by the partners, a decision was made by the Company

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NOTE 7 - INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND EQUITY IN NET LOSSES OF JOINT VENTURES (Continued)

and its partner during 1977 to terminate the joint venture and return the properties to the note holders. At December 31, 1977, all of the property securing the $18,200,000 of notes payable by the joint venture and for which the Company was contingently liable has been returned to the note holders. Additional consideration given to the note holders was furnished by the Company's partner. Other notes payable in addition to the $18,200,000 and secured only by the remaining land of the joint venture will be cancelled and the land returned to the note holders in 1978. Accordingly, a provision of $6,500,000 for 50% of the estimated loss relating to this joint venture has been included in losses of joint ventures in the consolidated statement of operations for the year ended December 31, 1977 and the liability is included in due to co-venturer on the balance sheet.

Section Seven Associates is a joint venture between the Company and a Pritzker Trust formed to develop and sell approximately 250 acres of land in Broward County, Florida. At December 31, 1977 and 1976, the Company had no investment in this joint venture. The Company is contingently liable to lenders for approximately $490,000 of notes payable by the joint venture. There have been no sales as of December 31, 1977, no notes payable are in default and there are no plans to terminate the joint venture.

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LEADERSHIP HOUSING, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 7 - INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND EQUITY IN NET LOSSES OF JOINT VENTURES (Continued)

A condensed balance sheet at December 31, 1977 and 1976 for the continuing joint ventures (Section Seven Associates and a shopping center venture) follows (in thousands):

	1977	1976*
Assets		
Cash	$ 19	$
Land inventories and shopping center	7,065	6,530
	$ 7,084	$ 6,530
Liabilities		
Notes and mortgages payable	$ 3,395	$ 3,861
Accrued liabilities and accounts payable	482	227
	3,877	4,088
Equity		
Leadership Housing, Inc.	1,456	973
Joint venture partners	1,751	1,469
	3,207	2,442
	$ 7,084	$ 6,530

*As reclassified for comparative purposes.

The accounting policies and principles followed by the continuing joint ventures insofar as they relate to revenue and profit recognition are the same as those being followed by the Company except that one venture, in which the Company has no investment, continues to capitalize carrying costs to land inventories.

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LEADERSHIP HOUSING, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 8 - GOLF COURSES AND RELATED FACILITIES

At December 31, 1977 and 1976, the major classifications of golf courses and related facilities are as follows (in thousands):

	1977	1976
Land under long-term lease to outside operators	$ 457	$ 997
Operating courses	3,928	3,903
Less accumulated depreciation	(52)	(155)
	$ 4,333	$ 4,745

NOTE 9 - NOTES PAYABLE

At December 31, 1977 and 1976, notes payable consist of the following (in thousands):

	1977	1976
Obligations to banks (a)	$ 7,461	$39,000
Other:		
Notes payable secured by real estate, payable in installments through 2011 (effective rates of 10% to prime plus 4%)	17,733	24,026
Unsecured notes payable in installments through 1982 (10% effective rate)	1,135	1,671
	$26,329	$64,697

The above notes payable are net of imputed interest. The face value of total notes payable as of December 31, 1977 and 1976 was $29,371 and $68,737, respectively. The stated interest rates ranged from 6% to prime plus 4%.

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NOTE 9 - NOTES PAYABLE (Continued)

(a) As of December 31, 1976, the Company had a loan agreement with a bank acting for itself and as representative for others. The maximum amount allowed by the agreement was $54,500,000; a $44,500,000 note due to the bank and a $10,000,000 note due to Marmon; both notes were due April 1, 1977. The stated interest rate was 1-1/4% above the bank's alternate base rate (a rate which approximates the prime rate), two percent (2%) of such interest on the bank's note was payable monthly in cash and the difference between 2% and 1-1/4% over the bank's alternate base rate was due at maturity. The loan agreement was principally secured by the assignment of notes, mortgage deeds of trust, the Company's interest in its joint ventures, the Company's rights to cash distributions pursuant to certain agreements, and first mortgages on most of the Company's unencumbered real estate. The loan agreement also required the maintenance of minimum tangible net worth and limitations on the purchase and sale of certain assets, which, if not met, could be deemed events of default by the bank.

On February 22, 1977, the Company and the bank agreed to an exchange of assets for the cancellation of the loan agreement as of December 31, 1976. The terms of the exchange were as follows: The Company (1) paid the bank approximately $22,105,000 in cash, (2) transferred a note receivable from Marmon secured by a utility system with a principal balance of approximately $3,188,000 to the bank, (3) issued to the bank mortgages secured by real estate totaling approximately $4,474,000 and (4) issued to the bank an unsecured note payable guaranteed by Marmon for $12,000,000 in exchange for the forgiveness of the outstanding principal, approximately $42,444,000, and the outstanding interest payable of approximately $5,078,000. In connection with the exchange, the Company sold for cash approximately $13,796,000 of notes receivable, $6,242,000 of equity in certain net trust deeds receivable to a third party and approximately $1,063,000 of second trust deeds to The Housing Group. In addition, Marmon advanced the Company approximately $1,004,000 to pay the bank.

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NOTE 9 - NOTES PAYABLE (Continued)

The gain on the extinguishment of debt included in the quasi-reorganization (Note 1) is as follows (in thousands):

Interest forgiven	$ 5,078
Principal forgiven	678
Imputed interest on new notes payable	2,766
Loss on notes receivable sold	(43)
Expenses	(203)
	$ 8,276

The $12,000,000 note payable to the bank is due in four annual installments of $3,000,000, beginning in 1977, and is non-interest bearing. This note was discounted at ten percent (10%) for a total discount of $2,490,000 which will be recognized as interest expense over the life of the note.

The Company has additional notes payable secured by multi-family projects (Note 3) which amounts have been deducted from notes receivable secured by all-inclusive deeds of trust on those projects. The principal remedy in the event of default, under such notes, is recourse solely against the property secured thereby through a trustee's sale under provisions of the deed of trust. In relatively rare instances, the statutory provisions allowing a deficiency judgement to be obtained through judicial processes are utilized in lieu of the rights under the sale provision of the deeds of trust. Such judicial processes are rarely used by lenders inasmuch as they may take several years and are subject to a right of redemption by the property owner following a judgement.

Notes payable aggregating $8,245,000 were in default at December 31, 1977. Subsequently, defaults of $2,000,000 were cured. Management is continuing to negotiate with the lenders to resolve the delinquencies.

Notes payable mature in varying installments; however, acceleration of payments may be required to release mortgaged property sold. Notes payable maturing by their terms are due as follows (in thousands) with $8,245 shown as accelerated in 1978 as a result of default: 1978 - $13,759; 1979 - $7,776; 1980 - $3,595; 1981 - $3,267; 1982 - $759; thereafter - $215.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 10 - INCOME TAXES

The Company's taxable income (loss) is included in the consolidated federal income tax return of Marmon. The Company has a tax sharing agreement with Marmon, which has the following significant provisions: (1) The Company's credit or provision for income taxes for financial statement and tax purposes is computed as if the Company were filing separate consolidated tax returns and made such elections that would result in the lowest possible tax liability to the Company, (2) any payments or refunds based upon the above computations, under certain circumstances, are subject to a 15% reduction, and (3) any refunds resulting from losses generated by the Company are not refundable to the Company until the losses are utilized by Marmon for tax purposes. Marmon elections for tax purposes differ in certain instances from those used by the Company. At December 31, 1977, the Company has taxable income of $840,000 for purposes of separate company computations under the tax sharing agreement.

Investment tax credits are accounted for on the "flow-through" method and are not material.

There are timing differences in the reporting of certain items of income and expense for tax purposes and for financial reporting purposes. Such timing differences principally consist of: (1) reductions in the carrying value of inventories of real estate to their fair value as a result of the quasi-organization described in Note 1 (which are deductible for tax purposes upon disposition of the respective properties); (2) the recognition for tax purposes of installment sales related to receivables either sold or collected in 1977, which were deferred in prior periods; (3) carrying charges related to real estate sold in 1977 which had been deducted for tax purposes in prior periods.

As a result of the quasi-reorganization described in Note 1, the tax benefits of loss carry-forwards arising prior to the quasi-reorganization will be added to additional paid-in capital, if realized in subsequent years. These operating losses expire as follows (in thousands):

Expires December 31	Tax Losses
1978	$ 9,260
1979	15,500
1982	2,100
1983	7,100

The above loss carry-forwards are not available other than by virtue of the tax sharing agreement with Marmon.

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NOTE 10 - INCOME TAXES (Continued)

The Internal Revenue Service is examining the consolidated income tax returns of the Company for the years 1970 and 1971, and for the years 1972 through 1974 in connection with an examination of Marmon. A number of issues have been raised or tentatively proposed in both examinations, which if ultimately resolved against the Company, could significantly reduce the amount of separate company basis net operating losses. The examination for the three years ended December 31, 1974 has not been completed and it is not known whether adjustments to prior determinations under the tax sharing agreement might be necessary.

NOTE 11 - DUE TO PARENT COMPANY

The amounts due to (from) Marmon at December 31, 1977 and 1976 are as follows (in thousands):

	1977	1976
Unsecured advances at prime interest rate plus 1-1/4% to 4%	$ 8,872	$ 5,872
Notes payable at prime interest rate plus 1-1/4% secured under the terms of the bank revolving and term loan agreement (Note 9)	5,000	5,000
Note payable to Marmon for participation in bank revolving and term loan agreement (Note 9)	9,898	9,898
Open account, net	3,705	688
Receivable for federal income taxes (Note 10)	(3,421)	(3,421)
Notes receivable secured by utility system (Note 9)		(3,188)
	$ 24,054	$ 14,849

Interest charged by Marmon for the years ended December 31, 1977 and 1976 amounted to $1,840,000 and $2,066,000, respectively, of which $1,840,000 and $1,662,000, respectively, was expensed in the consolidated statement of operations.

LS 001435

MARGRP CDA dm - 1700

LEADERSHIP HOUSING, INC.

(A Wholly-Owned Subsidiary of The Marmon Group, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

NOTE 12 - STOCKHOLDERS' EQUITY

The authorized stock of the Company consists of (1) 150,000 shares Series A preferred stock, $100 par value, $6.25 cumulative dividend per share of which 116,950 shares have been issued to Marmon, and (2) 1,000 shares of common stock, no par value, which have been issued to Marmon.

As of December 31, 1977, no dividends have been declared or paid and approximately $2,739,000 of cumulative preferred dividends are in arrears.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Company is liable for obligations in the normal course of business for the improvements of property sold and guarantees to purchasers of apartment projects.

The Company is involved in pending and threatened litigation related primarily to prior construction activities, class actions related to sales, recreation leases and other deed restrictions, and Florida corporation income taxes. The gross amount of judgements sought by claimants is substantial in relation to the Company's consolidated financial position at December 31, 1977; however, while the Company believes, based on consultation with various legal counsel, that meritorious defenses exist with respect to such claims, the ultimate exposure cannot be determined. Based on the information available, the Company provided $115,000 and $2,150,000 for probable losses for the years ended December 31, 1977 and 1976, respectively (Note 1).

During 1976, the Company subleased certain office space to The Housing Group in a building in which the Company has a long-term lease. As a result, substantially all of the office space is leased to The Housing Group and independent third parties at rates which are lower than the Company's lease rate. Accordingly, the Company provided for the estimated losses to be sustained over the term of the lease discounted at 10% which resulted in a charge to operations (general and administrative expenses) of approximately $900,000 for the year ended December 31, 1976.

LS 001436

MARGRP CDA dm - 1701

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

As described in Note 3, the Company sold land to the Pritzker Trusts, which the Company was required to repurchase and had an option to repurchase additional land at a repurchase price consisting of the Company's selling price to the Trusts, the Trusts' development and carrying costs and a specified premium. In addition, the Company was entitled to 50% of the profits, as defined, on resale of other land not subject to the repurchase obligation or option.

On February 22, 1977, the Company and the Trusts agreed to cancel each others' rights and obligations in connection with the repurchase and other related agreements described in the preceding paragraph. Under the terms of the cancellation agreement, the purchase money second mortgage was modified with respect to payment terms such that the ultimate collectibility cannot be determined and therefore the mortgage note receivable has not been recorded on the books of the Company. The gain associated with the cancellation agreement was given effect to in the quasi-reorganization at December 31, 1976 and the sale and cost of sale of $7,244,000 was reflected in the statement of operations for the year ended December 31, 1977.

LS 001437

MARGRP CDA dm - 1702

LEADERSHIP HOUSING, INC.

SCHEDULE II - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS AND EMPLOYEES

FOR THE YEARS ENDED DECEMBER 31, 1977 and 1976

($ In Thousands)

Col. A	Col. B	Col. C	Col. D		Col. E	
			Deductions		Balance at end of period	
Name of debtor	Balance at beginning of period	Additions	Collected	Other	Current	Non-current
1977						
Accounts receivable, other directors, officers and employee's						
1976						
Accounts receivable, other directors, officers and employee's						
R. E. Fritts	$22			$(22) (1)		

(1) Bears interest at 6%, due June 7, 1977, Mr. Fritts is no longer an officer of Leadership Housing, Inc.

LS 001438

MARGRP CDA dm - 1703

LEADERSHIP HOUSING, INC.

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

FOR THE YEARS ENDED DECEMBER 31, 1977 and 1976

($ In Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E	Col. F		
						Before Quasi-reorganization		After Quasi-reorganization
Classification	Balance at beginning of period	Additions at cost: Acquisitions	Additions at cost: Other	Retirements	Other changes	Balance at end of period	Adjustments resulting from quasi-reorganization	Adjusted balance at end of period
1977								
Land and land improvements	$ 997			$ (488)	$ (52)	$ 457		
Buildings and structures	48			(38)	(10)			
Machinery and equipment	22				(22)			
Golf courses and related facilities	3,833		$ 225	(32)	(96)	3,930		
	$ 4,900		$ 225	$ (558)	$ (180)	$ 4,387		
1976								
Land and land improvements	$ 1,078			$ (89)	$ 52	$ 1,041	$ (44)	$ 997
Buildings and structures	193			(136)	(1)	56	(8)	48
Machinery and equipment	955		$ 23	(218)	(77)	683	(661)	22
Golf courses and related facilities	2,493		29		2,401	4,923	(1,090)	3,833
	$ 4,719		$ 52	$ (443)	$2,375	$ 6,703	$ (1,803)	$ 4,900

LS 001439

MARGRP CDA dm - 1704

LEADERSHIP HOUSING, INC.

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEARS ENDED DECEMBER 31, 1977 and 1976

($ In Thousands)

Col. A	Col. B	Col. C Additions		Col. D	Col. E	Col. F Before Quasi-reorganization		Col. F After Quasi-reorganization
Classification	Balance at beginning of period	Acquisitions	Charged to costs and expenses	Sales & retirements	Other changes	Balance at end of period	Adjustments resulting from quasi-reorganization	Adjusted balance at end of period
1977								
Land and land improvements								
Buildings and structures	$ 15				$ (15)			
Machinery and equipment	11				(11)			
Golf courses and related facilities	129		$ 51	$ (19)	(109)	$ 52		
	$ 155		$ 51	$ (19)	$ (135)	$ 52		
1976								
Land and land improvements	$ 14		$ 1		$ 1	$ 16	$ (16)	
Buildings and structures	55		3	$ (20)	(23)	15		$ 15
Machinery and equipment	517		114	(76)	(18)	537	(526)	11
Golf courses and related facilities	40		48		1	89	40	129
	$ 626		$166	$ (96)	$ (39)	$657	$ (502)	$ 155

LS 001440

MARGRP CDA dm - 1705

LEADERSHIP HOUSING, INC.

SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEARS ENDED DECEMBER 31, 1977 and 1976

($ In Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E
	Balance at beginning of period	Additions	Charged to costs and expenses	Deductions	Balance at end of period
1977					
Current trade receivables	$346		$221	$(142) (1)	$425
1976					
Current trade receivables	$406		$ 96	$(156) (1)	$346

(1) Uncollectible accounts written off net of recoveries.

LS 001441

MARGRP CDA dm - 1706

LEADERSHIP HOUSING, INC.

SCHEDULE XVI - SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 1977 and 1976

($ In Thousands)

	Year ended December 31	
	1977	1976
Col. A		
Property taxes	$551	$420
Other taxes excluding income taxes	97	139
Advertising	45	310
Maintenance and repairs	123	306
Rents, net of sublease revenues of $95 and $271, respectively (1)	101	258
Depreciation of property, plant and equipment	51	166

(1) These amounts reflect only rent charged to the statement of operations. In 1976, as part of the quasi-reorganization, the Company provided for estimated losses to be sustained over the term of certain leases (Note 13). Rental expenditures (in thousands) of $227, less sublease revenues of $187 are not included in the above table, but were charged against the estimated provision for losses in 1977.

LS 001442

MARGRP CDA dm - 1707

Kenneth Leventhal & Company
Certified Public Accountants
660 Newport Center Drive
Newport Beach, California 92660
(714) 640-5000

Los Angeles San Francisco Newport Beach, California
New York Great Neck, New York San Juan, Puerto Rico
Washington, D.C. Columbus, Ohio Miami Dallas

Board of Directors
The Housing Group

We have examined the consolidated balance sheets of The Housing Group as of December 31, 1977 and 1976, and the related consolidated statements of income, stockholders' equity and changes in financial position for the year ended December 31, 1977 and the nine months ended December 31, 1976. 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 The Housing Group as of December 31, 1977 and 1976 and the consolidated results of its operations and the changes in its consolidated financial position for the year ended December 31, 1977 and the nine months ended December 31, 1976, in conformity with generally accepted accounting principles applied on a consistent basis.

Kenneth Leventhal & Company

February 10, 1978

LS 001443

MARGRP CDA dm - 1708

Kenneth Leventhal & Company
Certified Public Accountants
1401 Brickell Avenue
Miami, Florida 33131
(305) 358-5733

Board of Directors
The Communities Group, Inc. of Broward County
Ft. Lauderdale, Florida

We have examined the consolidating balance sheet of The Communities Group, Inc. of Broward County as of December 31, 1976 and the related consolidating statements of income and changes in financial position for the three months then ended. Our examination was 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 The Communities Group, Inc. of Broward County as of December 31, 1976 and the consolidated results of its operations and changes in its financial position for the three months then ended in conformity with generally accepted accounting principles. It is also our opinion that the financial statements present fairly the separate financial position of each component company as of December 31, 1976, and the separate results of operations and changes in financial position for the respective periods since inception in conformity with generally accepted accounting principles.

Kenneth Leventhal & Company

March 2, 1977

LS 001444

ARTHUR ANDERSEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

MIAMI, FLORIDA

To the Partners of
Boca Del Mar Associates and
Boca Del Mar Golf and Tennis Club:

We have examined the combined balance sheet of Boca Del Mar Associates (a partnership) and Boca Del Mar Golf and Tennis Club (a partnership) as of December 31, 1976, and the related combined statements of operations, partners' equity and sources and uses of cash for the year then ended. Our examination was 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 (not separately presented herein) present fairly the combined financial position of Boca Del Mar Associates and Boca Del Mar Golf and Tennis Club as of December 31, 1976, and the results of their operations and sources and uses of cash for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Miami, Florida,
January 21, 1977.

LS 001445

MARGRP CDA dm - 1710

Annual Report 1977
The Marmon Group, Inc.

LS 001446

(Formerly Cerro-Marmon Corporation)

MARGRP CDA dm - 1711

THE MARMON GROUP, INC.

1977 ANNUAL REPORT TO SHAREHOLDERS

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LS 001447

To our Shareholders:

1977 was the first full year of operations for the The Marmon Group, Inc., which was formed in late February 1976 by the combination of Cerro Corporation and The Marmon Group, Inc. (Michigan).

The accompanying consolidated statement of income for 1976 includes twelve months of operations of The Marmon Group, Inc. (Michigan) but only ten months of operations of the former Cerro Corporation businesses. The statement for 1977 includes the results of operations for eleven months of the former Hammond Corporation businesses, which were acquired by The Marmon Group, Inc. in late January 1977. It also includes the real estate subsidiaries' loss, which in 1976 was charged to a reserve established at the time of the combination with Cerro.

The Company's sales totaled $1,168,706,000 in 1977, and net income was $48,685,000. In 1976, sales and net income were $828,218,000 and $42,759,000, respectively. Significant factors affecting 1977 results, in addition to the inclusion of Hammond and the real estate subsidiaries' loss, were adverse effects on coal mining operations from unusual charges resulting from terminating certain employment contracts and related agreements, and the write-off of certain mine development costs considered to be unrecoverable. These adverse effects were more than offset by major improvements in operating profits in the Company's pipe and tubing, metal products and automotive products operations.

No revenues from the discontinued trucking operations have been included in sales for either year. This business was sold in August 1977 at a gain.

Prior year income tax returns of Cerro are still being examined by the Internal Revenue Service. We continue to believe that no significant additional income tax liability will result from these examinations. However, because of the complexities of the matters involved, we are continuing to follow the conservative practice of deferring in our balance sheet, as "Deferred credit from acquisition", all amounts realized from the future income tax benefits available from Cerro until these matters are resolved.

Substantially all of the litigation matters referred to in the Notes to Consolidated Financial Statements (Note 16) and the Report of Certified Public Accountants relate to activities of Cerro before the combination with Marmon.

This was another good year for The Marmon Group, Inc. It was made possible by the contributions of a great many Marmon employees, new and old, to whom we express our gratitude.

Jay A. Pritzker
Chairman of the Board

Robert A. Pritzker
President

LS 001448

MARGRP CDA dm - 1713

GENERAL INFORMATION

Stock Information

Sales prices on the American Stock Exchange and dividends paid on Marmon's $2.25 Cumulative Series A Preferred Stock during 1977 and 1976 (since February 24, 1976) are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1977				
Sales Prices:				
High	$23.88	$23.63	$24.50	$23.25
Low	22.50	23.25	21.75	21.63
Dividends	$.5625	$.5625	$.5625	$.5625
1976				
Sales Prices:				
High	$20.38	$21.50	$22.25	$23.63
Low	18.88	19.25	20.00	21.50
Dividends	$.2227	$.5625	$.5625	$.5625

Stock transfer agent and registrar

Irving Trust Company
One Wall Street
New York, New York 10015
212/487-5742

Auditors

Arthur Young & Company
One IBM Plaza
Chicago, Illinois 60611
312/751-3000

Annual shareholders' meeting

The annual meeting of The Marmon Group, Inc. will be held at 10:30 a.m. on June 2, 1978, at the Hyatt Regency Chicago, 151 East Wacker Drive, Chicago, Illinois 60601.

Form 10-K

A copy of the Annual Report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no expense to the shareholder. Direct your request to:

Mr. Thomas L. Seifert, *Secretary*
The Marmon Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603

BUSINESS DESCRIPTION

On June 3, 1977, the name of the corporation was changed from Cerro-Marmon Corporation (Cerro-Marmon) to The Marmon Group, Inc. (Marmon). Cerro-Marmon was the successor through a February 24, 1976 business combination involving Cerro Corporation (Cerro) and The Marmon Group, Inc. (Michigan) (TMG). Pursuant thereto, GL Corporation (GL), a Delaware corporation, exchanged all of the outstanding shares of capital stock of TMG for all of the common shares of Marmon.

Marmon's operations are engaged principally in the United States in the manufacture of pipe and tubing, metal products, wire and cable, automotive products, apparel accessories and mining equipment. Marmon's operations are also engaged in metals trading, coal mining and the holding of real estate for sale. See page 26 for a more extensive description of these activities and the 1977 sales and operating profit of each.

LS 001449

MARGRP CDA dm - 1714

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
The Marmon Group, Inc.

We have examined the consolidated balance sheets of The Marmon Group, Inc. (Marmon) (Note 1) at December 31, 1977 and 1976, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. 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. We have received the reports of other independent accountants on their examinations of the 1977 and 1976 consolidated financial statements of the major real estate subsidiary (Leadership) and of the 1976 consolidated financial statements of the trucking subsidiary which was sold in 1977. Our opinion expressed herein on the consolidated financial statements of Marmon, insofar as it relates to amounts included in such consolidated financial statements that were derived from the 1977 and 1976 consolidated financial statements of Leadership and the 1976 consolidated financial statements of the trucking subsidiary, is based solely on the reports of the other independent accountants.

The reports of other independent accountants referred to above on the consolidated financial statements of Leadership are qualified as to the effects of such adjustments, if any, as might have been required had the outcome of certain specified uncertainties been known. Two of the significant uncertainties have been substantially resolved and the financial statement effect has been reflected in 1977 as described in Note 8 to the consolidated financial statements. The remaining significant uncertainties are discussed in the fourth paragraph of Note 16 to the consolidated financial statements.

The allocation of Marmon's purchase cost of Cerro Corporation (Cerro) to the net assets acquired, as reflected in the consolidated balance sheets at December 31, 1977 and 1976, and the related effects reflected in the consolidated statement of income for 1977 and 1976, are subject to retroactive revision to reflect the outcome of certain federal income tax matters relating to Cerro as discussed in Note 3 to the consolidated financial statements. The outcome of these income tax matters and, therefore, the effects of such retroactive revisions as will be required cannot be determined at this time.

Matters relating to significant pending and threatened litigation and product liability claims involving Marmon or certain of its subsidiaries, including Leadership, are discussed in Note 16 to the consolidated financial statements. The outcome of these matters and the ultimate effects, if any, on Marmon's consolidated financial statements cannot be determined at this time. In our report dated April 22, 1977, our opinion on the 1976 consolidated financial statements contained no reference to the matters referred to in this paragraph that were then existing. Additional pending and threatened litigation arose in 1977, a major portion of which relates to events occurring prior to 1977, as to which the outcome cannot be determined at this time. Accordingly, our present opinion on the 1976 consolidated financial statements as presented herein includes a qualification as to these matters.

In our opinion, based on our examinations and the reports of other independent accountants, and subject to the effects on the consolidated financial statements of (1) such retroactive revisions of the consolidated financial statements as will be required to reflect the outcome of the matters referred to in the second preceding paragraph, and (2) the effects, if any, of the outcome of the matters referred to in the preceding paragraph, the statements of Marmon mentioned in the first paragraph present fairly the consolidated financial position of The Marmon Group, Inc. at December 31, 1977 and 1976, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 31, 1978

LS 001450

THE MARMON GROUP, INC.

CONSOLIDATED BALANCE SHEET

(In thousands of dollars)

ASSETS

	December 31, 1977	December 31, 1976
	(Notes 1, 2 and 3)	
Current assets		
Cash	$ 3,800	$ 3,610
Short term investments (Note 5)	72,452	58,243
Marketable securities	4,449	12,939
Receivables		
Trade accounts, less allowances of $3,342 in 1977 and $2,629 in 1976	117,060	97,997
Notes due from Chile (Note 6)	4,386	5,473
Refundable income taxes (Note 15)		4,597
Affiliates, principally trade accounts	4,952	630
Other	8,298	8,355
Inventories (Note 7)	272,303	202,120
Other current assets	7,972	7,138
Total current assets	495,672	401,102
Investments in and advances to		
Trucking subsidiary (Note 2(c))		17,009
Real estate subsidiaries (Note 8)	19,299	20,035
Other (Note 9)	8,363	7,650
Notes due from Chile (Note 6)	389	3,064
Property, plant and equipment, less accumulated depreciation and depletion of $42,460 in 1977 and $32,141 in 1976 (Note 10)	111,162	100,092
Other assets	9,891	8,564
	$644,776	$557,516

See Notes to Consolidated Financial Statements.

LS 001451

MARGRP CDA dm - 1716

THE MARMON GROUP, INC.

CONSOLIDATED BALANCE SHEET

(In thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1977	December 31, 1976
	(Notes 1, 2 and 3)	
Current liabilities		
Notes payable (Note 11)		
Banks	$ 81,336	$ 39,480
Affiliates		3,000
Long-term debt due within one year (Note 11)	13,826	10,458
Current obligations under capital leases (Note 12)	1,678	1,342
Accounts payable (Note 5)	54,704	96,822
Income taxes (Note 15)	25,426	21,475
Accrued liabilities (Note 13)	44,832	33,531
Total current liabilities	221,802	206,108
Long-term debt (Note 11)	65,979	75,702
Long-term obligations under capital leases (Note 12)	25,240	21,737
Deferred credit from acquisition (Note 3)	34,894	11,454
Other non-current amounts	14,451	15,418
Contingencies and litigation (Notes 3, 14, 15 and 16)		
Shareholders' equity (Notes 11 and 17)		
Preferred stock, $1 par value; 10,000,000 shares authorized, 4,259,057 shares issued and outstanding; liquidation preference and mandatory redemption value of $93,699	90,295	89,248
Common stock, $1 par value; 10,000,000 shares authorized, 5,000,000 shares issued and outstanding	5,000	5,000
Other paid-in capital	26,452	10,241
Retained earnings	160,663	122,608
Total shareholders' equity	282,410	227,097
	$644,776	$557,516

See Notes to Consolidated Financial Statements.

LS 001452

MARGRP CDA dm - 1717

THE MARMON GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME

(In thousands of dollars)

	Years Ended December 31,	
	1977	1976
	(Notes 1, 2 and 3)	
Revenues		
Net sales	$1,168,706	$828,218
Miscellaneous—net	19,106	10,927
	1,187,812	839,145
Costs and expenses		
Cost of sales	979,769	703,515
Selling and administrative (Note 18)	97,147	58,455
Interest	17,049	11,342
Equity in loss of real estate subsidiaries (Note 8)	9,515	
	1,103,480	773,312
Income before amounts shown below	84,332	65,833
Income taxes (Note 15)	38,950	28,050
Income before equity in net income of Cerro and discontinued operations	45,382	37,783
Equity in net income from continuing operations of Cerro (Note 2(a))		1,436
Income from continuing operations	45,382	39,219
Discontinued operations (Note 2(c))		
Income from operations, less income taxes of $822 in 1977 and $1,501 in 1976	1,440	3,540
Gain on disposal, less income taxes of $2,397	1,863	
	3,303	3,540
Net income	$ 48,685	$ 42,759

See Notes to Consolidated Financial Statements.

LS 001453

MARGRP CDA dm - 1718

THE MARMON GROUP, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Years Ended December 31, 1977 and 1976

(In thousands of dollars)

	Preferred Stock (Note 17)	*Common Stock (Note 17)*	*Other Paid-In Capital*	*Retained Earnings (Note 11)*	*Total*
Balance at December 31, 1975	$	$ 1	$12,027	$ 88,858	$100,886
Excess of par value of Marmon common stock issued to GL over par value of TMG common stock		4,999	(4,999)		
Value of preferred stock issued to Cerro shareholders (Note 2(a))	88,375				88,375
Contribution by GL			2,336		2,336
Elimination of TMG deferred income taxes applicable to its equity in undistributed net income of Cerro			877		877
Preferred dividends paid (Note 17)				(8,136)	(8,136)
Accrual of mandatory redemption value of preferred stock (Note 17)	873			(873)	
Net income				42,759	42,759
Balance at December 31, 1976	89,248	5,000	10,241	122,608	227,097
Contribution by GL (Note 2(b)) ..			16,211		16,211
Preferred dividends paid (Note 17)				(9,583)	(9,583)
Accrual of mandatory redemption value of preferred stock (Note 17)	1,047			(1,047)	
Net income				48,685	48,685
Balance at December 31, 1977	$90,295	$5,000	$26,452	$160,663	$282,410

See Notes to Consolidated Financial Statements.

LS 001454

MARGRP CDA dm - 1719

THE MARMON GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	Years Ended December 31, 1977	1976
Sources of working capital		
Income from continuing operations	$ 45,382	$ 39,219
Charges (credits) not involving working capital		
Provision in lieu of income taxes	15,221	6,030
Depreciation, depletion and amortization	13,624	9,460
Equity in loss of real estate subsidiaries	9,515	
Deferred income taxes	(2,529)	1,473
Other—net	190	17
Total from continuing operations	81,403	56,199
Income from discontinued operations	3,303	3,540
Charges (credits) not involving working capital		
Provision in lieu of income taxes	3,094	1,367
Equity in undistributed net income	(1,277)	(2,886)
Total from discontinued operations	5,120	2,021
Total from operations	86,523	58,220
Merger of Hammond in 1977 and Cerro in 1976		
Preferred stock issued		88,375
Marmon's basis in 45.33% of Cerro		80,028
Basis of Hammond at date of acquisition	33,822	
Less cash paid for outstanding common and preferred stock of Hammond	(17,611)	
Capital contribution of 48% of Hammond common stock	16,211	
Long-term obligations assumed	2,553	84,104
Other—net	372	18,248
	19,136	270,755
Cost assigned to non-current assets		
Trucking subsidiary		(14,444)
Real estate subsidiaries		(14,944)
Notes due from Chile		(15,087)
Property, plant and equipment—net	(3,820)	(59,438)
Other non-current assets	(2,109)	(4,507)
	(5,929)	(108,420)
Total from mergers	13,207	162,335
Reduction in long-term portion of notes due from Chile	3,535	12,669
Carrying value of trucking subsidiary sold	18,340	
Long-term borrowings—debt	1,029	4,369
—obligations under capital leases	3,117	3,791
Sales of investments		1,369
Disposition of property, plant and equipment	7,201	3,764
Other—net	2,606	(966)
Total sources	135,558	245,551
Dispositions of working capital		
Purchase of property, plant and equipment	28,075	17,657
Reduction in long-term obligations—debt	11,733	75,509
—obligations under capital leases	1,444	1,004
Preferred dividends paid	9,583	8,136
Additional investment in and advances to real estate subsidiaries—net	5,847	5,091
Investment in Southern Peru Copper Corporation		5,450
Total dispositions	56,682	112,847
Increase in working capital	$ 78,876	$132,704

LS 001455

MARGRP CDA dm - 1720

THE MARMON GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION—(Continued)

(In thousands of dollars)

	Years ended December 31,	
	1977	1976
Changes in Elements of Working Capital		
Increase in current assets		
Cash, short-term investments and marketable securities	$ 5,909	$ 72,676
Receivables	17,644	74,830
Inventories	70,183	151,339
Other current assets	834	5,371
	94,570	304,216
(Increase) decrease in current liabilities		
Notes payable to banks	(41,856)	(37,480)
Notes payable to affiliates	3,000	(3,000)
Long-term debt due within one year	(3,368)	(6,336)
Current obligations under capital leases	(336)	(578)
Accounts payable	42,118	(81,515)
Income taxes	(3,951)	(19,683)
Accrued liabilities	(11,301)	(22,920)
	(15,694)	(171,512)
Increase in working capital	$ 78,876	$132,704

See Notes to Consolidated Financial Statements.

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THE MARMON GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977 and 1976

(Tabular amounts are in thousands of dollars)

1. Organization and Basis of the Financial Statements

Pursuant to a vote of shareholders on June 3, 1977, the name of the corporation was changed from Cerro-Marmon Corporation to The Marmon Group, Inc. (Marmon).

Marmon, incorporated on November 25, 1975, was inactive until February 24, 1976. On that date (1) Marmon issued all of its common shares to GL Corporation (GL) for all of the outstanding common shares of The Marmon Group, Inc. (Michigan) (TMG), in a transaction accounted for as if it was a pooling of interests, (2) Marmon became obligated to issue preferred stock to holders of Cerro Corporation (Cerro) common stock, other than TMG, on a share-for-share basis and (3) Cerro was merged into Marmon in a transaction accounted for as a purchase. Cerro common stock owned by TMG, representing 45.33% of the Cerro common stock outstanding, was cancelled. As a result of the above described transactions, GL owns 100% of the outstanding Marmon common stock, which represents approximately 82% of the total voting interest in Marmon, and TMG is a wholly-owned subsidiary of Marmon.

The consolidated financial statements for periods prior to February 25, 1976 consist of the consolidated financial statements of TMG (Marmon's accounting predecessor company) and all subsidiaries, with TMG's 45.33% interest in Cerro accounted for on an equity basis. Commencing February 25, 1976, the consolidated financial statements consist of the financial statements of Marmon and all significant subsidiaries except the wholly-owned real estate subsidiaries (Note 8) and the trucking subsidiary which was sold (Note 2(c)).

2. Changes in business

(a) *Acquisition of Cerro*

Effective August 1, 1974, TMG acquired a 45.33% equity interest in Cerro at a total cost of $67,846,000. On February 24, 1976, Cerro was merged into Marmon (Note 1). Pursuant thereto, the former common shareholders of Cerro, other than TMG, became entitled to receive one share of Marmon $2.25 Cumulative Preferred Stock (Note 17) for each share of Cerro common stock. Accordingly, the holders of a total of 4,324,970 common shares of Cerro were entitled to receive a like number of preferred shares. Of this number of shares, shareholders owning 65,913 shares have received or will receive cash for their shares, for which provision has been made in the consolidated financial statements.

The above described transactions have been accounted for as a purchase of Cerro by Marmon. Accordingly, the net assets of the businesses formerly conducted by Cerro are included in the consolidated balance sheet of Marmon at amounts determined after giving effect to an allocation of Marmon's purchase cost to such net assets.

The allocations of purchase cost to Cerro's net assets were made as of August 1, 1974 as to the 45.33% interest in Cerro acquired as of that date and as of February 24, 1976 as to the 54.67% interest in Cerro acquired as of that date. Marmon's basis in Cerro's net assets at February 24, 1976 was $167,000,000 less than the amount of such net assets in Cerro's balance sheet. The effect of the purchase cost allocations was to significantly reduce the amounts at which Cerro's net assets are included in the Marmon consolidated balance sheet from amounts previously reflected in Cerro's historical consolidated balance sheet. Reductions were made principally to investments (including the investment in the real estate subsidiaries), property, plant and equipment, intangible assets and the asset included in the Cerro balance sheet for future income tax benefit. The purchase cost allocation and the effect thereof on results of operations discussed below are subject to retroactive revision to reflect the resolution of certain specific matters as discussed in Note 3.

The purchase cost allocations had the effect of significantly increasing the amount reflected by TMG as its equity in the net income of Cerro prior to February 25, 1976 and the net income of

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Marmon subsequent thereto. This effect results principally from (1) reductions in depreciation and amortization of property, plant and equipment and intangible assets, (2) larger gains or lesser losses from dispositions of assets and (3) elimination of net losses from the real estate operations through December 31, 1976, as discussed in the following paragraph.

For purposes of determining TMG's equity in Cerro's net income prior to February 25, 1976 and Marmon's results of operations from February 25, 1976 to December 31, 1976, the net losses of the nonconsolidated real estate subsidiaries were charged to a reserve established therefore in connection with the purchase cost allocations because significant uncertainties precluded an allocation of purchase cost to the net assets of these subsidiaries at the dates of purchase. As discussed more fully in Note 8, various of the uncertainties as to the real estate operations were substantially resolved and a purchase cost allocation was made as of December 31, 1976; therefore, the results of operations of the real estate subsidiaries have been reflected in consolidated net income beginning January 1, 1977.

Had the merger of Cerro into Marmon been consummated on January 1, 1976, the unaudited pro forma revenues from continuing operations and net income for the year ended December 31, 1976 would have been $921,323,000 and $45,210,000, respectively. These pro forma amounts consist of the historical amounts applicable to TMG and Cerro for the period January 1, 1976 to February 24, 1976, adjusted on a pro forma basis to give effect to the adjustments resulting from the merger of Cerro into Marmon, and the reported amounts applicable to Marmon for the period subsequent to the merger date. As noted above, no amounts are included for the real estate subsidiaries.

(b) *Acquisition of Hammond Corporation (Hammond)*

Prior to January 26, 1977 GL owned approximately 48% of Hammond's outstanding common stock, acquired principally in 1973 and 1974. GL's carrying value of this investment at January 26, 1977, consisting of the cost to GL plus GL's equity in the undistributed net income of Hammond subsequent to dates of acquisition, was $16,211,000. On January 26, 1977, GL contributed its shares of Hammond to the capital of Marmon. Thereafter, Marmon acquired, through a cash merger, all of the remaining outstanding common and preferred stock of Hammond for $17,611,000.

The cash merger transaction was accounted for by Marmon as a purchase. Accordingly, the net assets of the businesses formerly conducted by Hammond included in the consolidated balance sheet of Marmon were adjusted to reflect an allocation of purchase cost to Hammond's net assets. Marmon's basis in Hammond's net assets at January 26, 1977 was approximately $5,600,000 less than the carrying value of such net assets in Hammond's balance sheet; this difference was allocated principally to reduce property, plant and equipment.

Had the acquisition of Hammond taken place on January 1, 1976, Marmon's 1976 unaudited pro forma revenues and net income, after giving effect to an allocation of Marmon's purchase cost of Hammond, would have increased $126,300,000 and $5,500,000, respectively. Marmon's pro forma net sales and net income for 1977 would not have been materially different than the historical amounts reported.

On December 31, 1977 Hammond Corporation changed its name to Marmon Company.

(c) *Sale of Trucking Subsidiary*

On August 8, 1977 Marmon sold its majority-owned trucking subsidiary to ICX Incorporated, a corporation formed by certain employees of the trucking subsidiary, for $22,600,000 in cash, a $5,400,000 subordinated note which bears interest at prime plus 4½% per annum and an 18.9% common stock interest in ICX Incorporated (diluted to 18.0% at December 31, 1977). The $4,260,000 gain, before income taxes, recognized on the sale is based on the cash proceeds. Any gain represented by the notes and stock will be reflected as related amounts are realized in cash. Marmon's equity in ICX's net assets applicable to Marmon's common stock interest was $1,055,000 at December 31, 1977.

Net revenues of the trucking subsidiary excluded from consolidated revenues were $50,986,000 for the period January 1, 1977 through August 8, 1977 and $71,126,000 for the period February 24, 1976 through December 31, 1976.

3. Uncertainties Relating to Deferred Credit from Acquisition

Significant uncertainties relating to Cerro's real estate subsidiaries and federal income tax position existed at the date of Cerro's acquisition by Marmon.

As discussed in Note 8, several significant uncertainties relating to the real estate subsidiaries ("Leadership") were substantially resolved as of December 31, 1976 and a further remaining uncertainty, relating to a joint venture in which Leadership participates, was resolved in 1977. The latter resolution resulted in a provision of $6,476,000 by Leadership for the estimated loss, which amount has been included, together with certain other adjustments of the purchase cost allocation to the real estate subsidiaries, in "Deferred credit from acquisition" in the accompanying consolidated balance sheet.

Matters relating to Cerro's prior year federal income tax position are discussed in Note 15. The outcome of these matters and the resulting effects on Marmon's consolidated financial statements cannot be determined at this time. Marmon has realized substantially all of the potential future income tax benefits that became available to Marmon as a result of the acquisition of Cerro. These realized benefits have been included in the "Deferred credit from acquisition" in the Marmon consolidated balance sheet and no amortization of the deferred credit has been included in income. Marmon intends to continue this accounting treatment until the matters relating to Cerro's prior year income tax position are substantially resolved. Upon resolution, the amount of Marmon's purchase cost of Cerro that was allocated to the property, plant and equipment acquired will be retroactively revised. Further, depreciation and depletion will be retroactively adjusted to reflect the effects of such revision and any deferred credit will be retroactively amortized. The retroactive adjustments required will not have a material effect on consolidated working capital or shareholders' equity at December 31, 1977 or 1976; further, any adjustments of consolidated net income are expected to be less than 10% of reported consolidated net income in each of the years then ended.

Changes in the "Deferred credit from acquisition" during 1977 are summarized as follows:

Balance at December 31, 1976	$11,454
Income tax benefits from utilization by Marmon of prior year losses of Cerro (equal to the provision in lieu of income taxes)	18,315
Income tax benefits from utilization by GL of prior year capital losses of Cerro	998
Adjustments of purchase cost allocated to net assets of the real estate subsidiaries (Note 8)	4,127
Balance at December 31, 1977	$34,894

4. Summary of Significant Accounting Policies

(A) *Consolidation Policy*

The consolidated financial statements include the accounts of all significant subsidiaries except the real estate subsidiaries which are accounted for on the equity basis commencing January 1, 1977 (Note 8) and the trucking subsidiary, which was sold in August 1977 (Note 2(c)). See Note 1 for the basis of the consolidated financial statements. All material intercompany balances and transactions have been eliminated.

(B) *Inventories*

Inventories, other than metals trading inventories, are valued at the lower of cost or market. The cost of 41% and 32% of the total of such inventories at December 31, 1977 and 1976, respectively, is determined under the last-in, first-out (LIFO) method and the cost of the remaining inventories represents current cost (standard, average or first-in, first-out). Additional inventories were valued under the LIFO method in 1977 (Note 7).

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Metals trading inventories and open positions (outstanding futures contracts, unfulfilled physical purchase and sale commitments and related foreign currency commitments) are valued at market and the resultant gain or loss is reflected in results of operations.

It is the present intention of management to extend the LIFO method of accounting to certain additional inventories in 1978 or future years.

(C) *Investments*

Investments in marketable securities are carried at cost which approximates market.

The investment in Cerro was accounted for by TMG on the equity method through February 24, 1976. TMG's equity in Cerro's reported net income was adjusted to reflect the effects of the differences between cost and its equity in the net assets of Cerro at August 1, 1974, the date of acquisition by TMG of its 45.33% interest in Cerro.

Other investments, including investments in affiliated companies, principally Southern Peru Copper Corporation (SPCC) (Note 9), a 20.7% owned affiliate (21.0% at December 31, 1976), are carried at cost or less. Income is recognized only upon receipt of dividends. The cost method is used for the investment in SPCC because it is domiciled in a country with significant foreign exchange restrictions. The other affiliates are not significant.

(D) *Property, Plant and Equipment*

Property, plant and equipment are recorded at cost, less accumulated depreciation, depletion and amortization. Gain or loss on disposals is included in earnings. Maintenance and repairs are expensed; renewals and betterments are capitalized. Depreciation is based on the estimated service lives of the assets using primarily accelerated methods. Depletion of mining properties is based on the units-of-production method.

(E) *Income Taxes*

Deferred taxes are provided to account for the differences for accounting and tax purposes in the timing of the recognition of certain income and expense items. These differences relate primarily to allowances for losses and accrued expenses and certain metals trading and real estate activities.

Investment tax credits are accounted for as reductions of the provision for federal income taxes as such credits are earned.

(F) *Retirement Plans*

Pension costs, actuarially determined and generally funded as accrued, consist of current service costs, interest on unfunded past service liabilities and amortization of prior service costs over periods not exceeding 40 years. Profit sharing plan costs are recorded in amounts approved by the Board of Directors.

5. Short Term Investments

In December 1976 Marmon entered into arrangements for the delivery of copper in January 1977. Approximately $50,000,000 was received in 1976 as advance payments for these sales. For financial statement purposes, these copper sales were not reflected as sales until the copper was delivered. The cash received as advance payments was temporarily invested and included in "Short term investments" in the December 31, 1976 consolidated balance sheet; the liability for the cost of the copper to be delivered was included in "Accounts payable". See Note 15 for the income tax treatment of these advance payments. There were no comparable arrangements at the end of 1977.

Short term investments consist of time deposits, certificates of deposit and, in 1977, $62,000,000 invested in promissory notes of a bank holding company. The notes are redeemable at Marmon's option over a period not in excess of ninety days.

6. Notes Due from Chile

In connection with the 1971 expropriation of a Chilean mining company, formerly 70% owned by Cerro, the Government of Chile issued 9.165% notes, payable $2,700,000 semi-annually to

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March 1, 1979, including interest, which are exempt from Chilean taxes and guaranteed by the Central Bank of Chile. An agency of the United States government has guaranteed partial payment of the principal amount of the notes.

7. Inventories

	December 31,	
	1977	1976
Manufacturing inventories and supplies	$175,554	$129,370
Metals trading inventories	84,889	63,326
Coal inventories and supplies	11,860	9,424
	$272,303	$202,120

Inventories valued under the LIFO method were approximately $35,000,000 less than the current costs of such inventories at December 31, 1977 ($27,000,000 at December 31, 1976). The LIFO method was extended to additional inventories in 1977. This change in method reduced 1977 consolidated net income by approximately $1,000,000. The classification of manufacturing inventories by stage of production is not available from the accounting records.

8. Investment in Real Estate Subsidiaries

The nonconsolidated real estate subsidiaries consist of Leadership Housing, Inc. (Leadership) and The Housing Group (Housing Group) and their subsidiaries. Housing Group was formed during 1976 by the transfer of certain assets from Leadership. Amounts included in Marmon's consolidated balance sheets at December 31, 1977 and 1976 relating to the real estate subsidiaries consist of the following:

	1977	1976
Advances	$25,340	$19,493
Investment	(6,041)	542
Total	$19,299	$20,035

The investment amounts reflect the effects of the allocation of the purchase cost of Cerro to the real estate subsidiaries and, as a result, differ from shareholder's equity in the subsidiaries' balance sheets.

No amounts applicable to the real estate subsidiaries were included in Marmon's consolidated results of operations for the year ended December 31, 1976 as the loss incurred by these subsidiaries was charged to a reserve established for such purposes by the initial purchase cost allocations. This reserve was established because significant uncertainties relating to the real estate subsidiaries precluded an allocation of purchase cost to the real estate assets at the dates of acquisition of Cerro. Several of these uncertainties were substantially resolved by the modification of agreements and restructuring of debt obligations concluded in February 1977, the reductions in inventories and the restructuring of the activities of the real estate subsidiaries, and the general improvement in the market in the various areas in which the real estate operations are conducted. The above described events permitted a quasi-reorganization of Leadership as of December 31, 1976, at which date its assets were revalued to reflect fair values. These revised asset values were used as the basis for the purchase cost allocation to the real estate assets and to Marmon's investment in the real estate subsidiaries. Commencing January 1, 1977, Marmon has reflected its equity in the operating results of the real estate subsidiaries in the consolidated financial statements. In the second quarter of 1977, uncertainties related to a joint venture in which Leadership participates were substantially resolved (see C of this note). The major remaining uncertainty involves pending and threatened litigation involving Leadership (see Note 16).

For the year ended December 31, 1976, the real estate subsidiaries reported a loss before income taxes of $18,336,000 on sales of $56,836,000. This loss, which is based on the historical

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financial statements of the real estate subsidiaries before giving any effect to purchase cost allocations, was charged to the reserve therefore as discussed above.

A condensed combined statement of operations of the real estate subsidiaries, after giving effect to the quasi-reorganization and debt restructuring which were reflected as of December 31, 1976, and after giving effect to adjustments resulting from the purchase cost allocations, for the year ended December 31, 1977 follows:

Sales	$57,357
Interest and other revenue	2,505
Cost and expenses	
Cost of sales	(53,058)
Selling and administrative	(4,520)
Interest	(6,654)
Loss relating to joint ventures	(5,145)
Loss before income taxes	$ 9,515

The above combined statement and the Marmon consolidated statement of income for 1977 do not include (1) non-recurring credits of $8,603,000 from realization of certain assets, (2) a credit of $2,000,000 from the reversal of an accrued liability and (3) a loss of $6,476,000 on the termination of a joint venture (see C of this note). These amounts have been credited or charged to the "Deferred credit from acquisition" in the Marmon consolidated balance sheet as they represent adjustments of the 1976 purchase cost allocation to the real estate subsidiaries' net assets. No income tax benefits have been reflected in the above combined statement as no amounts are due from Marmon under terms of the tax sharing arrangements between Marmon and the real estate subsidiaries. However, the reduction in Marmon's income taxes applicable to the real estate subsidiaries' loss has been reflected in Marmon's provision for income taxes in the 1977 consolidated statement of income.

The above combined statement includes a loss of $4,004,000 on the sale of an interest in a joint venture (see C of this note), $1,840,000 of interest expense on certain advances from Marmon, and sales of $7,244,000 to certain Pritzker Trusts (the Pritzker family, through trusts and other entities, owns all of the outstanding capital stock of GL); $4,221,000 to Communities Group Inc. of Broward County (Communities), a subsidiary of GL; and $4,362,000 to former officers of Leadership. The properties were sold at Leadership's book values and no profit or loss was recorded.

Condensed combined balance sheets of the real estate subsidiaries after giving effect in 1976 to the above-mentioned quasi-reorganization of Leadership and modification of certain agreements and restructuring of debt obligations completed in 1977, and after reflecting the purchase cost adjustments to the real estate subsidiaries' net assets, follows:

	December 31,	
	1977	1976*
Assets		
Cash	$ 4,622	$ 4,413
Receivables	7,645	8,329
Inventories (A)		
Land and improvements	39,672	53,460
Developments completed or in progress	7,722	18,346
Investment in joint ventures		
Continuing (B)	1,456	973
In process of termination (C)	3,750	1,565
Property and equipment—net	2,256	2,204
Other assets (D)	4,523	3,241
	71,646	92,531
Liabilities (excluding amounts due Marmon)		
Notes payable (E)	33,718	54,250
Due to joint venture partner (C)	6,658	
Accounts payable and accrued liabilities	11,971	18,246
	52,347	72,496
Marmon's equity and advances	$19,299	$20,035

*Reclassified for comparative purposes.

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(A) *Inventories*

Inventories are carried at the lower of cost or estimated net realizable value. The estimated net realizable values have been determined based on dispositions in the normal course of business under existing and anticipated market conditions. Interest and real estate taxes associated with inventories are expensed as incurred.

(B) *Continuing Joint Ventures*

The underlying assets of the continuing joint ventures, consisting principally of land and a shopping center, total $7,084,000 and the liabilities, consisting principally of notes and mortgages payable, total $3,877,000 at December 31, 1977.

One of the two continuing joint ventures is with a Pritzker Trust. This venture, which provides for Leadership's participation in 50% of the profits and losses, was formed to develop and sell approximately 250 acres of land in Broward County, Florida. This venture has not made any sales. Leadership is contingently liable to creditors of this venture for approximately $490,000 of notes payable.

The other joint venture, with an unrelated party, provides for Leadership's 50% participation in the ownership and operation of a shopping center.

(C) *Joint Ventures in Process of Termination*

At December 31, 1976 Leadership was contingently liable to creditors of a joint venture with a Pritzker Trust for approximately $18,200,000 relating to notes payable by the venture which were in default and as to which actions for foreclosures had been filed by certain noteholders. As a result of the foreclosure actions, negotiations with the noteholders and a joint valuation by the partners, a decision was made by Leadership and its partner during 1977 to terminate the venture and return the properties to the noteholders. At December 31, 1977 the properties securing the $18,200,000 of notes payable by the venture have been returned to the noteholders. Additional consideration given to the noteholders was furnished by the venture partner. Other notes payable, in addition to the $18,200,000, secured only by the remaining land of the venture will be cancelled and the land returned to the noteholders in 1978. A provision of $6,476,000 was made in 1977 for 50% of the estimated loss relating to this venture.

Leadership's interest in another joint venture with an unrelated party was sold to the partner in February 1978. At that time, Leadership received $3,750,000 for its interest and a provision of $4,004,000 was made in 1977 for the loss on this transaction.

(D) *Other Assets*

Other assets include $4,040,000 and $2,255,000 at December 31, 1977 and 1976, respectively, due from Communities. During 1977 and 1976, Leadership sold land to Communities for $4,221,000 and $2,243,000, respectively, at book value. The land was subject to existing indebtedness of $928,000 and $333,000 at December 31, 1977 and 1976, respectively. Leadership received $3,293,000 in 1977 and $1,750,000 in 1976 of notes secured by the real estate, subject to future subordination, and unsecured receivables of $160,000 in 1976.

(E) *Notes Payable*

Notes payable, after giving effect in 1976 to a February 22, 1977 exchange of assets by Leadership for the cancellation of a bank loan agreement, are as follows:

	December 31,	
	1977	1976
Note payable to bank, unsecured, non-interest bearing, due $3,000,000 annually	$ 7,461	$ 9,510
Notes, secured, interest from 7% to prime plus 4%, due in installments	7,020	7,690
Other, substantially all secured, discounted to provide effective interest rates of 8% to prime plus 4%, due in installments	19,237	37,050
	$33,718	$54,250

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The unsecured note (face amount of $9,000,000 at December 31, 1977, which has been discounted to reflect a 10% interest rate) is guaranteed by Marmon.

A Master Loan Agreement with a bank imposes certain restrictions on Housing Group, including restrictions on the payment of dividends and redemption of stock.

Maturities of the notes payable in the calendar years 1978-1982 are $19,992,000 (including $8,245,000 accelerated as a result of the default discussed below) in 1978, $8,483,000 in 1979, $3,597,000 in 1980, $3,270,000 in 1981 and $884,000 in 1982; however, acceleration of maturities may be required to release mortgaged property sold. Notes payable aggregating $8,245,000 were in default at December 31, 1977. Defaults of $2,000,000 were subsequently cured, and Leadership is continuing to negotiate with the lenders to resolve the remaining delinquencies.

(F) *Other Matters*

In connection with a 1972 sale of land to the Pritzker Trusts, Leadership was required to repurchase certain portions of such land and had an option to purchase another portion. The repurchase price was Leadership's sales price, the Trusts' development and carrying costs and a specific premium. In February 1977, Leadership and the Trusts agreed to cancel each others' rights and obligations in connection with the repurchase and other related agreements. Under terms of the cancellation agreement, a purchase money second mortgage held by Leadership was modified with respect to payment terms, such that the ultimate collectibility cannot be determined and, therefore, the mortgage note receivable of $2,980,000 has not been reflected in the balance sheet of Leadership.

Leadership is no longer involved in the construction and sale of single family houses, condominiums or multi-family projects. Leadership's future activities will be limited principally to the sale of land presently owned.

During 1977 Leadership sold land and houses under construction totaling $2,529,000 to HLR, Inc. The two stockholders of HLR were then the Chairman of the Board and President of Leadership. These officers resigned their positions with Leadership concurrent with the sale. The property was sold at Leadership's carrying value and no profit or loss was recorded. HLR assumed the existing nonrecourse debt of $1,833,000 and issued a note secured by the related real estate for the balance of the purchase price. The note, due April 30, 1980, bears interest at 10%, and provides for releases at a 25% premium. Leadership has agreed to subordinate up to $300,000 of the note at any one time to new financing secured by HLR. At December 31, 1977 approximately $268,000 of the subordination had been utilized and payments totaling approximately $600,000 had been received by Leadership. Leadership does not participate in the management of HLR but is entitled to receive additional amounts, if any, from the ultimate disposition of the properties by HLR.

9. Investments—Other

Other investments consist of:

	December 31, 1977	December 31, 1976
Southern Peru Copper Corporation	$5,450	$5,450
Miscellaneous	2,913	2,200
	$8,363	$7,650

Southern Peru Copper Corporation (SPCC)

Although management believes the investment in SPCC has value, no portion of Marmon's purchase cost of Cerro was assigned to the investment in SPCC as an appropriate basis for assigning such cost was not readily available. An allocation of a portion of the purchase cost to the investment in SPCC would not have materially affected the consolidated financial statements of Marmon. The amount shown for the investment in SPCC represents amounts invested in SPCC after February 24, 1976.

SPCC has not paid dividends since 1972. Marmon's 20.7% equity (21.0% in 1976) in SPCC's net income was $551,000 and $1,756,000 for 1977 and 1976, respectively, and Marmon's equity in

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SPCC's net assets was $58,848,000 at December 31, 1977, based upon unaudited amounts reported by SPCC.

Pursuant to Peruvian law, the mining community, made up of SPCC's employees, will acquire increasing participation in the profits and ownership (eventually to 50%) of the mining enterprises in which they are employed.

Investments Sold in 1976

During 1976, Marmon sold (1) its investment in a 71.25% owned subsidiary in Greece, (2) the assets of a wholly-owned domestic fluorspar mining company and (3) its 24% interest in Northwest Iron Co., Ltd. The gain from these sales, less operating losses to dates of sale, of $948,000 is included in "Revenues—miscellaneous" in the 1976 consolidated statement of income.

10. Property, Plant and Equipment

Property, plant and equipment are summarized below:

	December 31, 1977	December 31, 1976
Cost:		
Land	$ 4,147	$ 3,779
Buildings and improvements	33,974	31,562
Machinery and equipment	78,515	64,158
Mining properties	20,257	20,264
Utility plant	6,893	6,198
Construction in progress	9,836	6,272
	153,622	132,233
Less accumulated depreciation and depletion	42,460	32,141
	$111,162	$100,092

11. Debt

(A) The following table summarizes long-term debt:

	Stated interest rate	Due	December 31, 1977	December 31, 1976
Notes to institutions(a)	6%–6⅜%	1978–1987	$24,360	$27,636
Notes to corporations(b)	9½%	1978–1987	33,250	35,000
Notes to individuals(c)	5%	1978–1980	5,167	7,446
Subordinated debentures(d)	7%	1978–1990	3,787	3,756
Subordinated notes	12%	1978–1981	2,656	3,863
Other	5%–10%	1978–1990	10,585	8,459
			79,805	86,160
Less current portion			13,826	10,458
			$65,979	$75,702

(a) Discounted to an effective interest rate of 9%.

(b) Secured by certain coal mining properties.

(c) To be paid as cash is generated by certain coal mining operations, with payments estimated to be made annually in approximately equal amounts. Discounted to an effective interest rate of 9½%.

(d) Convertible into common stock of Marmon's subsidiary (The RegO Group, Inc.) ("RegO") at $10.67 per share and redeemable at RegO's option at prices slightly above par. The amount shown has been discounted to an effective interest rate of 10%.

Scheduled maturities of the long-term debt in the calendar years 1979-1982 are $11,661,000 in 1979, $11,471,000 in 1980, $7,676,000 in 1981 and $6,210,000 in 1982.

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The various debt agreements impose certain restrictions on Marmon and certain subsidiaries (including TMG), including restrictions on the payment of cash dividends and the purchase of capital stock. Pursuant to the most restrictive provisions of the agreements, Marmon could not pay dividends on or purchase common stock at December 31, 1977. However, under the agreements approximately $77,000,000 was available for the payment of dividends on and redemption of preferred stock at that date.

(B) Notes payable to banks at December 31, 1977 consists primarily of short-term banker's acceptances due through March 31, 1978. Substantially all of the metals trading inventories are pledged as collateral for these borrowings (Note 7).

A subsidiary has domestic and foreign credit lines in the amount of $144,500,000 ($65,650,000 unused at December 31, 1977). These lines of credit are informal and may be withdrawn at any time at the option of the bank. Certain of the lines of credit require no compensating balances while others have compensating balance requirements ranging from 10% to 20% of average outstanding loans. Compensating balances were not material at December 31, 1977. All of these lines of credit restrict dividend payments and stock purchases by the subsidiary.

Certain other subsidiaries have an informal domestic line of credit in the amount of $7,000,000 ($4,470,000 unused at December 31, 1977) and informal foreign lines of credit in the amount of $1,065,000 (all unused at December 31, 1977). The domestic line of credit requires no compensating balances while the foreign lines of credit have compensating balance requirements of 10%.

The daily weighted average short-term bank borrowings during 1977 and 1976 were $59,787,000 and $14,080,000, respectively. The maximum amounts of aggregate short-term bank borrowings outstanding at any month end were $81,336,000 and $39,480,000 in 1977 and 1976, respectively. The weighted average interest rates at December 31, 1977 and for the year then ended were 7.10% and 8.43%, respectively. The comparable rates for 1976 were 8.26% and 7.39%, respectively.

12. Leasing Arrangements

A. The following properties under capital leases are included in property, plant and equipment:

	December 31,	
	1977	1976
Land	$ 282	$ 279
Buildings and improvements	15,083	12,483
Machinery and equipment	12,211	11,633
	27,576	24,395
Less accumulated amortization	10,785	8,824
	$16,791	$15,571

Minimum future obligations under capital leases in effect at December 31, 1977 follow:

Year Ending December 31,	
1978	$ 3,479
1979	3,394
1980	3,360
1981	3,603
1982	2,844
Later years	23,184
	39,864
Less amount representing interest	12,946
Present value of total minimum capital lease payments	$26,918

The above amounts do not include licenses, taxes, insurance and maintenance costs which Marmon is required to pay.

B. Future minimum rental payments due under various noncancelable operating leases having an initial term of more than one year as of December 31, 1977 follow:

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Year Ending December 31,	
1978	$ 3,036
1979	2,539
1980	2,063
1981	1,541
1982	1,364
Later years	7,890
	$18,433

Minimum future sublease rentals of $5,973,000 have not been deducted from the above operating lease data. Rental expense included in the consolidated statement of income for all operating leases, exclusive of rental expense of the discontinued operations, follows:

	Years Ended December 31,	
	1977	*1976*
Minimum rentals	$6,670	$4,408
Contingent rentals	1,625	1,367
Less sublease rentals	(786)	(529)
	$7,509	$5,246

13. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	1977	*1976*
Compensation	$10,581	$ 8,132
Pension and profit sharing	7,352	5,337
Insurance	6,596	5,310
Taxes, other than income taxes	4,496	3,996
Interest	3,709	1,571
Other	12,098	9,185
	$44,832	$33,531

14. Retirement Plans

Marmon has several pension and profit sharing plans covering substantially all of its employees. The actuarially computed value of vested benefits under the pension plans exceeded, as of December 31, 1977, the respective pension fund assets and related balance sheet accruals by approximately $6,700,000. At that date, unfunded past service costs totalled approximately $18,600,000.

Retirement plan expense included in the consolidated statement of income follows:

	Years Ended December 31,	
	1977	*1976*
Pension plans	$4,975	$4,782
Profit sharing plans	2,392	1,349
	$7,367	$6,131

15. Income Taxes

Marmon is included in the consolidated federal income tax return of GL. Prior to February 25, 1976, TMG was included in GL's consolidated federal income tax return. Pursuant to a formal tax sharing agreement with GL, federal income taxes of Marmon are determined, in general, as if the former Cerro affiliated tax group and the former TMG affiliated tax group each filed separate

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consolidated tax returns. Members of the former Hammond affiliated group are treated as if each company filed a separate federal income tax return. However, as to each of the three groups, no benefits of tax losses will be received unless such losses are utilized by members of the GL consolidated group. Federal income taxes so determined are periodically paid to or received from GL except that (1) the former Cerro affiliated tax group is not required to make any tax sharing payments during any taxable period in which Marmon has not currently paid all prescribed dividends or made sinking fund payments on its Preferred Stock and (2) during all other taxable periods the former Cerro affiliated group retains, without restriction, 50% of any tax sharing payments that would be due to any member of the GL affiliated group. No income taxes are payable to GL by the former Cerro affiliated group for 1977 and 1976. As a member of the GL consolidated federal income tax group, Marmon (and TMG prior to February 25, 1976) is contingently liable for the federal income taxes of the other members of the group. GL has indemnified Marmon (and TMG) for any federal income taxes attributable to other members of the group.

Federal income taxes accrued but not yet paid to GL and payments to GL in excess of amounts accrued or payments due from GL are included in "Income taxes" and "Refundable income taxes", respectively, in the consolidated balance sheet. Interest at 115% of the prime rate of a specified bank is paid or received on differences between payments made and payments due.

Examinations by the Internal Revenue Service (Service) of TMG's federal income tax returns for the years 1971 through 1973 have been substantially completed and for the years 1974 through 1976 are in progress. Management believes that adequate provision has been made for all TMG income tax liabilities.

Examination by the Service of Hammond's federal income tax return for the year ended March 31, 1973 has been substantially completed, and the examination for the years ended March 31, 1974 through March 31, 1976 is in progress. Management believes that adequate provision has been made for all Hammond income tax liabilities.

Examinations by the Service of Cerro's federal income tax returns for the years 1965 through 1971 have been substantially completed and additional liabilities have been proposed. The Service is examining Cerro's federal income tax returns for the years 1972 through 1974 and various proposals are currently under consideration, but no report has yet been issued. Cerro's returns include the effects of complex transactions among which is the 1974 expropriation of Cerro's subsidiary, Cerro de Pasco (C de P), discussed below.

On January 1, 1974, C de P was expropriated by the Peruvian government resulting in a loss of $135,000,000 which was reflected in Cerro's federal income tax return for 1974. On January 22, 1974, the Service advised Cerro by a private ruling letter that it considered the 1974 C de P expropriation loss to have resulted from a compulsory or involuntary conversion of the stock of C de P and that the loss qualified as an ordinary loss which could be carried over and applied against the Cerro affiliated group income for as long as ten years to the extent not utilized during the taxable year in which it arose. By letter dated May 12, 1976, the Service advised Marmon that the January 22, 1974 ruling letter was being retroactively revoked with respect to the conclusion that the loss was an involuntary conversion of the stock of C de P and held that the transaction will be treated as an expropriation of assets. The Service also insisted upon physically examining the books and records of C de P in Peru in order to verify the basis of C de P's assets. After a delay of approximately one year, the Service, in September 1977, received permission from the Peruvian government to conduct an examination in Peru. This examination was made in October 1977. Due to the complexities of the transaction, there may be a considerable period of time before any conclusions can be formed on the results of the examination. However, management believes that the adjusted basis of C de P's assets can be established.

Income reported for income tax purposes for 1976 included approximately $50,000,000 from advance payments received on copper sales. Certain prior returns of Cerro included amounts

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from similar sales. For income tax purposes, but not for financial reporting purposes, such payments are reported as sales in the year of receipt while the related cost of sales is reported at the time of delivery, which as to the 1976 sale occurred in January 1977. Generally, to the extent that the cost of copper sales reported at time of delivery is not offset by taxable income in the same year, a net operating loss will result which may (within certain limitations) be carried back and then, to the extent unused by carryback, carried forward against income of future years. Advance payment transactions, like other business transactions, are subject to examination by the Service and could influence the possibilities of ultimate realization of the future tax benefits available as well as the timing of such realization.

Significant potential future income tax benefits became available to Marmon as a result of the acquisition of Cerro. A substantial portion of these benefits have been recognized by Marmon through December 31, 1977 and the remaining potential benefits are estimated to be approximately $2,000,000. Marmon management believes that the remaining benefits will be realized and that no material change in Cerro's prior year income tax position, other than as previously provided for, should result from the Service's examinations. However, because of the complexities of the matters involved, Marmon management, which was not part of Cerro management prior to March 1974, cannot presently determine the ultimate effects of the Service's examination on Cerro's prior year income tax position or the resulting effects on Marmon. Therefore, Marmon has deferred, in the consolidated balance sheet, all of the realized income tax benefits, as discussed more fully in Note 3.

Income taxes included in the consolidated statement of income consist of the following:

	1977	1976
Federal		
Current	$20,694	$13,096
Deferred	(4,740)	3,089
Provision in lieu of income taxes	18,315	7,397
Foreign		
Current	829	162
Deferred	721	720
State and other		
Current	7,032	3,424
Deferred	(682)	1,663
Total income taxes	42,169	29,551
Less income taxes applicable to discontinued operations	3,219	1,501
Income taxes applicable to continuing operations	$38,950	$28,050

The income tax effects of significant items which resulted in effective tax rates of 46.2% in 1977 and 42.6% in 1976 on income before allocation of income taxes, equity in net income of Cerro and discontinued operations are detailed below:

	1977	1976
Theoretical federal income taxes (at 48%) on reported income	$40,479	$31,600
Increase (decrease) resulting from:		
Excess of tax depreciation over financial statement depreciation*	(2,964)	(1,747)
Excess of tax depletion (percentage depletion basis) over financial statement depletion	(1,883)	(964)
Excess of financial statement gains on asset dispositions over tax basis amounts*		(2,417)
State and other income taxes less federal income tax benefits	3,237	2,593
Investment tax credits	(1,343)	(902)
Other—net	1,424	(113)
Income taxes reported	$38,950	$28,050

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*The acquisitions of Cerro and Hammond were non-taxable transactions and the income tax basis of the assets acquired became Marmon's income tax basis. Such tax basis exceeds the financial statement basis of certain property, plant and equipment and investments after the allocations of purchase cost (Note 2). This results in an excess of tax basis depreciation over the financial statement amounts and greater gains or lesser losses on disposition of these assets for financial statement purposes than for income tax purposes.

The effective income tax rates of the discontinued operation differ from 48% due to the following:

	1977	1976
Theoretical federal income taxes (at 48%) on reported income	$3,131	$2,420
Increase (decrease) resulting from:		
Excess of tax depreciation over financial statement depreciation	(312)	(582)
Excess of financial statement gains on asset dispositions over tax basis amounts	(87)	(211)
Excess of tax gain on disposition over financial statement gain, less effects of capital gains rate	352	
Investment tax credits	(22)	(190)
Other—net	157	64
Income taxes reported	$3,219	$1,501

With the exception of $3,015,000 of deferred federal income taxes provided in 1976 on certain metals trading gains, deferred federal income taxes applicable to each other type of difference are less than 5% of the theoretical federal income taxes in each year. Provisions for federal income taxes are not expected to differ materially from income taxes payable in the three years subsequent to 1977 except to the extent that taxes payable are reduced by the utilization of prior year losses of Cerro or the effects of the tax sharing agreement.

16. Litigation and Other Contingent Liabilities

All significant litigation relating to Marmon and the merger of Cerro into Marmon described in the notes to Cerro-Marmon's December 31, 1976 consolidated financial statements included in Marmon's 1976 Annual Report to Shareholders have been settled and dismissed on the bases described therein. The settlements had no significant effect on the 1977 consolidated financial statements.

A suit entitled "Consumer Product Safety Commission vs. The Anaconda Company, et al" was served on Marmon on November 2, 1977. This suit, brought against approximately thirty wire manufacturers and electrical device manufacturers including Marmon, is a culmination of an investigation by the Consumer Product Safety Commission ("Commission") of aluminum wiring systems used in residential housing using the "old technology" of installing aluminum wire during the period 1965 to 1976. The Commission is alleging that the products and/or method of installation of the products are defective and imminently hazardous and the Commission is requesting communication to the persons who own the affected residences, as well as repair of the alleged defects. According to the Commission's estimate, 1,500,000 houses were built using such wiring systems. The cost to all of the defendants to comply with the relief requested by the Commission could be very substantial. A division of Marmon (formerly a division of Cerro) manufactured aluminum wiring systems of this type during the period 1968-1970 but has not manufactured or sold any such aluminum wiring systems for residential purposes using old or new technology since then. Marmon's share of this market is estimated to have been less than one percent. The defendants made a motion to dismiss on the basis that aluminum wiring systems were not a consumer product. This motion has been denied and has been appealed to the Court of Appeals for the District of Columbia. Whether or not the appeal will be granted is not presently known. The ultimate outcome of this matter cannot be determined at this time.

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On March 31, 1977 a party claiming to be a former common shareholder of Hammond filed what is purported to be a class action against Hammond, GL, Marmon and certain of the Marmon directors alleging certain federal securities law violations, common law fraud and violation of fiduciary duties in connection with the merger of Hammond into Marmon. The claimant requests the court to grant the members of the class damages, costs, attorneys' fees and such other relief as is just and proper. It is the opinion of management that this case will be decided favorably to Marmon.

Leadership is involved in pending and threatened litigation related primarily to prior construction activities, class actions related to sales, recreation leases and other deed restrictions, and Florida corporation income taxes. The gross amount of judgments sought by claimants is substantial in relation to Leadership's consolidated financial position at December 31, 1977; however, while Leadership believes, based on consultation with various legal counsel, that meritorious defenses exist with respect to such claims, the exposure or ultimate loss, if any, cannot be determined at this time.

A subsidiary, RegO, has had a number of product liability claims filed in 1977 and, commencing January 1, 1977, its insurance coverage was revised to significantly increase the uninsured deductible portion of each claim. It is not possible at this time to determine the exposure or ultimate loss, if any, that may result from such product liability claims or any claims that may be filed in the future.

In January, 1975 Marmon's wholly-owned utility was granted an interim rate increase. Subsequent thereto the interim increase was rescinded and Marmon was ordered to refund the revenues resulting from the rate increase (approximately $2,000,000). The rescission order is under appeal. The ultimate outcome of this matter cannot be determined at this time.

Prior to its purchase by Marmon, Cerro invested approximately $14,000,000, including working capital advances, in a tape recording distribution company acquired in 1971. This business was subsequently discontinued. Marmon is the plaintiff in a legal action which seeks recovery of amounts not less than the cost of this investment.

Provision has been made for the minimum losses that are expected to result from the above matters and no amount has been reflected for any recovery in the matter in which Marmon is the plaintiff, all in conformity with Financial Accounting Standard No. 5. The ultimate aggregate effect, if any, of the above matters on the consolidated financial statements of Marmon is not determinable at this time, but, in the opinion of Marmon's management, any effect should not be materially adverse to Marmon's consolidated financial position.

17. Capital Stock

The Preferred Stock became issuable February 24, 1976 (Note 1) and is entitled to dividends at the annual rate of $2.25 per share ($2.35 per share beginning in 1981) on a cumulative basis, a liquidation preference of $22 per share plus accrued dividends, and one vote per share. All or part of the Preferred Stock may be redeemed by Marmon on or after April 1, 1981 at $22 per share plus accrued dividends. Commencing in 1982, 6⅔% of the shares issued are to be redeemed annually at $22 per share until all such shares are redeemed or acquired by Marmon.

The outstanding common stock is entitled to four votes per share. See Note 11 for restrictions on dividends under terms of the debt agreements.

The amounts shown in the consolidated statement of shareholders' equity for "Accrual of mandatory redemption value of preferred stock" represents the accrual of the difference between the redemption value of the Preferred Stock ($93,699,000) and the value assigned to such shares at date of issue ($88,375,000). This difference is being accrued over the period February 26, 1976 to April 30, 1981.

18. Unusual Charges in 1977

In the first quarter, Marmon negotiated the termination of long-term employment and other related contracts with certain officers of a coal mining subsidiary. The cost of this settlement of

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approximately $4,625,000 is reflected in selling and administrative expense. In the fourth quarter, the coal mining subsidiary wrote off approximately $3,555,000 of deferred mine development costs that were doubtful of recovery and a real estate subsidiary made a provision of $4,004,000 for the loss on disposal of its interest in a joint venture (Note 8(C)).

19. Transactions with Companies Under Common Control

Significant amounts relating to transactions with affiliates are as follows:

	1977	1976
Sales of coal	$52,838	$8,214
Sales of refined metals	11,992	7,924
Purchases of refined metals	4,921	22
Sales other	1,020	
Brokerage expense (coal sales)	1,342	819
Management fee income	481	394
Interest income	423	292
Rental expense	609	443
Insurance premium expense	528	389

Sales of coal to an affiliate are at prices which, in effect, allow the affiliate to earn, on resale of the coal, a 2% gross margin on the first million tons and 1% on the excess. Other sales to or purchases from affiliates and receivables from or payables to affiliates, other than amounts shown separately in the consolidated financial statements and income tax amounts (Note 15), are not significant. See Note 8 with respect to related party transactions of the real estate subsidiaries.

20. Quarterly Data (unaudited)

	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
Sales				
1977	$308,976	$286,624	$277,787	$295,319
1976	193,405	217,886	210,347	206,580
Cost of sales				
1977	265,977	235,094	232,338	246,360
1976	170,914	183,973	172,181	176,447
Net income				
1977	9,075	14,691	15,479	9,440
1976	8,878	12,193	14,479	7,209

See Note 18 for unusual charges in 1977. In addition, the third quarter net income includes the gain of $1,863,000 after income taxes from the sale of the discontinued trucking operations. The fourth quarter net income includes the effects net of applicable income taxes of favorable inventory adjustments of $1,000,000, reflecting adjustments of charges included in prior quarters.

21. Replacement Cost Data (unaudited)

Marmon's 1977 Annual Report on Form 10-K ("10-K") discloses quantitative information with respect to the estimated replacement cost of inventories and productive capacity at December 31, 1977 and 1976 and the related estimated amounts of cost of sales and depreciation expense on a replacement cost basis for the years then ended.

Marmon's reported operating results are significantly affected by the lower depreciation expense which results, in part, from allocations of Marmon's purchase cost to the net assets of acquired companies. The replacement of Marmon's productive capacity would require a substantially greater capital investment than was required to acquire the existing productive capacity and, consequently, a substantially greater depreciation expense.

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22. Industry segment information

The principal industry segments in which Marmon operates are as follows:

1. Pipe and tubing—distributes carbon, alloy and stainless steel pipe; produces copper plumbing tube, electrolytic copper cathode, and extruded and drawn aluminum tubing.

2. Metal products—produces mill products including brass and bronze rod, bar, shapes, wire, forgings, screw machine parts and die castings as well as certain low melting point alloys and manufactures valves, fittings, regulators and other related control equipment for pressurized gases, principally propane gas.

3. Wire and cable—manufactures single and multi-conductor building wire and cable, power and instrumentation cable, aerospace and marine cable, copper wire rod, electrical metallic tubing and co-axial cable.

4. Automotive products—manufactures truck flat leaf springs and gray iron castings used in automotive parts such as brake cylinders, power steering pumps and compressors, and a broad line of automotive parts including automobile springs, automobile and truck transmission gears, shafts, clutch plates, U-bolts, chassis and related parts.

5. Apparel accessories—manufactures wearing apparel, including a broad line of work gloves.

6. Mining equipment—designs and manufactures underground mining equipment which is sold principally to the coal industry.

7. Other manufacturing—principally the manufacture and sale of musical equipment, agricultural equipment, general merchandise display and storage equipment and all-steel doors and door frames.

8. Metals trading—engages in world wide non-ferrous refined metals trading activities generally through domestic and foreign exchange markets.

9. Coal mining—low volatile metallurgical coal is sold domestically and abroad, with a substantial portion of present production committed to a long-term sales agreement with two Japanese corporations. Medium volatile metallurgical coal is sold principally to a major domestic steel producer through an affiliated coal broker.

10. Real estate subsidiaries—engages primarily in the sale of improved and unimproved land and participates in joint ventures engaged in land development and ownership and operation of a shopping center.

Operations of the industry segments discussed above are conducted principally in the United States. Export sales and foreign operations are not material. The pricing policy with respect to intercompany sales is comparable to that for unaffiliated customers. No one customer accounted for more than 10% of total sales.

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FIVE YEAR SUMMARY OF OPERATIONS

(In thousands of dollars)

The following summary of operations consists of (1) the consolidated amounts for TMG (Marmon's accounting predecessor company) including TMG's 45.33% interest in Cerro accounted for on an equity basis from August 1, 1974 to February 25, 1976 and (2) the consolidated amounts for Marmon for the period commencing February 25, 1976. This summary, not reported upon herein by certified public accountants, should be read in conjunction with the consolidated statements of Marmon and the certified public accountants' report with respect thereto, which is qualified as set forth therein, contained elsewhere in this Annual Report to Shareholders.

	Years Ended December 31,				
	1977	*1976*	*1975*	*1974*	*1973*
Revenues	$1,187,812	$839,145	$277,108	$269,135	$189,223
Cost of sales	(979,769)	(703,515)	(217,790)	(212,627)	(150,108)
Selling and administrative expenses (Note 18)	(97,147)	(58,455)	(26,580)	(23,421)	(19,037)
Interest expense	(17,049)	(11,342)	(8,024)	(5,314)	(723)
Equity in loss of real estate subsidiaries (Note 8)	(9,515)				
Income before amounts shown below	84,332	65,833	24,714	27,773	19,355
Income taxes (Note 15)	(38,950)	(28,050)	(12,855)	(14,227)	(9,879)
Equity in net income of Cerro (Note 2(a))		1,436	10,384	3,180	
Income from continuing operations	45,382	39,219	22,243	16,726	9,476
Income from discontinued operations less income taxes (Note 2(c))	3,303	3,540	2,460	1,032	
Net income	48,685	42,759	24,703	17,758	9,476
Net income applicable to preferred stock (Note 17)	(10,630)	(9,009)			
Net income applicable to common stock	$ 38,055	$ 33,750	$ 24,703	$ 17,758	$ 9,476

Note references are to Notes to Consolidated Financial Statements.

In its annual report on Form 10-K for the year ended December 31, 1976, Marmon reported that during the first quarter of 1977, it negotiated the termination of long-term employment and other related contracts with certain officers of a subsidiary. Final settlement costs of $4,625,000, before related income taxes, differed from the initial estimate of $4,000,000 as a result of adjustments to reflect the effect of the detailed allocation of Marmon's cost to Cerro's net assets.

FIVE YEAR INDUSTRY SEGMENT INFORMATION

The following table sets forth the historical amounts of sales and income from continuing operations before income taxes of TMG for all periods prior to February 25, 1976 and Marmon's amounts for all periods subsequent to February 24, 1976, adjusted to give effect to the merger of Cerro into Marmon on February 24, 1976. This table should be read in conjunction with the pro forma segment information and Management's Discussion and Analysis of Results of Operations contained elsewhere in this Annual Report to Shareholders. Amounts for 1976 and prior years have been reclassified for comparability with the 1977 segment presentation.

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	Years Ended December 31,				
	1977	1976	1975	1974	1973
Sales(2)					
Pipe and tubing(1)	$ 211,614	$180,002	$ 88,928	$105,929	$ 69,521
Metal products(1)	128,362	95,160			
Wire and cable(1)	120,620	102,053			
Automotive products	118,242	92,333	77,445	75,058	52,091
Apparel accessories(3)	67,764				
Mining equipment	66,398	69,028	75,742	46,592	27,565
Other manufacturing(3)	90,160	37,902	33,421	40,043	39,101
Total manufacturing	803,160	576,478	275,536	267,622	188,278
Metals trading(1)	269,915	176,580			
Coal mining(1)	95,631	75,160			
	$1,168,706	$828,218	$275,536	$267,622	$188,278
Income (loss) from continuing operations before income taxes					
Pipe and tubing(1)	$ 21,863	$ 14,223	$ 5,827	$ 15,193	$ 7,273
Metal products(1)	15,925	8,374			
Wire and cable(1)	4,583	7,118			
Automotive products	12,234	9,179	8,305	6,290	6,437
Apparel accessories(3)	9,409				
Mining equipment	9,975	11,911	15,558	7,433	2,776
Other manufacturing(3)	10,201	8,007	4,028	3,428	3,887
Total manufacturing	84,190	58,812	33,718	32,344	20,373
Metals trading(1)	7,763	4,390			
Coal mining(1)	8,761	12,144			
Real estate operations(1)(2)	(9,515)				
All other(4)	(6,867)	(9,513)	(9,004)	(4,571)	(1,018)
	$ 84,332	$ 65,833	$ 24,714	$ 27,773	$ 19,355

(1) On February 24, 1976 Marmon acquired Cerro, which businesses comprise all, or a major portion, of each of these industry segments.

(2) The real estate subsidiaries are accounted for on the equity method and their sales are not included in consolidated sales. Losses of these subsidiaries are not included in consolidated income prior to 1977 (see Note 8 of Notes to Consolidated Financial Statements).

(3) On January 26, 1977 Marmon acquired Hammond, which businesses comprise all, or a major portion, of these segments.

(4) Includes interest and dividend income, gains and losses on investments; corporate administrative expenses, interest expense, other than interest expense directly attributable to metals trading, and miscellaneous other amounts not attributable to a specific industry segment.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

The following comments relate to the preceding business segment data which is on a pro forma basis for 1976 and 1975 to reflect the effects of the combination of Cerro and TMG as if such combination took place on January 1, 1975. Operating results of Marmon Company (formerly Hammond Corporation) are included for the period subsequent to January 26, 1977, the date of acquisition by Marmon.

Changes between 1977 and 1976 (based upon pro forma amounts in 1976) in sales and income from continuing operations before income taxes for each business segment, income taxes and discontinued operations are discussed below.

Consolidated

Marmon's 1977 sales, income from continuing operations before income taxes, and net income increased over the 1976 pro forma amounts by $260.3 million (29%), $11.5 million (16%), and $3.5 million (8%), respectively. The acquisition, in late January 1977, of Hammond significantly increased the amounts reported for 1977 (pro forma sales and net income for 1976 would be greater by approximately $126 million and $5.5 million, respectively, if Hammond had been included in such data on a pro forma basis from January 1, 1976). The inclusion of the loss of the real estate subsidiaries in the 1977 income amounts, but not in the 1976 amounts, significantly reduced the 1977 amounts.

Pipe and Tubing

Sales increased 9%, despite a strike at a major plant from November 6, 1977 to January 15, 1978, and income was up by 41%. Improvement in general economic conditions, particularly in the home construction industry, resulted in better pricing which improved income proportionately more than the sales increase.

Metal Products

Sales increased 14% and income was up 57%. The increased sales reflect higher metal prices through most of the year and better market demand in the general industrial and construction areas. The increase in income is primarily due to higher sales and increased margins resulting from improved pricing and a better product mix, partially offset by the effect of the extension of the LIFO method of valuing inventories to one of the metal divisions.

Wire and Cable

While sales increased 2% over 1976, income declined 46%. The sales increase resulted from a higher volume of shipments partly offset by lower selling prices. These results reflect continued severe price competition due to reduced product demand in industrial and commercial construction markets and delays in nuclear power construction projects. While the home construction market was strong and sales have increased in this area, lower prices from over-capacity of wire and cable manufacturers adversely affected sales prices and, together with increased costs, reduced margins and income.

Automotive Products

As a result of higher activity in the automotive industry and price increases, sales and income increased 28% and 33%, respectively. The proportionately greater increase in income resulted principally from improved utilization of facilities.

Apparel Accessories

This segment, formerly a part of Hammond, was acquired on January 26, 1977. Sales were 22% above the sales for the comparable eleven month 1976 period. This increase resulted principally from physical volume increases.

Mining Equipment

This operation experienced some stabilizing of demand in 1977 after a decline in 1976 from the abnormally high energy crisis demand in 1975. However, sales were down 4% as a result of the national coal strike begun on December 6, 1977. Income declined 16% due to the lower sales and smaller margins. New production capacity added in recent years was not fully utilized, the cost of which contributed to the reduction in margins.

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Other Manufacturing

The sales and income increase in 1977 over 1976 is primarily due to the musical instrument segment, acquired by Marmon on January 26, 1977, and which was not included in the 1976 amounts.

Metals Trading

Sales and income were up 36% and 29%, respectively, reflecting additional emphasis on sales programs and greater use by the industry of dealer/merchant copper versus producer copper.

Coal Mining

The sales increase of 12% was the result of better prices for spot and short term contract shipments and normal escalations under a long term contract. Income declined 35% as the result of the write-off of unrecoverable mine development costs, additional costs from the unionization of certain mines, the effect of the national coal strike begun December 6, 1977 and a charge for termination of long-term employment and other related contracts.

Real Estate Subsidiaries

Sales of the nonconsolidated real estate subsidiaries in 1977 were $57.4 million compared to $56.8 million in 1976. Such sales are not included in consolidated net sales as the real estate subsidiaries are accounted for on the equity method. A portion of 1977 sales were made at book value. The loss for 1977 includes $5.1 million relating to a joint venture in process of termination and $1.8 million of intercompany interest expense. No amount was included in 1976 income for the loss of the real estate subsidiaries as the loss was charged to a reserve established therefore in the purchase cost allocation (Note 8 of Notes to Consolidated Financial Statements).

Corporate—net

The reduction in the 1977 corporate charge to income from the 1976 charge is due principally to increased dividend and interest income.

Income Taxes

The effective income tax rate on 1977 income from continuing operations was 46.2% as compared to an effective rate of 42.9% on 1976 pro forma income from continuing operations. The increase in the effective rate in 1977 is attributable to the increase in income, which was subject to tax at statutory federal and state rates, and a decrease in the effect of dispositions of assets with higher income tax bases than financial statement bases.

Discontinued Operations

The effect on net income of the discontinued trucking operations was approximately the same in both years. The 1977 amount includes $1.9 million of net gain on the sale of this business in August 1977.

Changes between 1976 and 1975 (based upon pro forma amounts) in sales and income from continuing operations before income taxes for each business segment, and income taxes are discussed below.

Consolidated

Marmon's 1976 pro forma sales, income from continuing operations before income taxes, and net income increased over the pro forma 1975 amounts by $154.6 million (21%), $7.4 million (11%) and $6.6 million (17%), respectively.

Pipe and Tubing

The year 1976 compared to 1975 shows significant improvements with an increase of 32% in sales and 61% in income. These improvements reflect the effect of a strike at a major plant in 1975 and, as to income only, the results of a cost reduction program initiated during the latter part of 1975. General economic conditions affecting pipe and tubing customers also began to improve in the latter

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Directors and Officers

ROBERT H. CUTLER*	Chairman, ICX Incorporated (interstate motor carrier)
CARLOS M. ECHAVARRIA	Vice President The Marmon Group, Inc.
ROBERT C. GLUTH*	Executive Vice President The Marmon Group, Inc.
LEWIS B. HARDER* ** ***	Chairman (Chief Executive Officer) International Mining Corporation (mining and marine terminal operations)
GEORGE A. JONES*	Executive Vice President The Marmon Group, Inc.
G. WILLING PEPPER* ** ***	Chairman of the Board The Institute for Cancer Research (non-profit research organization)
JAY A. PRITZKER*	Chairman of the Board The Marmon Group, Inc.
ROBERT A. PRITZKER*	President and Treasurer The Marmon Group, Inc.
ALAN WOLFLEY* ***	Chairman of the Board Inconcoal Corporation (coal trading)
THOMAS L. SEIFERT	Secretary and Legal Counsel The Marmon Group, Inc.
JOHN SPEVACEK	Controller The Marmon Group, Inc.
WALTER S. ROGOWSKI	Vice President and Assistant Secretary The Marmon Group, Inc.
L. WILLIAM EMMERT	Vice President The Marmon Group, Inc.
LYNN SNYDER	Assistant Secretary The Marmon Group, Inc.

*Director

**Member of Audit Committee

***Member of Conflict Transactions Committee

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Business Combination Of
Cerro Corporation
And
Cerro-Marmon Corporation
And
The Marmon Group, Inc. (Michigan)

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PR

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

RECD. S.E.C.

FORM 10-Q

AUG 16 1971

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 1971 Commission File No. 1-1527

HECLA MINING COMPANY
(Exact name of registrant as specified in its charter)

Washington	82-0126240
(State of incorporation or organization)	IRS tax number

Hecla Building - Wallace Idaho	83873
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code 208-752-1251

LS 001520

HECLA MINING COMPANY

FORM 10-Q - Quarterly Report

A. Summarized Financial Information

HECLA MINING COMPANY AND WHOLLY OWNED SUBSIDIARIES

Profit and Loss Information	For the Six Months Ended: June 30, 1971	June 30, 1970
Gross sales less discounts, returns and allowances	$ 11,650,845	$ 12,663,939
Other income	577,069	221,118
	12,227,914	12,885,057
Costs and expenses	9,033,976	8,747,089
Income before taxes on income	3,193,938	4,137,968
Provision for taxes on income, based on estimated annual effective tax rate:		
Currently payable	(502,500)	141,200
Deferred (arising mainly from mine development expenses which are deferred in the financial statements and deducted currently in the income tax returns)	1,481,000	1,220,200
	978,500	1,361,400
Net income	$ 2,215,438	$ 2,776,568
Earnings per share*	$ 0.36**	$ 0.45***
Cash dividends per share	None	$ 0.17***

* Average shares outstanding.

** Adjusted to reflect the 2% stock dividend paid on August 2, 1971 to shareholders of record May 14, 1971.

***Adjusted to reflect the 2% stock dividends paid on August 2, 1971 and August 1, 1970 to shareholders of record May 14, 1971 and May 15, 1970 respectively.

HECLA MINING COMPANY

FORM 10-Q - Quarterly Report

B. Capitalization and Stockholders' Equity

As of June 30, 1971

	Amount
Debt	$ None
Deferred income taxes	$ 4,737,700
Stockholders' equity:	
Capital stock, 25¢ par value, authorized 8,000,000 shares; issued 6,206,021 shares (See note below for shares reserved for options)	$ 1,551,506
Capital in excess of par value	$ 15,262,388
Retained earnings:	
Balance at January 1, 1971	$ 29,891,066
Net income, caption 10 - Item A	2,215,438
Dividends: 2% stock dividend declared and payable	2,922,802
Balance at June 30, 1971	$ 29,183,702
Treasury stock	
Capital stock reacquired at cost, 239 shares	$ 2,687
Total stockholders' equity	$ 45,994,009

Notes: (1) A qualified stock option plan reserved 100,000 shares of authorized and unissued stock for issuance to officers and key employees. No options have been granted under this plan. A previous 1964 Stock Option Plan has 8,328 shares reserved for granting of additional options.

(2) The financial information given above in items A. and B. reflects all adjustments which, in the opinion of management, are necessary to a fair statement for the period reported on.

Remarks: 1971 Financial data given above is unaudited.
Printed report mailed to stockholders is attached.

HECLA MINING COMPANY

FORM 10-Q - Quarterly Report

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HECLA MINING COMPANY
(Registrant)

By William J. Grismer
William J. Grismer, Secretary

Date: August 12, 1971

HECLA MINING COMPANY

Consolidated Statement of Income

For the Six-Month Periods Ending June 30, 1971 and June 30, 1970

	Six Months Ended June 30 1971 (estimated)	Six Months Ended June 30 1970 (estimated)
Sales of concentrates and products	$11,650,815	$12,663,939
Dividend income	135,317	191,578
Interest and other income	103,090	206,893
Gain on sale of securities - net of loss on sale of silver futures	338,662	(177,353)
Total revenue	12,227,914	12,885,057
Deduct		
Cost of sales	8,171,795	7,679,399
Exploration and development - Outside projects	348,656	572,023
Consolidated Silver Project costs	176,344	177,977
Administrative and other miscellaneous expenses	116,938	107,178
Depreciation, depletion and amortization	220,243	210,512
Total deductions	9,033,976	8,747,089
Income before federal and state taxes on income	3,193,938	4,137,968
Estimated taxes on income		
Currently payable	(502,500)	141,200
Deferred	1,481,000	1,220,200
	978,500	1,361,400
Net income	$ 2,215,438	$ 2,776,568
Average shares outstanding during period	6,203,933*	6,202,416**
Net income per share	$ 0.36*	$ 0.45**
Average metal prices		
Silver - (Per ounce, Handy & Harman, N.Y.)	$ 1.64	$ 1.79
Gold - (Per ounce, London price)	$ 38.84	$ 35.05
Lead - (Per pound, New York)	13.52c	16.50c
Zinc - (Per pound, Prime Western delivered)	15.39c	15.50c
Copper - (Per pound, Domestic)	51.28c	57.82c

*Adjusted to reflect shares issued pursuant to a 2% stock dividend paid August 2, 1971 to shareholders of record May 14, 1971.

**Adjusted to reflect shares issued pursuant to 2% stock dividends paid both on August 1, 1970 and Aug-

HECLA MINING COMPANY

TO THE SHAREHOLDERS OF
HECLA MINING COMPANY

For the first six months of 1971 the Company realized consolidated net income of $2,215,438 or $0.36 per share on an average of 6,203,933 shares outstanding. This compares with consolidated net income of $2,776,568 or $0.45 per share on an average of 6,202,416 shares outstanding in the corresponding period of 1970.

Certificates for the 2% stock dividend declared on April 29, 1971 were mailed to shareholders on August 2, 1971. This stock dividend was declared in lieu of further cash dividends for 1971 in order to conserve funds needed for financing preproduction costs at the Company's Lakeshore Arizona copper properties.

Management is pleased with developments at the Lakeshore property. The segregation plant, formerly operated by El Paso Natural Gas Company in connection with its near surface operation, has been converted into a pilot concentrator capable of treating over 900 tons of ore per day. A pilot roast-leach-electrowinning plant is nearly completed, and will process a portion of the concentrates which will be produced from the pilot concentrator. The sulfide ore feed for the pilot concentrator will be supplied from underground development headings which are scheduled to be in ore during the third quarter of this year.

The Company's earnings for the first half of 1971 continued to be adversely affected by lower metal prices although improved operating results were realized at most operations. The average price realized for silver in the first half of 1971 was 1.64 per ounce as compared with $1.79 per ounce in th first half of 1970. The average price realized for leac declined from 16.50c in the first half of 1970 to 13.52c er pound in the first half of 1971.

Net working capit l (current assets less current liabilities) at June 30, 19 1 totaled $10,260,000 as compared with $10,785,000 at December 31, 1970.

Production for the first six months of 1971 as compared with the first six months of 1970 was as follows:

	First Six Months 1971	First Six Months 1970
Tons of ore produced	243,712	237,158
Ounces of silver	3,180,531	3,204,376
Ounces of gold	30,845	29,912
Tons of lead	16,137	14,485
Tons of zinc	4,862	4,828
Tons of copper	1,069	966

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owned and related assays for the first
were as follows:

ine, Mullan, Idaho - 106,769 tons as-
of silver, 11.4% lead and 1.3% zinc;
Area, Burke, Idaho - 32,979 tons as-
of silver, 5.9% lead and 6.6% zinc;
ober City, Utah - 62,835 tons assay-
gold, 5.1 ounces of silver, 4.0% lead,
% copper; Sunshine Unit Area, Kel-
9 tons assaying 27.5 ounces of silver

L. J. RANDALL
Chairman of the Board

W. H. LOVE
President
and General Manager

HECLA MINING COMPANY

SECOND QUARTER REPORT

Six Months
Ended June 30, 1971

Wallace, Idaho

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HECLA MINING COMPANY
1976 ANNUAL REPORT

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To the Shareholders of Hecla Mining Company

The year 1976 was highlighted by substantial operating losses at the Lakeshore Mine and a material loss of income at the Sunshine Mine. Excellent results were obtained at the Lucky Friday Mine, and the Star-Morning Unit operation achieved satisfactory results.

The Company's consolidated net loss for the year 1976 was $5,438,215 or $0.79 per share as compared to net income of $5,953,699 or $0.87 per share for the year 1975. Earnings per share in both years have been adjusted for the 2% stock dividend paid in 1976.

The principal reason for the loss in 1976 was the Company's one-half interest in the operating losses of the Lakeshore Mine in Arizona. The Lakeshore Mine, a 50-50 partnership with El Paso Natural Gas Company, was placed on an operational status for accounting purposes as of April 1, 1976, and operating results from that time forward, including current interest costs, are reflected in the Company's regular income accounts. Hecla's share of net loss from the Lakeshore operation from April 1, 1976 through year end was $10,244,733, including amortization and depreciation of $3,136,000, and interest expense of $3,040,296. Hecla's total investment in the Lakeshore Mine on December 31, 1976 was $108,470,699 excluding working capital.

Losses continue to be experienced by the Sunshine Unit Area due to a labor strike which commenced March 11, 1976, and Hecla's net loss from this operation for the year 1976 was $335,000 or $0.05 per share, as compared to net income for the year 1975 of $1,649,000 or $0.24 per share.

The Company's equity in the net loss of 35.4%—owned Granduc Mines, Limited, for the year 1976 was $406,400 or $0.06 per share, compared to an equity in net loss of $782,200 or $0.11 per share for the year 1975.

The operating loss experienced at the Lakeshore operation was due to start-up costs, difficulty in achieving full mine production rates, and low copper prices. Start-up problems have been largely eliminated; as efficiency improved, much progress was made in lowering unit costs, especially during the last few months, despite ever-increasing labor and supply costs. Production is increasing and is expected to be at a satisfactory level in the second quarter of this year. Low copper prices continue, however, and it seems doubtful that the operation can achieve an operating profit before depreciation, amortization, and interest costs, unless at least some small increase in the copper price is realized.

It should be noted that prevailing copper prices are very low as related to copper mining industry production costs. Over the past 20 years the copper price has averaged about 1.6 times cost of production; if this ratio were applicable in 1976 the average price for copper should have been between 90¢ and 100¢ per pound—versus the actual average producer price for 1976 of 69¢ per pound (The New York Commodity Exchange average spot price during 1976 was 64.1¢ per pound).

The metallurgical processing complex at Lakeshore, including crushing plant, concentrator, roast-leach plant, sulfuric acid plant, electrowinning tankhouse, vat leach and cementation plant, and the sponge iron plant all operated efficiently and have demonstrated design capacity.

The oxide mine reached rated production capacity in August, and although production declined in late 1976, that mine is again near its normal production rate. The sulfide mine has been

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Description of Exploration and Development Activity

During 1976 Hecla's exploration efforts were directed mainly to the western United States and western Canada in areas considered favorable for the occurrence of gold, silver, copper-molybdenum, lead, and zinc deposits.

The Company's principal exploration office is at the corporate headquarters in Wallace, Idaho. Other exploration offices are maintained in Reno, Nevada; Denver, Colorado; and Vancouver, British Columbia.

Expenditures on property examinations and exploration and development related to nonproducing properties amounted to $1,303,000 in 1976, as compared to $1,149,000 in 1975 and $1,066,000 in 1974. These figures include capitalized development expenditures of $55,000, $43,000 and $258,000, respectively, on the Liard-Schaft Creek copper-molybdenum property in British Columbia.

Expenditures on exploration projects conducted from North Idaho operations accounted for $622,000 of the total 1976 expenditures.

Investigation of several areas in western Canada was carried out during the 1976 field season, and this work will be continued in 1977. No further drilling was done at the Liard-Schaft Creek property during 1976; a moderate amount of drilling is scheduled for 1977 at Liard. Additional diamond drilling and bulk sampling for metallurgical test work, which is not yet scheduled, will be required before final feasibility studies can be made.

In the Coeur d'Alene District of Idaho, Hecla's exploration and development projects included the South Morning, D.I.A., Abor North, and West Independence properties in the Lucky Friday and Star-Morning mine areas near Mullan; the Chester Area of the Sunshine Mine; and the Consolidated Silver property in the Silver Belt west of Wallace.

The South Morning property, owned by the Star Unit Area (Bunker Hill and Hecla), was explored by Hecla under an agreement with Bunker Hill. The property lies south of the Star-Morning mine and covers a large block of ground bounded on the north by the Paymaster fault and on the south by the White Ledge fault. The area was explored on the Morning mine No. 6 Tunnel level by a 1,600-foot westerly lateral and 6,400 feet of diamond drilling. The lateral was completed in 1975 and the drilling in 1976. No significant mineralization was found and the exploration was terminated.

The D.I.A. project will explore the Lucky Friday Extension, Gold Hunter, Independence and Abor properties lying north and west of the Lucky Friday Mine. The properties are being explored by a long northerly crosscut on the Lucky Friday Mine 4050' level. During 1976 the crosscut was driven 1,789 feet, of which 819 feet were in the D.I.A. property.

The West Independence property is being explored from the 7300' level of the Star-Morning Mine. The 7300 East lateral advanced 1,069 feet during the year and is now about 3,900 feet east of the Star-Morning No. 4 shaft, with the last 1,600 feet in West Independence ground. The lateral will be extended an additional 500 feet southeasterly to explore for possible ore shoots along the projected trend of the East Morning vein-fault in the West Independence property. No significant mineralization has been found thus far.

Hecla owns 50.1% of the outstanding common shares of Consolidated Silver Corporation, whose property is comprised of Hecla's Silver Summit Mine and seven adjoining properties. In 1969 the

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Mining Operations and Interests

Lucky Friday Mine

Coeur d'Alene District—Idaho

Hecla's wholly-owned Lucky Friday mine produced 186,520 tons of ore assaying 14.41 ounces of silver per ton, 10.91% lead, and 1.47% zinc in 1976, compared with 173,245 tons of ore assaying 14.96 ounces of silver per ton, 10.71% lead and 1.29% zinc in 1975. Calculated ore reserves at year-end were 475,000 tons compared with 505,000 tons at the end of 1975.

Operating costs during 1976 increased about 5 percent. Smelting treatment costs have increased over 45 percent since May 1, 1975. These cost increases were partly offset in 1976 by increased tonnage and by an increase in the average price of lead from 21.5¢ per pound in 1975 to 23.1¢ per pound in 1976.

Stope preparation work on the 4250' level was essentially completed, and the length and tenor of the developed ore correspond favorably with that on levels above. Lateral development was started on the 4450' level. The 4450' level station work was also completed, and the lateral system advanced to a point 300 feet south of the shaft.

The main shaft was deepened 187 feet to reach a point 172 feet below the 4660' level, and partial pockets were excavated for the 4660' shaft station.

Installation of hoisting facilities in a 7-foot diameter bored raise between 3050' and 4250' levels was completed during the year. In addition, a 4-foot diameter bored raise was drilled to extend this service and ventilation raise to the 4450' level. Enlarging to 7-foot diameter and extension of the hoisting facility to provide service to the 4450' level are planned.

Stoping of the orebody continued in a satisfactory manner. Manpower availability was good throughout the year and was accompanied by an improvement in productivity. The mine is in good condition and it is anticipated that the operation will continue its substantial contribution to earnings.

Star-Morning Unit Area

Coeur d'Alene District—Idaho

Hecla is the operator of the Star-Morning Unit Area. Production from the mine is owned 30% by Hecla and 70% by The Bunker Hill Company. Hecla also receives a small royalty on ores mined from the Morning section of the mine.

The mine produced 282,037 tons of ore during 1976, compared with 282,161 tons in the preceding year. Hecla's share of the 1976 production was 84,612 tons of ore assaying 2.98 ounces of silver per ton, 5.61% lead, and 6.05% zinc, compared with 1975 production of 84,648 tons of ore assaying 2.49 ounces of silver per ton, 5.00% lead, and 5.64% zinc. Hecla's 30% share of the computed ore reserves was 344,000 tons at the end of 1976, as compared with 394,000 tons at the end of 1975.

Operating costs at the Star-Morning Unit Area were down slightly in 1976 as compared to 1975. Smelter treatment charges have increased well over 60 percent since July 1, 1975 (on the basis of the Bunker Hill proposal as discussed below). Revenues were decreased by a lower average price for zinc. The sharply increased smelter charges and the decrease in average zinc price were partly offset by a higher average lead price and by mining of higher grade ores.

Ore production from the several Star-Morning veins was again excellent throughout the year

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Mining Operations and Interests, continued

and plant and that mining would be started immediately after the labor problems are finally settled.

There is little to report on operations because the mine was closed most of the year. However, two operational items are noted: (1) Drift development on the 4800' level extended the length of minable ore on the Copper vein, and a combined length of 880 feet of ore has now been developed from four ore shoots along this vein; and (2) installation of a new rock burst monitoring system similar to those at our Star-Morning and Lucky Friday mines was completed and became operational just prior to the strike.

In March 1974 Silver Syndicate, Inc. filed a suit against the Sunshine Unit Area owners claiming that Syndicate owned 50% of the ores in the 625, H and J veins in the Sunshine Mine west of a dividing plane established by an agreement in 1943, and further claiming that Hecla and Sunshine conspired to withhold these ores. In 1975 Sunshine filed a cross complaint against its Unit partners, Hecla and Silver Dollar, claiming that Sunshine owned 100% of these ores. In Hecla's answer, it claimed ownership of 33.25% of the ores in question regardless of the outcome of the Syndicate litigation. In November 1975 the issue of Syndicate's ownership was tried, and on January 22, 1976, the trial court rendered a decision in favor of Syndicate. The Company, Sunshine, and Silver Dollar have appealed this decision to the Idaho Supreme Court. It is not known when briefs will be filed or oral argument on this case will be heard. The second and third portions of the trifurcated case are not expected to come to trial until after decision of the Idaho Supreme Court. Hecla has not reflected any income from the disputed ores, but failure to prove a proportional ownership of such ore in Hecla might have an adverse effect on future results to be reported from Hecla's share of Sunshine Unit Area operations.

In July 1975 Sunshine Mining Company brought suit against Hecla and Silver Dollar Mining Company claiming that Sunshine has incurred certain expenses for the No. 12 shaft and that its Unit partners are obligated to pay their proportional share of these expenses (33.25% in the case of Hecla) plus interest. Hecla's answer and counterclaim states that Hecla should not be charged for the costs of the No. 12 shaft on the basis that its principal purpose is for development of properties of other companies who have separate agreements with Sunshine. Hecla also contends that certain Unit Area charges by Sunshine were and are improper, and has demanded an accounting with respect to these items. Since 1958 the Unit Area partners have paid the entire costs of certain facilities and mine openings within the Unit Area, including the main No. 10 production shaft. Hecla claims that Sunshine does not have the right to use these facilities and openings for any purpose other than Unit Area operations without properly compensating the Unit for such use. The proceedings in this suit are still in the preliminary stages.

In June 1976 Hecla and Silver Dollar filed suit against Sunshine claiming that certain funds related to antimony sales by Sunshine were wrongfully withheld by Sunshine and asking for specific general and punitive damages. Sunshine subsequently counterclaimed against Hecla and Silver Dollar claiming that certain sums were owed by reason of certain facilities which Sunshine had placed in its new antimony plant which have altered the facts, and that the contract should be reformed in order to allow Sunshine a greater profit from its Antimony Plant. In the Company's Answer to the Cross Claim the Company has alleged that the facilities were

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Mining Operations and Interests, continued

The Lakeshore operation includes a major copper ore deposit, with 2 mines in current production, mine and surface plant facilities, and a metallurgical complex producing electrowon cathode copper and pelletized copper precipitate.

The Lakeshore ore body consists essentially of 3 parts. The central core is a thick sulfide zone with typical porphyry-type mineralization. Tactite sulfide ore occurs at the base and marginal to the thick sulfide zone, and an oxide ore zone (formed by oxidation of a secondarily enriched chalcocite blanket) overlies the thick sulfide zone and is marginal to it on the northwest.

Sulfide ore is being mined from the thinner tactite-sulfide zone, and the thick porphyry sulfide ore will be developed for mining at a later time. The oxidized ore is being mined concurrently with the tactite-sulfide ore.

Sulfide ore is mined by a continuous panel-caving method and transported to an underground primary crusher. After coarse crushing, sulfide ore is moved from underground on a belt conveyor to the surface coarse-ore stockpile.

Oxide ore is mined by a panel-caving method, hoisted to the surface through a 14-foot circular shaft, crushed, and trucked to the surface coarse-ore stockpile.

The oxide mining operation was very satisfactory and reached its full production rate in August 1976. A fall-off in tonnage occurred in the last 2 months of the year because mining reserves in the blocks being mined were depleted before adjacent blocks could be brought into production. This was principally a matter of scheduling and should not occur again. The oxide mine is presently producing again at near its rated capacity.

The sulfide mine has presented many difficulties and is still not up to rated capacity. Mining started in the southeast portion of the tactite deposit, which is the lowest grade part of the tactite ore body. Additionally, fully concreted extraction drifts driven under this portion of the ore body were too far below the base of the ore and caused considerable dilution by low-grade material. As mining progresses northward this problem is being alleviated.

Production ore from the extraction drifts is loaded from draw points by rubber-tired load-haul-dump equipment and dumped into ore passes to the main haulage level. These ore passes plugged continuously and were very difficult to reopen. Surge chambers were excavated at the bottom of each ore pass to provide adequate storage without allowing the raise to fill, and the problem has thus been alleviated; however, considerable time and production were lost.

Partly because of delays and partly because of incomplete undercutting of the ore for caving, excessive ground weight occurred which caused failure of sections of the extraction drifts, resulting in expensive repair work. As crews and supervision have become more trained, this problem has become of much less effect.

It is now anticipated that the sulfide mine will reach approximately 80 to 90% of its rated production capacity during the second quarter of 1977.

Oxide ore is treated in a vat leaching plant where it is leached with sulfuric acid followed by precipitation with sponge iron. The copper precipitate is then pelletized and shipped to a custom smelter. The pelletizing operation has not been satisfactory, and action is now being taken to correct this problem.

The sulfide ore is concentrated, and the concentrate is treated in the roast-leach plant.

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Mining Operations and Interests, continued

year to 1.26% copper during 1976 compared with an average of 1.20% for 1975. The major development program for mining the reserves below the 2600 level was also affected by this 'cut-back'. Although the decision point for a shaft-hoist ore handling option was past at the end of the year, the reduced extraction rate deferred a decision on the intermediate trucking-shaft alternative until January 1979, and the trucking-only option until January 1980."

By the end of 1976 a total of 12,055,000 tons of ore had been milled, and ore reserves at the end of 1976 were estimated as 17,958,000 tons of ore averaging 1.68% copper before dilution, compared with 19,606,000 tons of ore averaging 1.69% copper before dilution at the end of 1975. These reserves include the ore blocks below the 2600' level.

Results from 1976 operations were again unsatisfactory because of the low copper price, and the Lessees report a deficiency in defined net proceeds as of December 31, 1976, of which Granduc Mines, Limited's 22½% share is $261,491. This deficiency must be made up by the Lessees from future mine operating profits before any further payments are due Granduc Mines, Limited. Granduc Mines, Limited reported an estimated net loss of $1,148,564 for 1976 compared with a net loss of $2,210,815 for 1975 which included net proceeds on an actual basis of accounting of $255,163 in the year 1976 and a deficiency of $347,024 in the year 1975. These losses included amortization and depletion deductions of $1,002,100 and $401,600 for exploration, administration, taxes, interest accruals on notes, and advances from mining companies; comparable amounts for 1975 were $1,460,200 and $430,600, respectively. Hecla has recorded under the equity method of accounting its 35.4% share of these allocable losses in the amount of $406,400 in 1976 and $682,200 in 1975.

It is uncertain at this time when and to what extent further royalty will be realized by Granduc Mines, Limited.

Further details of pertinent provisions of the lease and financial results are set forth in Note 6 to the Financial Statements.

Ace Concrete Co.

Spokane, Washington

On September 1, 1976, the operating assets of Ace Concrete Co. of Spokane, Washington, a wholly-owned subsidiary of Hecla Mining Company, were sold for $2,000,000. The purchaser also paid agreed amounts for values of certain inventories. Hecla management had been considering disposition of this property for some time in view of its low return on investment.

Ace Concrete Co. was formed by Hecla in 1959 when it acquired the assets of predecessor owners. Included in the sale were Ace's ready-mix concrete, sand and gravel division, and the prestress concrete division, which are situated in the Dishman area east of Spokane, and the portable division which provided concrete aggregates at various locations in Washington and Oregon.

Over the preceding five years Ace sales averaged approximately $3,100,000 per year, and net income averaged $106,000 per year, ranging from $24,000 to $176,000.

Since its acquisition in 1959, Ace has not paid any cash dividends to Hecla. Hecla's equity in investment in the subsidiary, including loans, averaged approximately $1,600,000 over the preceding 5 years. In addition to the $2,000,000 purchase-price for the operating assets, plus payment for inventories, Hecla realized an additional several hundred thousand dollars on liquidation of Ace Concrete's remaining working capital which was not included in the sale.

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Metal Markets and Prices

Silver

The Handy & Harman average price was $4.35 per ounce in 1976, compared to $4.42 per ounce in 1975, and $4.71 per ounce in 1974. During 1976 the low was $3.82 on January 26; the high was $5.10 on July 6; and at December 30 the Handy & Harman price was $4.375 per ounce.

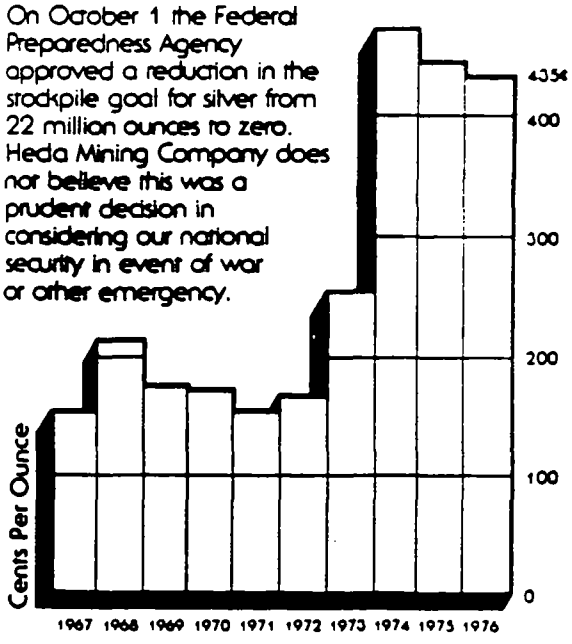
Speculative interest continued high, and silver was the most heavily traded commodity in 1976 futures markets.

In 1976 U.S. mine production is estimated at 34 million ounces with industrial consumption of 170 million ounces, compared to 35 million ounces of mine production and 158 million ounces of consumption in 1975. Commodity Exchange inventories in Chicago, New York, and London increased from 142.0 million ounces to 144.3 million ounces during the year.

Preliminary figures for 1976 indicate free world consumption was 422 million ounces, and new mine production was 244 million ounces. The resulting 178-million-ounce primary deficit was filled by salvage and above-ground inventories. Comparable revised figures for 1975 were free world consumption of 394 million ounces and new mine production of 238 million ounces, resulting in a 156-million-ounce primary deficit.

More than 75% of mined silver is a by-product from copper and lead mines. Therefore, production will not readily respond to the increasing demand expected for industrial and monetary use.

On October 1 the Federal Preparedness Agency approved a reduction in the stockpile goal for silver from 22 million ounces to zero. Hecla Mining Company does not believe this was a prudent decision in considering our national security in event of war or other emergency.



Silver New York — Handy & Harman

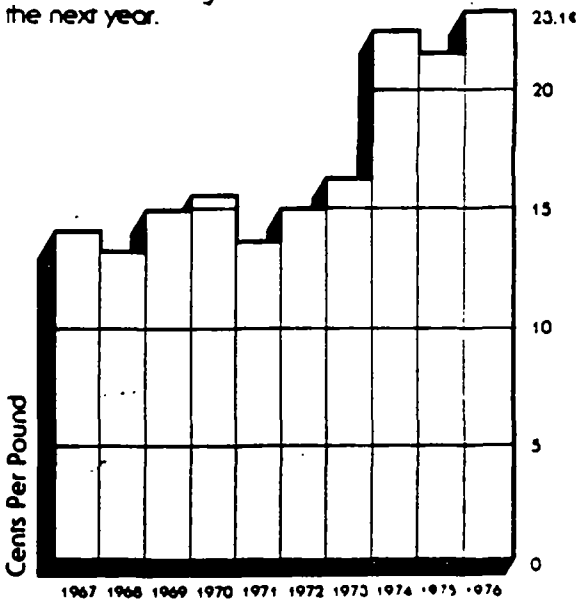
Lead

The domestic lead price was 19¢ per pound at the beginning of the year, increased to 21¢ on March 10, to 23¢ by May 14, and moved up to a split price of 24.5¢ - 25¢ on July 13. The price further increased to 25.5¢ - 26¢ by October 6, which was the year-end price. The average 1976 price was 23.10¢ per pound, compared to 21.53¢ in 1975, and 22.53¢ per pound in 1974.

Estimated 1976 U.S. lead consumption in all forms rose to 1,432,000 tons as compared to 1,297,000 tons in 1975. U.S. 1976 supply was about 1,526,000 tons, which included 606,000 tons of recoverable mine production, 690,000 tons recovered from secondary production, 167,000 tons of net imports, and 63,000 tons of inventory reduction. This compares with 1,395,000 tons in 1975 which included 621,000 tons of mine production, 655,000 tons of secondary production, 117,000 tons of net imports, and a 2,000-ton decrease in inventory.

Lead stocks at U.S. primary smelters and refineries changed from 81,000 tons at year-end 1975 to 44,000 tons at the end of November 1976. No sales were made from the U.S. government 601,000-ton stockpile. On October 1 the Federal Preparedness Agency approved a new stockpile goal of 865,000 tons, increased from 65,100 tons.

Lead producers and users are under pressure from government agencies to reach impracticable and costly further reductions in vehicle and plant emissions as well as working environments. Nevertheless, we consider the lead market will continue strong over the next year.



Lead "New York" prior to [illegible] "Delivered" or US [illegible]

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Hecla Mining Company and Wholly Owned Subsidiaries

Summary of Operations

	Years Ended December 31				
	1976	1975	1974	1973	1972
	(in thousands except for per share amounts)				
Sales of concentrates and products	$34,044	$25,425	$25,028	$15,589	$17,004
Income (loss) from continuing operations before income taxes	(11,159)	9,350	12,374	5,643	2,817
Provision (credit) for income taxes	(5,227)	3,420	4,074	1,477	438
Income from discontinued operations, after applicable income taxes	494	24	141	69	121
Net income (loss)	$ (5,438)	$ 5,953	$ 8,441	$ 4,235	$ 2,500(2)
Average number of shares outstanding (3)	6,852	6,852	6,852	6,852	6,852
Net income (loss) per share:					
Continuing operations	$(.87)	$.86	$1.21	$.61	$.34
Discontinued operations	.08	.01	.02	.01	.02
	$(.79)	$.87	$1.23	$.62	$.36
Stock dividend	2%	2%	2%	2%	2%

NOTES:

(1) Hecla and its wholly owned subsidiaries are engaged in mining, concentrating and processing of non-ferrous metal ores. During the past five years the percentage of total sales and revenues contributed by products were as follows:

	1976	1975	1974	1973	1972
Copper	38.6%	0.9%	1.0%	1.0%	6.2%
Silver	32.2	62.3	60.4	54.2	37.8
Lead	22.9	26.4	26.9	35.1	34.8
All others*	6.3	10.4	11.7	9.7	21.2
	100.0	100.0	100.0	100.0	100.0

*No single product listed in the column contributed in excess of 15% of total sales. Excludes sales and revenues of discontinued operations.

(2) After deducting extraordinary charge (net of applicable income tax) of $545,000 or 8¢ per share resulting from the Sunshine Mine fire disaster.

(3) Adjusted to reflect the 2% stock dividends paid in August of each year.

Management's Discussion and Analysis of The Summary of Operations

The net loss realized in 1976 as compared with the net income earned in 1975 was primarily attributable to the significant operating loss ($14,651,037) of the Lakeshore Mine which was placed on an operational status on April 1, 1976, coupled with the adverse effect of the closure of the Sunshine Unit Area at the Sunshine Mine due to the strike which commenced March 11, 1976, and which is still in progress at this time. Increased operating and smelter concentrate treatment costs incurred in 1976 were offset in part by increased production, improved average grade of ore mined, and improved lead prices realized at the Company's other North Idaho operations.

There was also a decrease in the Company's share in net losses of 35.4% owned Granduc Mines, Limited, based on the equity method of accounting.

The decrease in net income for 1975 from 1974 was primarily attributable to lower average silver prices, substantially increased operating and smelter treatment costs, a reduction in net gain from sale of securities, and a significant increase in the Company's share in equity in net losses of 35.4% owned Granduc Mines, Limited. Granduc results reflected continuing increased operating costs and sharply lower world copper prices when compared to those that existed in early 1974.

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MARGRP CDA dm - 1776

Hecla Mining Corr., ry and Wholly Owned Subsidiaries

Price Range of Hecla's Capital Stock

For the years ended December 31, 1976 and 1975

1976	High	Low
First Quarter	$ 17⅝	$ 13¾
Second Quarter	17	13⅝
Third Quarter	15¾	10⅝
Fourth Quarter	13	10⅝

1975		
First Quarter	$ 20¾	$ 13½
Second Quarter	23¾	15½
Third Quarter	23⅞	16¼
Fourth Quarter	17⅞	13

Above prices are based on the quotations of the New York Stock Exchange, the exchange upon which the Company's stock is most actively traded.

Hecla Mining Company

Incorporated under the laws of the State of Washington, July, 1898.

Capitalization—12,000,000 shares of a par value of 25¢ each ($3,000,000) of which 6,851,680 shares were outstanding on December 31, 1976.

Main Office, Hecla Building, Wallace, Idaho 83873.

Eastern Transfer Agent

Registrar and Transfer Company, 140 Cedar Street, New York, NY 10006

Eastern Registrar

Manufacturers Hanover Trust Company, 40 Wall Street, New York, NY 10015

Western Transfer Agent

Spokane and Eastern Branch, Seattle-First National Bank, Spokane, WA 99210

Western Registrar

Pacific National Bank of Washington, Spokane, WA 99210

Shares of the Corporation are traded on the New York Stock Exchange, New York, NY, the Spokane Stock Exchange, Spokane, WA, and the Pacific Coast Stock Exchange, San Francisco, CA.

LS 001544

MARGRP CDA dm - 1777

Hecla Mining Company and Wholly Owned Subsidiaries

Consolidated Balance Sheets

December 31, 1976 and 1975

Assets

	1976	1975
Current Assets:		
Cash (Note 3)	$ 5,035,922	$ 9,888,287
Due from sales of products	4,498,042	4,941,673
Due from Lakeshore Mine partner (Note 2)		1,990,335
Accounts and notes receivable	2,184,631	924,854
Inventories	7,286,552	4,157,733
Prepaid expenses	413,994	248,157
Total current assets	19,419,141	22,151,039
Investments and interests in mining properties:		
Granduc Mines, Limited (N.P.L.) (Note 6)	6,363,283	6,769,683
Marketable equity securities, at market (Note 4)	2,311,760	2,525,622
Other	515,828	564,001
Properties, plants and equipment, at cost, less accumulated depreciation, depletion and amortization (Notes 2 and 7)	108,919,133	104,828,701
Other Assets	264,729	275,735
	$137,793,874	$137,114,781

The accompanying notes are an integral part of the financial statements.

LS 001546

MARGRP CDA dm - 1778

Hecla Mining Company and Wholly Owned Subsidiaries

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1976 and 1975

	1976	1975
Source of Working Capital:		
Net income (loss) from continuing operations	$ (5,931,834)	$ 5,929,748
Add—Expenses not requiring outlay of working capital:		
Depreciation, depletion and amortization	3,339,235	357,573
Increase (decrease) in deferred income taxes	(5,326,700)	3,779,774
Equity in net loss of Granduc Mines, Limited	406,400	782,200
Less: Gain on sale of securities, included in proceeds, below	(362,517)	(348,541)
Working capital provided (used) by continuing operations	(7,875,416)	10,500,754
Discontinued operations:		
Income from discontinued operations	493,619	23,951
Less: Gain on sale of assets of Ace Concrete Co. included in proceeds below	(881,314)	
Increase in deferred income taxes	455,500	
	67,805	23,951
Working capital provided (used) by operations	(7,807,611)	10,524,705
Proceeds from sales of securities	559,538	515,175
Proceeds from sales of property and equipment	1,986,487	
Proceeds from partial liquidation of investment in Granduc Mines, Limited (Note 6)		278,378
Borrowings from banks	7,980,000	22,560,000
Increase in pension plan reserve	9,584	890,169
Other, net	202,244	
Total source of working capital	2,930,242	34,768,427
Use of Working Capital:		
Increase in current portion of notes payable to banks	798,000	4,320,000
Property additions		
Lakeshore	8,105,637	27,871,172
Other	381,030	333,925
Increase (decrease) in other assets	(11,006)	51,027
Total use of working capital	9,273,661	32,576,124
Increase (decrease) in working capital	$ (6,343,419)	$ 2,192,303
Changes in Components which Increased (Decreased) Working Capital:		
Cash	$ (4,852,365)	$ 3,678,012
Receivables	(1,174,189)	934,455
Inventories	3,128,819	3,097,126
Prepaid expenses	165,837	77,592
Accounts payable and accrued expenses	(2,632,978)	(2,267,809)
Current portion of notes payable to banks	(798,000)	(4,320,000)
Accrued taxes	(180,543)	992,927
Increase (decrease) in working capital	$ (6,343,419)	$ 2,192,303

The accompanying notes are an integral part of the financial statements.

LS 001548

MARGRP CDA dm - 1779

Hecla Mining Company and Wholly Owned Subsidiaries

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Basis of consolidation—The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its proportionate share of the accounts of the joint ventures in which it participates.

Inventories—All inventories are stated at lower of average cost or estimated net realizable value.

Investments—The Company follows the equity method of accounting for investment in common stock of companies 20% to 50% owned. Marketable equity securities are carried at the lower of cost or market. Investments not intended for resale or not readily marketable are included in other investments at cost.

Properties, plants and equipment—Properties, plants and equipment are stated at cost. Maintenance, repairs and renewals are charged to operations. Betterments of a major nature are capitalized.

Interest expense—Interest expense on loans from banks applicable to the Lakeshore Mine was capitalized as part of Project costs through March 31, 1976. The Lakeshore Mine was placed on an operational status on April 1, 1976, and interest expense subsequent to this date has been charged to operations; previously capitalized interest expense is being amortized by charges to earnings over the estimated life of the Mine.

Depreciation and depletion—Depreciation on the Lakeshore Mine is computed, generally, on a straight-line composite method over the estimated useful life. When depreciable assets are sold or otherwise retired from service, their cost, less amounts realized on sale or salvage, is charged or credited to the accumulated depreciation account. Prior to the date the Lakeshore Mine was placed on an operational status, depreciation was charged to deferred development costs. Depreciation on other properties is computed, generally, on the declining-balance method. Depletion is computed on a unit-of-production basis on estimated ore reserves.

Mine exploration and development—Exploration costs are charged to income as incurred, as are normal development costs at operating mines. Major mine development expenditures at operating properties and development expenditures at new mining properties not yet producing are capitalized and amortized, generally, on a unit-of-production basis determined in relation to estimated ore reserves.

Pension plans—The Company funds pension costs to the extent of actuarially computed current service costs plus amortization of prior service costs over a 10- to 30-year period.

Income taxes—Income taxes deferred arise principally from major mine development expenses which are deferred and amortized in the financial statements and deducted currently in the income tax returns. Investment tax credits are treated as a reduction of income tax expense in the year in which the assets to which they apply are placed in service if there is reasonable assurance that the credits will be realized. Investment credits arising in 1976 were not taken into account in providing for taxes.

Net income (loss) per share—Net income (loss) per share is based on the weighted average number of shares of stock and stock equivalents (stock options) outstanding during the year. No stock equivalents are included in the computation for 1976 or 1975 as the stock options were anti-dilutive. Per-share amounts have been adjusted retroactively to reflect the 2% stock dividends paid in August of each year.

2. Lakeshore Mine:

Hecla and El Paso Natural Gas Company each own a one-half interest in a large copper ore deposit in Arizona known as the Lakeshore Mine. El Paso owns 16.77% of Hecla's capital stock. Under the amended agreement with El Paso, which became effective as of January 1, 1973, El Paso provided all the funds for development of the property from that date until they equaled certain defined expenditures contributed by Hecla through December 31, 1972. This equalizing occurred in early 1974, and since

LS 001550

MARGRP CDA dm - 1780

Notes to Financial Statements, continued

5. Income Taxes:

The components of the tax provision (credit) are as follows:

1976	Continuing Operations	Discontinued Operations	Total
Currently payable:			
State and local	$ 99,300		$ 99,300
Deferred:			
Federal	(5,092,500)	$ 455,500	(4,637,000)
State and local	(234,200)		(234,200)
	(5,326,700)	455,500	(4,871,200)
	$(5,227,400)	$ 455,500	$(4,771,900)

1975			
Currently payable:			
State and local	$ 132,000		$ 132,000
Deferred:			
Federal	3,106,700	$ 5,100	3,111,800
State and local	181,200		181,200
	3,287,900	5,100	3,293,000
	$ 3,419,900	$ 5,100	$ 3,425,000

The 1976 net deferred tax credit results principally from utilizing available net operating losses to offset deferred tax provisions of prior years.

The 1975 deferred tax expense results principally from mine development expenses which were capitalized for financial statement purposes and expensed for tax purposes.

Total tax expense (credit) is less than the amount which would be provided by applying the U.S. Federal income tax rate of 48% to income (loss) before tax. The reasons for this difference (expressed as a percentage of pretax income (loss)) are as follows:

	1976	1975
Computed "statutory" tax expense (credit)	(48%)	48%
Effect of percentage depletion	(15)	(23)
Minimum tax	10	5
Effect of loss of Granduc Mines, Limited	2	4
State and local income taxes	(1)	2
Reversal of investment credit	4	
Other	1	1
	(47%)	37%

For Federal income tax purposes the Company has operating loss carryforwards amounting to approximately $35,461,000 at December 31, 1976, with $1,146,000 expiring in 1977, $11,831,000 in 1980, and $22,484,000 in 1983.

The Company has investment tax credit carryforwards of $2,828,000 which are available to reduce future U.S. Federal tax liabilities, if any.

6. Investment in Granduc Mines, Limited (N.P.L.):

	1976	1975
5½% redeemable cumulative preferred stock, 357,000 shares, $5 par value (100% owned), at cost	$1,650,846	$1,650,846
Common stock, 1,189,700 shares (35.4% owned at equity)	3,277,542	3,683,942
5½% Notes Receivable (face amounts $1,551,500 Canadian)	1,434,895	1,434,895
	$6,363,283	$6,769,683

On October 1, 1965, Granduc leased substantially all of its properties in British Columbia, Canada for a term of 50 years (with an option to renew for 25 years) to Granduc Operating Company, a wholly owned subsidiary of Newmont Mining Corporation, and ASARCO Incorporated. Under the terms of the lease, the Lessees provided all necessary funds, services and equipment to put the mine into production, and such preproduction costs are not chargeable against Granduc Mines, Limited. Granduc receives a 22½% share of defined net proceeds realized from the Granduc Mine after March 1, 1971. After 32,500,000 short tons have been milled, the percentage will increase from 22½% to 25%. A total of 12,055,000 tons have been milled to December 31, 1976.

The Lease Agreement of 1965 provides that a minimum of 80% of the first defined net proceeds received by Granduc Mines, Limited be committed to concurrent redemption of Hecla's shares of 5½% preferred stock, and prior advances made by the Lessees, plus dividends and interest, respectively, accumulating thereon after the date of beginning operations. Hecla waived dividends on its preferred shares and the Lessees

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Notes to Financial Statements, continued

half years. Options for 90,099 shares were granted in 1974. No options have been exercised to date. Options for 4,193 shares expired in 1976, and the option status at December 31, 1976 is as follows:

	No. of Shares	Option Price Per Share	Option Price Total
Shares under option at December 31, 1976	85,906	$18.50-$21.84	$1,690,279
Options presently exercisable	58,076	$18.50-$21.84	$1,175,424

No amounts are reflected in income in connection with the grant or exercise of options.

9. Employee Benefits:

The Company and its wholly owned subsidiaries have pension plans covering substantially all employees. Total pension expense charged to income was $673,000 for 1976 and $544,000 for 1975. Based upon the latest actuarial information available, the unfunded past service costs were approximately $1,780,000.

During 1976 the Company adopted a Deferred Compensation Plan, which permits eligible officers to defer a portion of their compensation. The deferred compensation is distributable in cash after retirement or termination. The amount deferred at December 31, 1976 is $60,585.

10. Litigation:

On May 2, 1972, a disastrous fire occurred at the Sunshine Mine operated by Sunshine Mining Company in which 91 miners lost their lives. As a result, suits were brought in Federal Court by certain of the widows and heirs of the deceased miners and a suit was also brought by Sunshine Mining Company claiming that certain manufacturers of products used in the mine and the U.S. Bureau of Mines were negligent in allowing certain flammable materials to be in the mine. Two of the manufacturers have filed third party complaints against Hecla and twelve others claiming that these parties had joint control with Sunshine and negligently failed to exercise due care as mutual agents and principals in the operation of the Sunshine Mine and asking for contribution in the event that the plaintiffs are successful in their claims. In 1976 a motion for Summary Judgment was filed on behalf of the Company and, after oral argument, the Federal District Court granted Summary Judgment dismissing the case against the Company. This decision of the Court has been appealed to the Circuit Court of Appeals. The Company and its counsel are of the opinion that the decision of the District Court dismissing the Company will be upheld.

It is the opinion of the Company and its counsel that the outcome of the aforementioned suit and of other additional miscellaneous litigation and proceedings now pending will not materially affect the operations or the financial position of the Company or of any of its subsidiaries.

11. Discontinued Operations:

On September 1, 1976, the Company sold substantially all of the operating assets of Ace Concrete Co., a wholly owned subsidiary, for $560,000 in cash and $1,440,000 in short-term interest-bearing notes receivable which were paid on February 1, 1977.

12. Replacement Cost:

Under new rules of the Securities and Exchange Commission, current replacement cost information for metal inventories and the effect thereof in computing cost of sales are to be disclosed in the Company's Form 10-K filed with the Commission.

The current replacement cost of the Company's metal inventories, which principally relate to the Lakeshore Mine, and the associated cost of sales using current replacement costs, are generally lower than comparable historical costs because Lakeshore metal inventories were produced at low mine production levels, with resulting higher unit costs than would exist at normal production levels. Current replacement cost of minor amounts of metal inventories and associated cost of sales at other locations are not significantly different from comparable historical amounts. For financial statement purposes, all metal inventories are stated at the lower of average cost or estimated net realized value.

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Officers

William H. Love
President and Chief Executive Officer

Gordon M. Miner
Vice President—Operations

Herbert E. Harper
Vice President—Exploration

William A. Griffith
Vice President—Metallurgy

James H. Hunter
Vice President

William J. Grismer
Vice President—Finance & Sec.-Treas.

Directors

***Horton Herman**
(of Counsel). Paine, Lowe, Coffin, Herman and O'Kelley, Attorneys at Law, Spokane, Washington.

****William H. Love**
President and Chief Executive Officer of Hecla Mining Company, Wallace, Idaho.

William T. Pettijohn
Senior Staff Consultant of Parsons-Jurden Company; formerly General Manager of Mines with New Jersey Zinc Company, Tucson, Arizona.

***Lester J. Randall**
Formerly Chairman of the Board of Hecla Mining Company (Retired December, 1972). Coeur d'Alene, Idaho.

*Member of Executive Committee
**Chairman of Executive Committee

Edward McL. Tittmann
Formerly Chairman of the Board and Chief Executive Officer of American Smelting and Refining Company (Retired April, 1971). Reno, Nevada.

W. Burney Warren
Director, Executive Vice President and Treasurer, The El Paso Company, whose principal business (generally operating through subsidiary companies) is the production, distribution and marketing of natural gas, manufacture of petrochemicals and the production and marketing of copper products, Houston, Texas.

John R. (Jack) Williams
Editor and Publisher, Central Phoenix Sun; formerly Governor of the State of Arizona, Phoenix, Arizona.

Management Staff

Corporate Headquarters and Idaho Operations Wallace, Idaho
President and Chief Executive Officer **William H. Love**
Vice President—Operations **Gordon M. Miner**
Vice President—Exploration **Herbert E. Harper**
Vice President—Metallurgy **William A. Griffith**
Vice President—Finance and Secretary-Treasurer **William J. Grismer**
Chief Engineer **Wallace E. Crandall**
Controller and Assistant Treasurer **Thomas T. Giles**
Investment Manager **Philip M. Lindstrom**
General Mill Superintendent **Bill E. McKee**
Assistant Secretary **Wayne L. Schoonmaker**
Marketing Coordinator **Ned M. Tower**
Personnel Manager **Gus Voltolini**

Star-Morning Unit Burke, Idaho
Manager **William Anderson**
General Mine Foreman **Ray Kannegaard**
General Mill Foreman **H. James Curtis**

Lucky Friday Mine Mullan, Idaho
Manager **Arthur Brown**
General Mine Foreman **Norman A. Graham**
General Mill Foreman **Leland C. Pehan**

Lakeshore Mine Casa Grande, Arizona
Vice President and General Manager **James H. Hunter**
Assistant General Manager **George L. Wilhelm**
Administrative Assistant **Gilberto I. Valdez**
Mine Manager **E. W. Cokayne**
Metallurgical Manager **Paul M. Musgrove, Jr.**
Maintenance Manager **Derk Perdok**
Hydrometallurgical General Superintendent **J. Gordon Craig**
Pyrometallurgical General Superintendent **Donald L. Simpson**
Chief Engineer **Thomas W. Phillips**
Administrative Manager **Richard A. Johnson**
Industrial Relations Manager **Reinhold Leske**

Exploration Offices
Vancouver, B.C.
Manager **Philip I. Conley**
Denver, Colorado
Manager **James S. Hastings**
Reno, Nevada
Manager **William P. Johnston**

LS 001556

HECLA MINING COMPANY

Consolidated Statement of Income

For the Nine-Month Periods Ending September 30, 1971 and September 30, 1970

	Nine Months Ended September 30 1971 (estimated)	Nine Months Ended September 30 1970 (estimated)
Sales of concentrates and products	$17,891,191	$18,598,026
Dividend income	150,758	284,986
Interest and other income	191,367	284,071
Gain on sale of securities - net of loss on sale of silver futures	311,492	58,997
Total revenue	18,577,808	19,226,080
Deduct		
Cost of sales	12,563,177	11,636,733
Exploration and development - Outside projects	526,143	1,080,693
Consolidated Silver Project costs	261,357	269,307
Administrative and other miscellaneous expenses	152,988	145,217
Depreciation, depletion and amortization	320,777	375,493
Total deductions	13,821,442	13,507,443
Income before federal and state taxes on income	4,753,366	5,718,637
Estimated taxes on income		
Currently payable	(1,266,000)	(366,200)
Deferred	2,755,000	2,185,800
	1,489,000	1,819,600
Net income	$ 3,264,366	$ 3,899,037
Average shares outstanding during period	6,201,556*	6,202,416**
Net income per share	$ 0.53*	$ 0.63**
Average metal prices		
Silver - (Per ounce, Handy & Harman, N.Y.)	$ 1.60	$ 1.78
Gold - (Per ounce, London price)	$ 39.74	$ 35.15
Lead - (Per pound, New York)	13.72c	16.03c
Zinc - (Per pound, Prime Western delivered)	15.84c	15.43c
Copper - (Per pound, Domestic)	51.66c	58.41c

*Adjusted to reflect shares issued pursuant to a 2% stock dividend paid August 2, 1971 to shareholders of record May 14, 1971.

**Adjusted to reflect shares issued pursuant to 2% stock dividends paid both on August 1, 1970 and August 2, 1971.

MARGRP CDA dm - 1784

LS 001558

HECLA MINING COMPANY

TO THE SHAREHOLDERS OF
HECLA MINING COMPANY

The Company realized consolidated net earnings from operations for the third quarter of 1971 of $1,048,902 or $0.17 per share, and $3,264,366 or $0.53 per share for the first nine months of 1971. Comparable figures were $1,122,469 or $0.18 per share for the third quarter, and $3,899,037 or $0.63 per share for the first nine months of 1970. The Company earned $1,250,326 or $0.20 per share for the second quarter of 1971.

Net working capital (current assets less current liabilities) at September 30, 1971 totaled $9,395,000 as compared with $10,785,000 at December 31, 1970.

The Company's earnings for the first nine months of 1971 continue to be affected by lower metal prices now prevailing as compared to those of a year or two ago. This is particularly true of the price of silver which is a major revenue producing product of your Company. Improved operating results largely offset lower metal prices at Company-managed properties. Our share of income from the Sunshine Unit Area, in which your Company has a 33.25% share of production, has been adversely affected by a decline in silver prices and lower average grade of ore produced in the first nine months of 1971, as compared with the same period in 1970.

The average price realized for silver in the first nine months of 1971 was $1.60 per ounce as compared with $1.78 per ounce for the same period of 1970. The average price of silver realized for the third quarter of 1971 was $1.52 per ounce as compared to $1.75 per ounce for the same period in 1970. Consumption of silver continues to exceed production but it appears that this difference is being made up and supplied in large part from the liquidation of accumulated speculative holdings. We believe this situation will correct itself when inventories are depleted. As of the date of this report the price of silver was $1.30, which is the lowest price since May, 1967.

The average price realized for lead declined from 16.03c in the first nine months of 1970 to 13.72c in 1971.

The development of our Lakeshore property, near

Casa Grande, Arizona, is progressing well. Your Directors held their regular quarterly meeting on October 28-29 and visited the project. The twin declines have been driven over 6000 feet and will continue to the 7500-foot point. A crosscut from the 5650-foot point in the declines entered the sulfide zone with excellent correlation between the exposed ore and surface diamond drilling results. A crosscut has been driven 2000 feet toward the oxide part of the deposit from the 3750-foot point in the declines and is expected to reach the ore about year end.

A pilot concentrator, converted from the old El Paso segregation plant, began milling sulfide development ore at the end of September. A pilot roast-leach-electrowinning plant, constructed with Hecla personnel, is processing a portion of the concentrates being produced by the concentrator, and is producing cathode copper on an experimental basis. Construction of the pilot oxide ore treatment plant, which will produce cement copper by an acid-leaching process, has begun and operation is scheduled for next spring. Design of the commercial plant facilities including underground and surface ore-handling equipment, crushing plant, and the sulfide ore concentrator is proceeding on schedule, and preliminary engineering is substantially completed on the oxide ore leaching and cementation plant. A new water supply system sufficient to support the major operation contemplated is nearly completed and a surface shop, warehouse, changeroom and engineering and office facility adequate for present needs are completed and in use. Permanent high-voltage power transmission facilities to supply the large anticipated electrical load are being constructed.

All funds expended at the Lakeshore property have come from internal Company resources and there has been no borrowing to date. Later this year it is planned to begin using interim lines of financing to meet the costs of expanding underground development and surface construction programs.

Hecla's metal production for the first nine months of 1971 as compared with the first nine months of 1970 was as follows:

	First Nine Months 1971	1970
Tons of ore produced ...	366,747	348,401
Ounces of silver	4,799,401	4,654,909
Ounces of gold	44,879	41,402
Tons of lead	24,078	20,728
Tons of zinc	7,528	7,159
Tons of copper	1,635	1,421

Hecla's share of production from properties in which a major interest is owned and related assays for the first nine months of 1971 were as follows:

	Tons of Ore	ASSAYS Oz. Silver	% Lead	% Zinc	Oz. Gold	% Copper
Lucky Friday Mine	159,416	16.2	11.4	1.3		
Star-Morning Unit Area ..	52,845	2.8	5.7	6.7		
Mayflower Mine	93,273	5.0	4.0	2.5	0.52	1.2
Sunshine Unit Area ..	61,213	28.3				0.6

BY ORDER OF THE BOARD OF DIRECTORS

L. J. RANDALL
Chairman of the Board

W. H. LOVE
President and
General Manager

November 1, 1971

HECLA MINING COMPANY

THIRD QUARTER REPORT

Nine Months
Ended Sept. 30, 1971

Wallace, Idaho

LS 001559
MARGRP CDA dm - 1785

ATTACHMENT 9A

JMS
Copy

AMENDMENT, Made as of January 5, 1971, to that certain Agreement made as of August 10, 1970 (the "Agreement"), by and between HECLA MINING COMPANY ("Hecla"), a corporation organized and existing under the laws of the State of Washington, with its principal offices at Wallace, Idaho, and GOLCONDA MINING CORPORATION ("Golconda"), a corporation organized and existing under the laws of the State of Idaho, with its principal offices at Wallace, Idaho, now known as "Golconda Corporation."

WHEREAS, counsel for Hecla and Golconda, respectively, have, based upon discussions with certain members of the staff of the Securities and Exchange Commission who are in the process of reviewing applications now pending by both parties for orders under the Investment Company Act of 1940, as amended, advised their clients that this amendment is in the best interests of both parties;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements contained herein, the parties hereto hereby agree that:

1. Paragraphs 1 and 2 of the Agreement shall be eliminated in their entirety, and each succeeding paragraph thereof and references to any contained in the Agreement, shall be renumbered accordingly.

2. Paragraph 4 of the Agreement (renumbered Paragraph 2) shall be amended by striking therefrom the phrase "If the Deregistration Order referred to in paragraph (1) shall be granted but shall fail to contain the conditions set out in paragraph (1) above," but the remainder of said paragraph shall remain in full force and effect.

3. In all other respects the referenced agreement between the parties shall remain unchanged.

IN WITNESS WHEREOF, Hecla and Golconda have caused this amendment to be executed, attested and delivered by their duly authorized officers named

below and have caused their respective corporate seals to be affixed hereto as of this fifth day of January, 1971.

HECLA MINING COMPANY

By _____
Chairman of the Board

(Corporate Seal)

Attest:

_____
Secretary

GOLCONDA CORPORATION

By _____

(Corporate Seal)

Attest:

_____

LS 001561

J. M. Stoc

ALICE CONSOLIDATED MINES, INC.
(An Idaho Corporation)
Wallace Idaho

NOTES TO FINANCIAL STATEMENTS
September 30, 1971

NOTE 1:

Mining properties have been recorded at $800,000 which was the par value of the capital stock issued to the respective transferor companies in exchange for the properties. At the time of issuance, the shares of Alice Consolidated Mines, Inc., had no determinable market value. The income tax basis of the property is approximately $302,500.

The market values of the shares of Mullan Silver-Lead Company and United Lead Zinc Mines Company, as indicated by the bid price, quoted prior to the exchange of shares with Alice.

The number of shares issued to each of the transferor companies was determined by the weighted percentage of the acreage each contributed to the corporation as evaluated by independent geologists and which resulted in the following stock issuances and valuations:

Company	Percentage of total	Shares	Value Assigned
Alice Silver-Lead Mining Company	28.95%	2,316,000	$231,600
Mullan Silver-Lead Company	21.20	1,696,000	169,600
United Lead-Zinc Mines Company	35.40	2,832,000	283,200
Golconda Mining Corporation	10.08	806,400	80,640
Square Deal Mining & Milling Company, Limited	4.37	349,600	34,960
Totals	100.00%	8,000,000	$800,000

LS 001562

AUDITORS' REPORT

To the Board of Directors and Shareholders of
ALICE CONSOLIDATED MINES, INC.:

We have examined the balance sheets of Alice Consolidated Mines, Inc., as of September 30, 1971, and as of December 31, 1970, and the related statement of changes in stockholders' equity, cash receipts and disbursements and the development account from date of incorporation (July 11, 1969) to December 31, 1970, and for the nine months ended September 30, 1971. Our examination was 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.

The Company is capitalizing net costs incurred during the non-productive stage which costs are to be recovered as ores are extracted, if and when commercial ore bodies are developed and mined. As of the date of this report, the Company was in a non-productive stage.

In our opinion, subject to the ultimate realization of the carrying value of the mining properties described in Note 1 to balance sheet, the aforementioned balance sheets present fairly the financial position of Alice Consolidated Mines, Inc., at September 30, 1971, and December 31, 1970, in conformity with generally accepted accounting principles, except as stated above, applied on a consistent basis.

P. R. O'SHAUGHNESSY
Certified Public Accountant

Ellensburg, Washington
October 8, 1971

LS 001563

ALICE CONSOLIDATED MINES, INC.
(An Idaho Corporation)
Wallace Idaho

BALANCE SHEET
September 30, 1971 and December 31, 1970

A S S E T S

	September 30, 1971	December 31, 1970
CURRENT ASSETS		
Cash in bank	$ 638.81	$ 5,626.59
Account receivable	10,000.00	10,000.00
Total current assets	10,638.81	15,626.59
PROPERTY		
Mining claims - par value of capital stock issued therefor (Note 1)	800,000.00	800,000.00
Capitalized development costs (Note 2)	18,853.07	22,764.26
	818,853.07	822,764.26
OTHER ASSETS		
Organization expense	397.70	397.70
Total	$829,889.58	$838,788.55

L I A B I L I T I E S A N D S H A R E H O L D E R S' E Q U I T Y

CURRENT LIABILITIES		
Accounts payable	$ 1,215.00	$ 5,113.97
Note payable, bank		5,000.00
Total current liabilities	1,215.00	10,113.97
SHAREHOLDERS' EQUITY		
Capital stock, par value 10¢ per share, authorized 10,000,000 shares of which 8,028,675 are issued and outstanding	802,867.50	802,867.50
Paid in capital in excess of par	25,807.08	25,807.08
	828,674.58	828,674.58
Total	$829,889.58	$838,788.55

See accompanying notes.

LS 001564

ALICE CONSOLIDATED MINES, INC.
(An Idaho Corporation)
Wallace Idaho

STATEMENT OF DEVELOPMENT ACCOUNT
From date of incorporation (July 11, 1969) to December 31, 1970
and the nine month period ended September 30, 1971

	Nine Month Period Ended September 30, 1971	Period Ended December 31, 1970
BALANCE, beginning of period	$22,764.26	
ADDITIONS		
Legal expense	3,223.26	$14,340.71
Office services	3,690.00	3,582.00
Office supplies and expense	469.04	1,038.19
Geological and engineering services		2,068.53
Interest	286.83	707.50
Property taxes		302.99
General expense	32.15	1,492.57
	7,701.28	23,532.49
CREDITS		
Royalties	2,700.00	300.00
Other income	8,912.47	468.23
	11,612.47	768.23
BALANCE, end of period	$18,853.07	$22,764.26

See accompanying notes.

LS 001565

ALICE CONSOLIDATED MINES, INC.
(An Idaho Corporation)
Wallace Idaho

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
From date of incorporation (July 11, 1969) to December 31, 1970
and the nine month period ended September 30, 1971

RECEIPTS

	Nine Month Period Ended September 30, 1971	Period Ended December 31, 1970
Sale of investments (at cost)		$18,659.62
Loans and advances		17,500.00
Advance royalties	$ 2,700.00	300.00
Collections of accounts receivable and other amounts from consolidation		8,623.06
Other income (sale of timber)	8,912.47	468.23
Total receipts	11,612.47	45,550.91

DISBURSEMENTS

Loans and advances repaid	5,000.00	12,500.00
Legal fees	3,382.29	15,990.61
Office services	4,872.00	1,185.00
Office supplies and expense	720.12	675.13
Geological and engineering services		259.60
Interest	286.83	707.50
Property taxes		302.99
General expense	32.15	305.88
Organization expense		397.70
Expenses relating to consolidation	2,306.86	7,599.91
Total disbursements	16,600.25	39,924.32
Net increase (decrease) in cash during period	(4,987.78)	5,626.59
Cash balance at beginning of period	5,626.59	
Cash balance at close of period	$638.81	$5,626.59

See accompanying notes.

LS 001566

ALICE CONSOLIDATED MINES, INC.
(An Idaho Corporation)
Wallace Idaho

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
From date of incorporation (July 11, 1969) to September 30, 1971

	Date Issued	Shares	Value
Capital stock, par value 10¢ per share			
Authorized		10,000,000	$1,000,000.00
Issued		8,028,675	$802,867.50

An analysis of shares issued is as follows:

	?	Shares	Value for Which Issued
Issued in exchange for assets:			
Property	7-24-70	8,000,000	$800,000.00
Investments	7-24-70	18,660	18,659.62
Accounts receivable	7-24-70	2,336	2,336.44
Cash and other	7-24-70	5,278	5,278.43
Less liabilities assumed	7-24-70	(22,313)	(22,313.91)
		8,003,961	803,960.58
Sold under subscription receivable	11-2-70	10,000	10,000.00
Issued in payment of loan assumed	11-2-70	14,714	14,714.00
Totals		8,028,675	$828,674.58 (1)

(1) Par value of stock issued	$802,867.50
Paid in capital in excess of par	25,807.08
Stockholders' equity, September 30, 1971	$828,674.58

LS 001567

ALICE CONSOLIDATED MINES, INC.
(An Idaho Corporation)
Wallace Idaho

NOTES TO FINANCIAL STATEMENTS
September 30, 1971

NOTE 1:

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The number of shares issued to each of the transferor companies was determined by the weighted percentage of the acreage each contributed to the corporation as evaluated by independent geologists and which resulted in the following stock issuances and valuations:

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Square Deal Mining & Milling Company, Limited	4.37	349,600	34,960
Totals	100.00%	8,000,000	$800,000

NOTE 2:

The Company has adopted an accounting method whereby advance royalties and miscellaneous income received and related costs and expenses have been deferred and will be included in income if and when commercial production is attained. The Company uses the same method of accounting for income tax purposes.

NOTE 3:

The Company has entered into a Mining Lease and Agreement dated April 3, 1970 (effective December 1, 1970) with Hecla Mining Company (lessee) and lessee has assigned 40% of its interest to Newmont Exploration, Ltd. and 20% of its interest to Golconda Mining Corporation, subject to defined terms and conditions. The Lease and Agreement provides, among other things, that: (a) Lessees have the exclusive right to develop and mine the property and use the related facilities of the Company for a period of 50 years (with an automatic option to renew) and the [illegible]

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