The Quaker Oats Company Annual Report 1980

Fiscal Year Ended June 30

More than a diversified food company, Quaker is an international marketer of consumer products and services. The well-known brands depicted on the cover and throughout this report are representative of the outstanding consumer products which have established Quaker's reputation for quality and innovation around the world.

The diverse product mix includes foods, pet foods, toys, specialty chemicals, yarn and art needlecraft kits. The Company also owns and operates specialty restaurants and mail-order marketing companies.

Responsibility for maintaining the high-quality standards of Quaker products rests with approximately 32,000 employees worldwide, with nearly 20,000 employed in the United States. The Company's manufacturing facilities are dispersed throughout 19 states in the U.S., as well as Western Europe, Canada, Latin America and Australia.

Contents

Financial Highlights

Millions of Dollars Except Share Data

Year Ended June 30	1980	1979	% Increase
Net sales	**$2,405.2**	$1,966.3	22.3
Operating income	**211.7**	181.5	16.6
Interest expense—net	**28.9**	17.2	68.0
Net income	**96.4**	84.5*	14.1
Preference dividends	**4.8**	4.8	—
Net income available for common	**91.6**	79.7*	14.9
Per Share			
Net income per common share	**4.55**	4.01*	13.5
Preference dividends declared	**9.56**	9.56	—
Common dividends declared	**1.40**	1.20	16.7
Common Stock			
Average shares outstanding (000's)	**20,144**	19,884	1.3

*Excludes cumulative effect of change in method of accounting for U.S. investment tax credit. See the Income Taxes note on page 42 for a description of the change.

Fiscal 1980 marked the fifth consecutive year of increased operating income, net earnings, and return on average common shareholders' equity.

To Our Shareholders and Employees:
Fiscal 1980 was the best year in our Company's history, despite the combined effects of inflation and recession throughout the world.

- Sales exceeded the $2 billion mark for the first time, increasing 22 percent to $2.4 billion.
- Operating income advanced to an all-time high of $212 million, up 17 percent.
- Net earnings increased 14 percent to $96.4 million from a comparable $84.5 million a year ago.
- Earnings per share reached a record $4.55 or 13.5 percent ahead of comparable earnings per share of $4.01 achieved last year.
- Return on equity continued strong at 16.7 percent, the highest level in our modern history.
- The annual dividend rate on common stock was raised to $1.40 for 1980, the thirteenth consecutive year of higher dividends.
- Capital spending for future growth was a record $112 million, up 48 percent from fiscal 1979.

Performance Highlights. These results reflect the strength of our three major businesses, in which we have been investing substantially in recent years. Sales and operating income advanced in all three. In the aggregate, U.S. Grocery Products, International Grocery Products, and Toys and Crafts represent 87 percent of total sales and 95 percent of total operating income. About 85 percent of the total fiscal 1980 capital expenditures went to these businesses.

U.S. Grocery Products, while increasing advertising and merchandising support, reported operating income of $103.9 million, a growth of 10 percent. Sales were up 10 percent to $903 million. Although overall volume was up just slightly, there were unit gains in such staple foods as hot cereals, corn products and pancake mixes.

International Grocery Products' sales of $726.4 million represented an increase of 41 percent over last year, and operating income of $37.2 million was up 12 percent. Chiari & Forti, the Italian food company acquired by Quaker in March, 1979, was the significant factor in the operating income increase, offsetting declines in Brazil and the Benelux countries.

William D. Smithburg **Robert D. Stuart, Jr.**

Due to an outstanding performance at Fisher-Price, operating income in Toys and Crafts increased significantly in fiscal 1980 from $38.7 million to $59.6 million. Sales increased 37 percent to $470.5 million.

In those smaller businesses where past results have been less than satisfactory, we have taken steps to improve performance. For example, the Chemicals Division, responding to corrective measures taken three years ago, reported higher volume and a 28 percent increase in operating income. In our specialty restaurant business, format changes and selective closings of weak locations have not yet overcome the negative impact of a sluggish U.S. economy.

Financial Strategy. Fiscal 1980 marked the fifth consecutive year of increased operating income, net earnings, and return on average common shareholders' equity. The record return on equity reflects continuing emphasis on steady improvement of this key measurement.

We are committed to balanced internal growth through investment in our three major businesses where we have strong market positions and proven earnings records.

To reflect the reality of inflation, our internal operating plans and objectives are now measured in terms of *real* growth, i.e. discounted for inflation. For the past year, the *real* growth in earnings per share was nearly five percent, and the five-year average is better than five percent—above competitive industry performance.

As we move ahead in the new decade of the 80s, we are committed to balanced internal growth through investment in our three major businesses where we have strong market positions and proven earnings records. We will also support those smaller and newer enterprises that show exceptional promise. Capital expenditures are currently planned for fiscal 1981 at more than 20 percent over fiscal 1980.

Our large domestic Grocery Products business has proven its stability, market strength, and consistent profitability over the years. In both International Grocery Products and Toys, we have attractive earnings opportunities because we are participating in high-growth categories in different areas of the world.

It will be our continuing policy to require each business or profit center to attain a satisfactory level of return on investment over time as a condition for remaining in our corporate portfolio.

Selective acquisitions will have an important role in our strategy for the future. We have both the financial resources and the management talent to add scale to our present businesses and to establish a significant new position in another major area.

In keeping with this strategy, we made three modest acquisitions during the past year which strengthen existing businesses: in Canada, Nash Foods, Ltd., a producer of frozen products for the fast-growing food service business; in Colombia, the Walbron Company, a leading manufacturer of scouring pads for that growing consumer market; and in the U.S., the Brookstone Company, well known for its hard-to-find tools and gifts. Brookstone broadens our probe of the direct mail marketing field, in which we have had excellent results with our Herrschners art and needlework business.

Current Concerns. The new fiscal year is starting out in a recessionary environment. Although we expect another record year, the continuing impact of the recession will adversely affect comparisons of our first six months to strong year-ago performance. The relative stability of so many of our grocery products and toys, however, gives us a significant advantage in managing our business in stormy economic weather. During fiscal 1981, there will be continuing inflationary pressures in such areas as

The relative stability of so many of our products gives us a significant advantage in difficult economic times.

transportation, energy, and agricultural commodities. While supplies of all key commodities should be more than adequate, current harvest prospects point to a smaller overall crop and higher commodity costs. Because we remain committed to offering consumer products of value, we will intensify efforts to control costs.

Quaker Prospects. There are many reasons to be optimistic about Quaker and its future. Perhaps the most important is the exceptionally strong team of senior officers. The average age of the President and the Executive and Senior Vice Presidents is 46. All are seasoned with the Company and are proven hands-on managers.

We are losing one highly respected officer this year with the retirement in September of Augustin S. Hart, Vice Chairman, after a distinguished career of 43 years. A member of the Board of Directors and Executive Committee since 1960, Mr. Hart for 37 years led our International Grocery business and established the solid foundation on which it continues to grow.

As a strong company with a distinguished heritage, Quaker will work to maintain the valued relationships that have been developed with families, customers, suppliers, and citizens in our dozens of plant communities. Each constituency helps to make up the fabric that is Quaker, and each is an indispensable element in insuring our continued progress. We are determined to be exemplary corporate citizens and to discharge our responsibilities to these groups in the same principled manner that has characterized Quaker conduct for decades.

The good results of fiscal 1980 reflect the loyalty and dedication of our growing Quaker family around the world. With pride in our progress and confidence in our future, we look forward to the decade of the 80s.

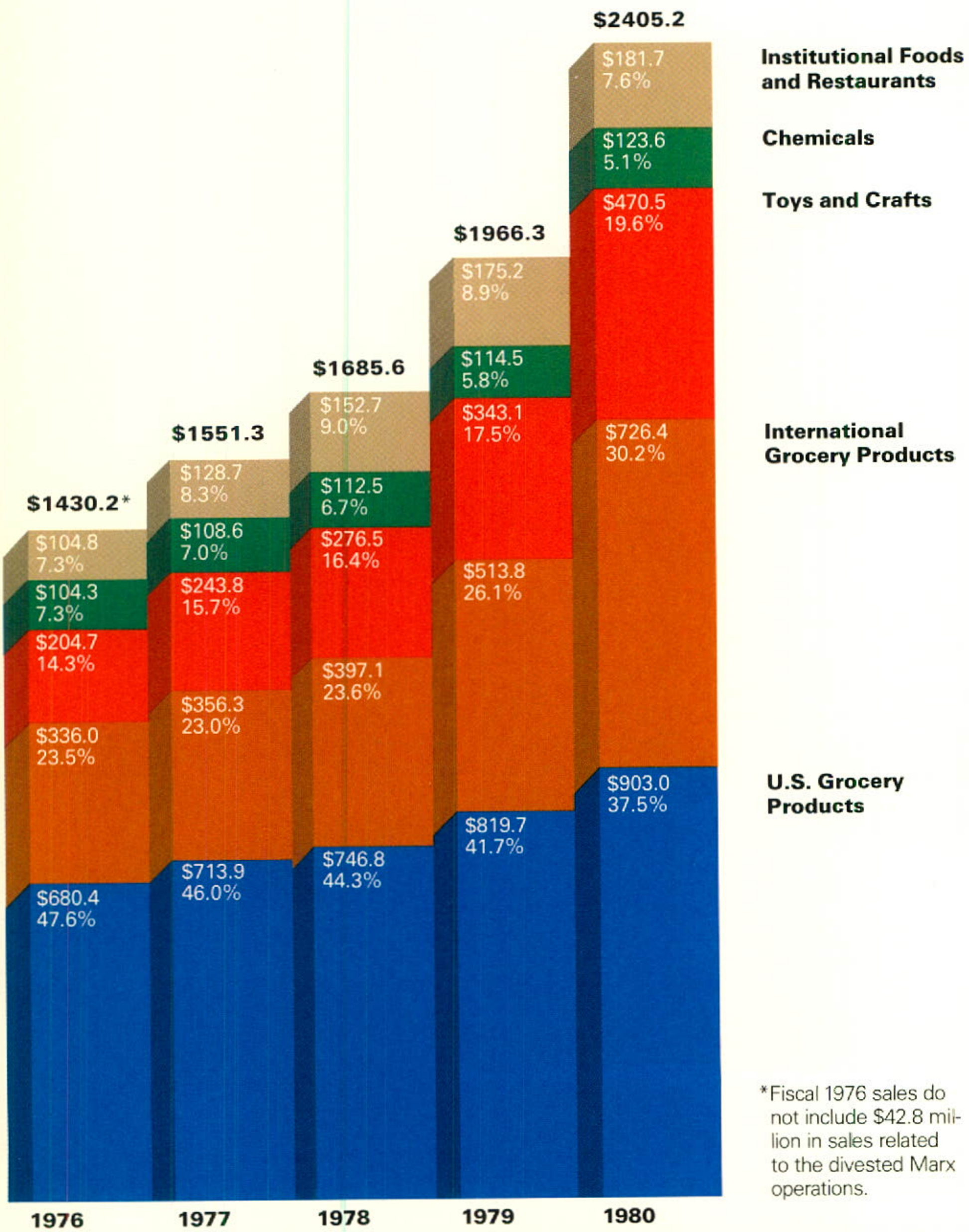
Robert D. Stuart, Jr.
Chairman and Chief Executive Officer

William D. Smithburg
President and Chief Operating Officer

September 5, 1980

Consolidated Sales

Sales in millions of dollars*
Percents of Consolidated Sales



*Fiscal 1976 sales do not include $42.8 million in sales related to the divested Marx operations.

Operations Review

U. S. Grocery Products

Led by good performances in the Foods Division's basic product areas, sales and operating income of U.S. Grocery Products increased 10 percent over a year ago.

In addition to the Foods Division, U.S. Grocery Products includes Frozen Foods and Pet Foods, and accounted for 38 percent of Quaker's consolidated sales and 49 percent of total company operating income.

Despite slight volume declines in the Pet Foods area due to a general softening in pet foods industry trends and increased competitive activity, *Ken-L Ration Tender Chunks*–introduced two years ago–continues to have the highest market share of any new dry dog food.

Quaker's growth strategies for U.S. Grocery Products in the years ahead are to continue support of our strong market position in basic foods; continue investment for growth in pet foods, ready-to-eat cereals and frozen pizza; and develop products in promising new food product categories.

Foods Division

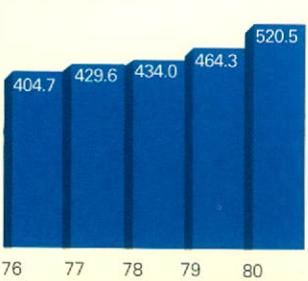
Foods Division sales climbed past the half billion dollar mark on an increase of 12 percent. Unit volume gains were registered in hot and ready-to-eat cereals, corn goods and pancake mixes, as value-conscious consumers sought ways to fight inflation and stretch food budget dollars.

Hot Cereals. Quaker increased its number-one share of the hot cereals market in fiscal 1980 as dollar sales and volumes of both standard *Quaker Oats* and *Instant Quaker Oats* showed increases over the prior year.

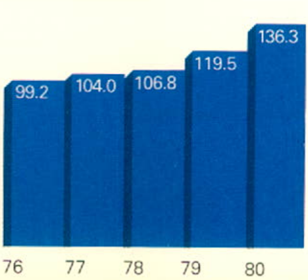
As part of the overall support of hot cereals, *Quaker Oats'* advertising emphasized the product's natural, wholegrain nutritional benefits and economical cost-per-serving. In pound volume, *Quaker Oats* continues to be America's number-one selling cereal.

sales in millions of dollars

Foods Division



Hot Cereals



The back-to-basics mood of consumers contributed to Foods Division volume gains in several staple product areas.

Ready-to-Eat Cereals. Total ready-to-eat cereal volume was up slightly for the year, due to the successful national introduction of *Corn Bran*, the first high-fiber cereal made from the bran of corn. Much of *Corn Bran's* success is the result of its good taste and crunchiness in milk, as well as increased public awareness of the benefits of fiber in the diet.

Although strike-related shortages in the first quarter contributed to year-to-year volume shortfalls for *Life* and *Cap'n Crunch*, both brands continue to be Quaker's top ready-to-eat cereals in terms of market share.

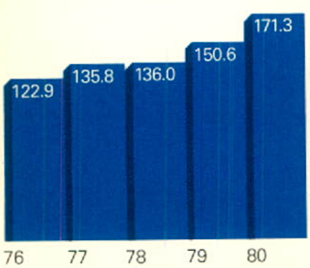
Quaker 100% Natural Cereal maintained its market share and number-one sales ranking among natural cereals despite softness in the overall category.

Mixes, Syrup and Corn Products. Pancake mixes and corn products, two categories that historically have performed well in recessionary times, reversed a downward trend in recent years and experienced volume gains. The corn products group showed improvement as Quaker increased its volume and number-one market shares in the corn meal, grits and flour tortilla categories. *Aunt Jemima* pancake mixes outperformed the competition and increased the brand's market share lead.

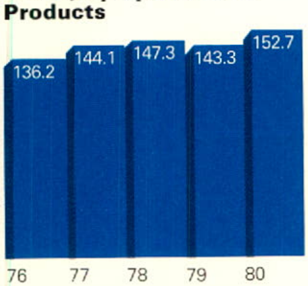
Aunt Jemima Syrup volume was down from a year ago, due in large part to strike-related shortages in the first half of the year. The brand performed well in the second half, however, and showed steadily increasing market shares. *Aunt Jemima Lite Syrup*, the first lower-calorie syrup, with one-third fewer calories than all other leading syrups, began national distribution in July, 1980.

sales in millions of dollars

Ready-to-Eat Cereals



Mixes, Syrup and Corn Products



Well-Positioned Product Mix

Quaker's successful food products include both long-established and new brands. Among the more than 50 Foods Division products are *Quaker Oats*, America's best-selling cereal; *Corn Bran*, the most popular new bran cereal; and *Aunt Jemima Lite*, the first lower-calorie syrup on the market.

Future U.S. Grocery Products growth will be in basic foods, pet foods, ready-to-eat cereals, frozen pizza and new product areas.

Frozen Foods Division

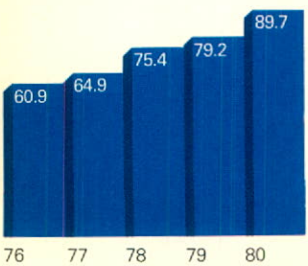
Although the frozen food industry was negatively affected by the recessionary economy, Quaker's market share and volume of *Celeste Pizza* showed a good year-to-year increase. The Division was active in various marketing efforts—making product improvements, introducing packaging innovations, and undertaking new marketing approaches in the institutional food service area.

Celeste Pizza. A major packaging innovation, the "Flavor-Saver" wrap, was introduced by *Celeste* during the year. The "Flavor-Saver" process seals out oxygen and results in a fresher, better-tasting pizza. Backed by the largest advertising campaign in *Celeste's* history, the brand achieved a significant volume increase and improved its market share over the prior year. Another marketing success in fiscal 1980 was the promotion of "Pizza for One," a single serving pizza designed for lifestyles in a new decade.

Aunt Jemima. Reflecting industry-wide softness in the frozen breakfast products area, *Aunt Jemima Waffles* experienced a decline in volume during the year. The french toast and pancake batter categories, two areas in which *Aunt Jemima* holds a number-one share, also declined in volume. An improved, better-tasting waffle was introduced in September, 1979.

sales in millions of dollars

Frozen Foods Division



Major Product Innovation

The entire line of *Celeste* frozen pizzas featured a major product improvement in 1980. The special "Flavor-Saver" process combines freezing, controlled atmosphere, and a special wrap that locks in flavor.

Quaker continues to seek growth in pet foods through new product introductions.

Pet Foods Division

Pet Foods operating income was improved significantly in fiscal 1980. Dollar sales for the Division were up six percent over the prior year despite a decline in pound sales.

Ken-L Ration Tender Chunks continues to be a major factor in the dry dog food market, although the brand experienced heavy competitive pressures with resultant slight declines in volume and share. A third *Ken-L Ration Tender Chunks* flavor–Beef and Cheese – was introduced during the year.

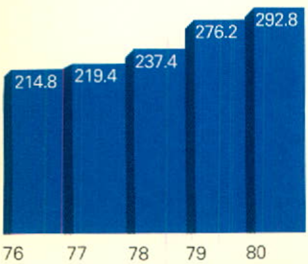
Quaker extended the *Tender Chunks* franchise in fiscal 1980 with the national introduction of *Tender Chunks Dinners,* a lower-cost premium entry in the canned dog food market.

A new dry dog food that is a combination of hard and soft components entered test market in the first quarter of fiscal 1980, and results to date are encouraging.

Puss'n Boots Moist Meals, the Company's entry in the semi-moist cat food industry, recorded an increase in volume for the year. Sales declines of *Puss'n Boots* canned cat food, however, resulted in an overall decrease in cat foods pound volume. A canned three-flavor combination of chicken, liver and tuna–Gourmet Platter–was successfully introduced in October.

sales in millions of dollars

Pet Foods Division



New Product Introduction

***Ken-L Ration Tender Chunks* is the best-selling new dry dog food. Based on the brand's success, a new low-priced, premium canned dog food—*Tender Chunks Dinners*—was introduced nationally this year.**

With strong market shares in several pet food categories, Quaker will continue to invest in the fast-growing European pet foods market.

International Grocery Products

International Grocery Products produced substantial gains in physical volume, sales and operating income. The principal factor in the increases was the oustanding first full year's results of Chiari & Forti, an Italian food company which Quaker acquired in March, 1979. Because Quaker has good positions in several high-growth markets of Europe and Latin America, continued international growth is expected.

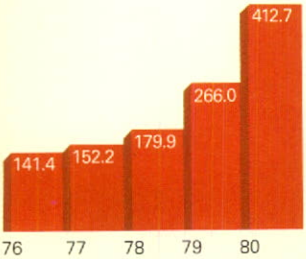
Europe. The strong performance in Europe was highlighted by Chiari & Forti, which provides Quaker with the market-leading corn oil in Italy, *Cuore,* as well as a strong base for future growth. Also contributing to Europe's results were excellent sales and income gains in France and better overall results, despite soft sales, in the United Kingdom. There was also substantial underwriting for future growth throughout several Continental countries.

Pet foods represent nearly 40 percent of Quaker's European product mix. With strong market share positions in several pet food categories in France, Italy, Belgium, Denmark and Holland, Quaker will continue to invest in the fast-growing European pet foods market. Among outstanding performers was Quaker's *Fido* brand in France, which experienced a 29 percent increase in volume during the year.

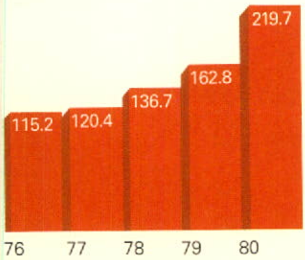
Latin America and the Pacific. Volumes were up substantially in the rapidly growing consumer markets of Latin America and the Pacific. However, stringent price controls on cereal products and fish supply problems—both in Brazil—affected profitability adversely. Quaker has leading brands of hot cereals, corn products and grain-based beverages in several Latin American countries. Additionally, Quaker subsidiaries are market leaders in chocolate-based products in Mexico, canned sardines in Brazil and household products in Venezuela. In Mexico, Quaker's La Azteca subsidiary registered good volume gains for its line of bar and beverage chocolate and chocolate candy.

sales in millions of dollars

Europe



Latin America and Pacific



Worldwide Marketer

***Quaker Oats* in the export tin is the leading brand in 55 countries in Africa and the Middle East. *Harvest Crunch*, a granola cereal well-known in Canada, is a new success in the United Kingdom. *Fido Croq'Mix* is the first three-component expanded dry dog food in France. *Chunky* canned dog food is well-established in the United Kingdom, and *Catty* canned cat food is a major brand in the Netherlands and Belgium.**

Quaker's international growth is based on strong existing brands and acquisitions establishing new market areas.

In January, 1980, Quaker acquired Walbron, the leading manufacturer of steel wool products in Colombia. The Walbron acquisition strengthens Quaker's position as a leading consumer goods company in Colombia where its *Bon Bril* scouring pads are the number-one brand in the market. The acquisition also adds to Quaker's small but growing household products business, which includes *Nevex*, the leading bleach in Venezuela.

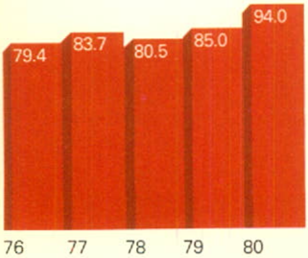
In Australia, where Quaker's principal market is pet foods, volume gains were recorded in both the domestic and export sales areas for pet foods and cereals. *Pampas* frozen pastry, acquired in fiscal 1979, added scale to the Australian business. Dollar sales in the first year of acquisition were up 22 percent, as distribution was expanded and market share strengthened.

Canada. Dollar sales in Canada increased 11 percent to $94.0 million in fiscal 1980. Pound sales were up slightly while operating income was about level with last year. Competition from generic brands has been especially intense for national manufacturers in Canada. Quaker's Canadian market shares remain strong, however, with hot cereals, syrup, canned dog food and cat food shares equal to or above year-ago levels. Ready-to-eat cereals, pancake mix, frozen waffles, and semi-moist dog food experienced declines.

Quaker Canada's position in the growing food service market was strengthened with the acquisition in October of Nash Foods, Ltd., a Montreal-based supplier of prepared salads, frozen entrees and frozen soups.

sales in millions of dollars

Canada



Diversified Grocery Products

La Azteca's *Carlos V* line is the leading brand of chocolates in Mexico. *Coqueiro* canned sardines are best-sellers in Brazil. Chiari & Forti's *Cuore* is Italy's leading edible corn oil product. *Bon Bril* is Colombia's largest-selling scouring pad.

Fisher-Price celebrated 50 years of toymaking with sales up nearly a third over the prior year.

Toys and Crafts

The Toys and Crafts segment grew from 17 to 20 percent of consolidated sales and from 21 to 28 percent of operating income, largely on the basis of excellent performance by the Fisher-Price Toys Division.

Fisher-Price Toys Division

Fisher-Price celebrated its 50th birthday by achieving record sales and profits. Sales were $382.8 million, up 32 percent from the previous year.

Growth occurred both in the U.S. and in international markets, which now account for about 35 percent of the Division's consolidated sales. Fisher-Price products are sold in 80 countries around the world.

Fisher-Price continues to maintain its leadership position in infant and preschool toys. In its other product categories–trucks, dolls and doll accessories, action figures, audio-visual items, and *Muppet* toys–Fisher-Price ranks at or near the top in sales or sales per item. Among the new toys, best-sellers for the year included a preschool basic–the *Kitchen Set, Miss Piggy* of *Muppet* fame, and Fisher-Price's quality children's phonograph.

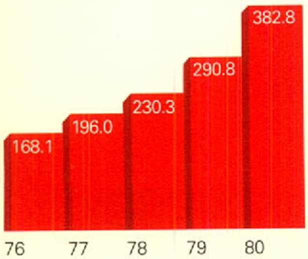
At the New York Toy Fair trade show in February, Fisher-Price introduced 45 new toys to its line, including, for the first time, toys that combine advanced electronics with traditional Fisher-Price characteristics.

Baby Soft Sounds is a soft doll that represents a breakthrough in the application of electronic voice synthesis. *Alpha Probe* is a space vehicle that adds the dimension of electronics to the *Adventure People* line for older-age children.

A major addition to the Murray, Kentucky, plant was completed during the year, and machinery was installed which provides significant additional capacity for blow and injection molding. A large distribution center at the Kaulille, Belgium, plant was also completed during the year.

sales in millions of dollars

Fisher-Price Toys Division



New Toys for 1980

Baby Soft Sounds **is a lovable doll that uses electronics to create a special "voice." The *Bath Activity Center* provides fun-filled activities for the bathtub; and the Fisher-Price *Marching Band* is a preschool classic.**

Brookstone and Herrschners are two highly successful mail-order franchises with excellent growth prospects.

Needlecraft Division

The Needlecraft Division, which markets a product assortment of yarn and craft kits to retailers under the *Bernat* and *Wonder Art* trademarks, achieved a 17 percent sales increase for the year despite a slowdown in retail buying in the fourth quarter. An operating loss for the year was incurred, however, due to increased promotional spending and the costs of consolidating manufacturing and distribution locations. The plant consolidation program, which is scheduled for completion in the fall of 1980, is being undertaken to improve manufacturing and distribution efficiencies, as well as profitability. Marketing and sales programs are also being strengthened.

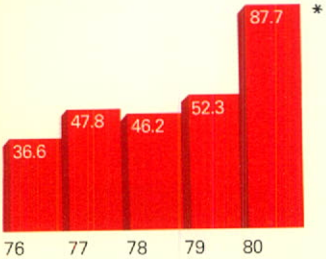
Direct Mail Marketing Division

In March, Quaker acquired Brookstone Company, Inc., a direct mail marketer of hard-to-find tools and unique gifts. The Peterborough, New Hampshire-based company also has seven retail outlets in the Eastern states. Brookstone recorded a good sales increase over the comparable fiscal 1979 period.

Herrschners, a mail-order company specializing in yarn and craft kits, had sharp sales and operating income gains. Brookstone and Herrschners combine to give Quaker nearly a $50 million mail-order business and two highly successful consumer franchises. With consumer trends toward convenience and further market segmentation favoring mail order in the 1980's, these businesses have the potential for continued growth.

sales in millions of dollars

Crafts and Direct Mail Marketing



*Sales for Brookstone are included for 1980 only.

Direct Mail Expansion

The acquisition of Brookstone Company in 1980 roughly doubled the size of Quaker's direct-mail marketing business. Brookstone specializes in hard-to-find tools and unique gift items. Herrschners features a wide variety of craft-related items.

The Chemicals Division recorded its third straight year of improved operating performance.

Chemicals Division

The Chemicals Division recorded its third straight year of improved operating performance, with unit volume, dollar sales, and operating income increasing over the prior year.

An unusual aspect of Quaker's chemical business is that it is based on renewable raw materials—agricultural residues such as corn cobs, oat and rice hulls, and sugar cane bagasse.

Quaker is the world's largest producer of furfural and its "furan" derivatives. Furfuryl alcohol (FA) is the most important derivative in both pounds and dollars and accounts for 75 percent of the Division's volume. Since FA is used primarily as a foundry binder ingredient, its volume is largely dependent on the state of the foundry business. However, recent trends in the pricing of petroleum-based competitive materials have enhanced the price/value relationship of FA. The Division's foundry service program continues to be effective in converting foundries in the U.S. and Europe from other binders to FA-based binder systems.

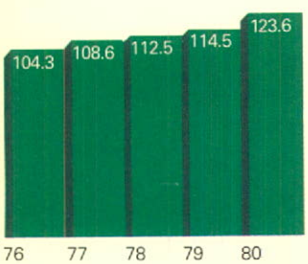
Volume increases of FA during the past year were due primarily to gains in Western Europe, where increased castings output contributed to the sales increase. FA volume in the United States was negatively affected by the economic recession, which has severely depressed castings output in automotive-related foundries and has also had an adverse impact on practically all capital goods industry segments.

Far East volume was up over a year ago as a result of continuing growth achieved by Kao-Quaker, a joint venture with the Kao Soap Company in Japan.

The plant cost reduction program continued to generate operating efficiencies which improved the Division's profitability.

sales in millions of dollars

Chemicals Division



The Restaurants Division is focusing on improving profitability and traffic trends.

Institutional Foods and Restaurants
Sales of Institutional Foods and Restaurants, composed of the Burry Division and Restaurants Division, increased four percent to $181.7 million, while operating income declined from $9.5 million a year ago to $4.2 million. The operating income decline resulted from a $2.5 million expense provision for the anticipated closing of 10 restaurants, restaurant traffic declines and higher operating costs and lower volume in Burry's grocery products and Girl Scout Cookie businesses.

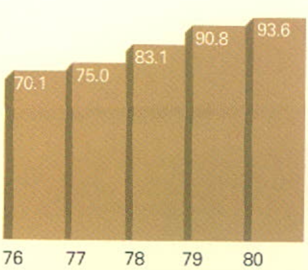
Burry Division
Burry is a specialty marketer of cookies and crackers for the food service industry, Girl Scout councils, and the dairy industry, with some regional distribution through grocery channels. The slowdown in the food service industry, combined with higher ingredient costs and competitive pressures resulted in unit volume and profit declines for the Division. Dollar sales were up slightly to $93.6 million.

Restaurants Division
The restaurant industry, in general, has experienced traffic declines for the past year. This was evidenced especially in the medium-priced specialty/atmosphere segment in which Quaker competes. To counter this trend, the Division is testing new diversified menu offerings and marketing programs.

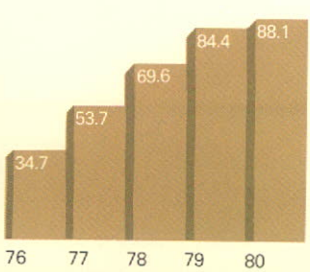
Quaker ended the year with 110 restaurants in operation. *Magic Pan Creperies*, the continental style restaurants which serve as the hub of the Division, had 91 restaurants at year's end, a net increase of three over the prior year.

sales in millions of dollars

Burry Division



Restaurants Division



Six *Engine House Pizza Co.* restaurants were added during the year, bringing the total to 12. The *Engine House* concept is a family restaurant with a firehouse theme.

While faced with problems currently affecting the overall restaurant industry, the *Magic Pan* business would appear to be an outstanding consumer franchise. Consumer demographic and lifestyle trends in the 1980's should favor high-quality specialty restaurants. Consequently, management believes the current intensive review of restaurant operating strategies will confirm the financial potential of this specialty business.

Financial Section

Contents

Ten-Year Financial Summary

The Quaker Oats Company and Subsidiaries

Year Ended June 30	1980(A)	1979	1978
Net sales	**$2,405.2**	$1,966.3	$1,685.6
Cost of goods sold	**1,628.2**	1,331.2	1,147.6
Gross profit	**777.0**	635.1	538.0
Selling, general and administrative expenses	**571.7**	457.2	378.5
Interest expense—net	**28.9**	17.2	13.8
Other (income) expense—net	**1.7**	10.7	9.1
	174.7	150.0	136.6
Provision for income taxes	**76.7**	65.5	63.0
Minority interest	**1.6**	—	—
Income before extraordinary charge and cumulative effect of change in accounting principle	**96.4**	84.5	73.6
Extraordinary charge	**—**	—	—
Cumulative effect of change in method of accounting for investment tax credit	**—**	14.7	—
Net income	**96.4**	99.2	73.6
Preferred and preference dividends	**4.8**	4.8	4.8
Net income available for common	**$ 91.6**	$ 94.4	$ 68.8
Per common share:(B)			
Income before extraordinary charge and cumulative effect of change in accounting principle	**$ 4.55**	$ 4.01	$ 3.34
Extraordinary charge	**—**	—	—
Cumulative effect of change in method of accounting for investment tax credit	**—**	.74	—
Net income	**$ 4.55**	$ 4.75	$ 3.34
Dividends declared	**$ 1.40**	$ 1.20	$ 1.04
Working capital	**$ 257.4**	$ 246.3	$ 223.1
Depreciation expense	**46.8**	42.6	37.6
Capital expenditures	**112.4**	75.8	89.5
Average number of common shares outstanding (000's)	**20,144**	19,884	20,623
Pro forma amounts assuming retroactive application of the 1979 accounting change:			
Net income	**—**	$ 84.5	$ 75.3
Income per common share	**—**	$ 4.01	$ 3.42

(A) Includes the full year results of the Brookstone Company, Inc., which was acquired in March, 1980 and has been recorded as a pooling of interests. Prior years have not been restated because the effect is not material.

(B) Adjusted for 3-for-2 stock split in 1972.

Millions of Dollars Except Share Data

1977	1976	1975	1974	1973	1972	1971
$1,551.3	$1,473.0	$1,389.0	$1,227.3	$ 990.8	$ 795.2	$ 701.9
1,071.9	1,016.2	1,029.4	914.9	692.7	545.8	482.3
479.4	456.8	359.6	312.4	298.1	249.4	219.6
330.8	304.0	256.8	215.3	201.5	172.4	153.1
12.9	13.4	26.4	21.1	11.0	6.6	5.6
.5	28.5	9.1	(.5)	.1	(.2)	.1
135.2	110.9	67.3	76.5	85.5	70.6	60.8
67.6	57.8	36.3	36.6	43.4	35.0	29.7
—	—	—	—	—	—	—
67.6	53.1	31.0	39.9	42.1	35.6	31.1
—	—	—	—	—	—	5.9
—	—	—	—	—	—	—
67.6	53.1	31.0	39.9	42.1	35.6	25.2
5.2	5.2	1.1	.4	.4	.5	.5
$ 62.4	$ 47.9	$ 29.9	$ 39.5	$ 41.7	$ 35.1	$ 24.7
$ 3.01	$ 2.31	$ 1.45	$ 1.91	$ 2.04	$ 1.78	$ 1.56
—	—	—	—	—	—	.30
—	—	—	—	—	—	—
$ 3.01	$ 2.31	$ 1.45	$ 1.91	$ 2.04	$ 1.78	$ 1.26
$ .92	$ .84	$ .80	$ .76	$ .72	$ .68	$ .67
$ 233.2	$ 215.5	$ 208.7	$ 184.5	$ 156.1	$ 131.0	$ 110.6
33.5	33.0	29.6	24.8	20.1	15.1	12.3
72.0	62.7	71.9	68.2	52.6	42.1	39.8
20,762	20,711	20,699	20,675	20,466	19,760	19,590
$ 69.2	$ 57.9	$ 33.6	$ 41.5	$ 43.5	$ 36.5	$ 25.2
$ 3.09	$ 2.53	$ 1.57	$ 1.99	$ 2.11	$ 1.83	$ 1.26

Financial Review

Sales. Fiscal 1980 sales reached a record high $2.41 billion, a 22 percent increase over fiscal 1979, with all industry segments contributing to the increase. Volume gains, product mix, the full year effect of the acquisition of Chiari & Forti, S.p.A. in March, 1979, and fiscal 1980 acquisitions accounted for about half of the sales increase with the balance due to price changes.

Fiscal 1979 sales were $1.97 billion, 17 percent higher than fiscal 1978, with increases in all industry segments. Approximately 60 percent of the increase was the result of unit volume gains and favorable product mix, with the remainder due to price increases, foreign exchange rate fluctuations, and the inclusion of four months' sales of Chiari & Forti.

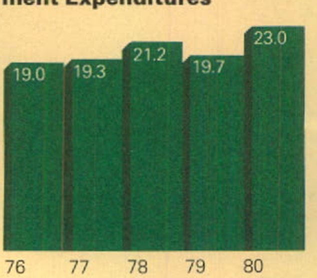
Cost of Goods Sold. Fiscal 1980 and 1979 cost of goods sold were 22 percent and 16 percent higher than prior years, respectively. These increases were in line with the related sales increases. The gross profit margin for the last three years has remained constant at 32 percent.

Selling, General and Administrative Expenses. Fiscal 1980 selling, general and administrative expenses were $114.5 million higher than in fiscal 1979, representing a 25 percent increase. Of this increase, 53 percent was due to higher advertising and merchandising expenses, principally in U.S. Grocery Products and International Grocery Products, for new product introductions and support of existing product lines. Research and development expenses in fiscal 1980 were $23 million, up 17 percent over a year ago.

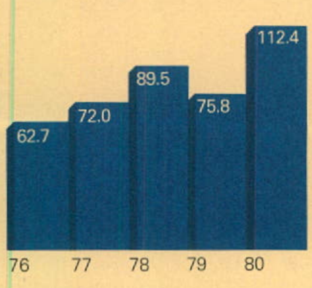
Selling, general and administrative expenses in fiscal 1979 were 21 percent higher than fiscal 1978, primarily due to a 24 percent increase in advertising and merchandising expenses, principally in U.S. Grocery Products, International Grocery Products and Fisher-Price Toys. Fiscal 1979 research and development expenses were slightly below fiscal 1978.

millions of dollars

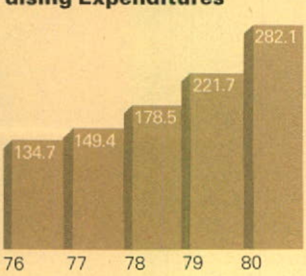
Research and Development Expenditures



Capital Expenditures



Advertising & Merchandising Expenditures



Interest Expense - Net. In fiscal 1980, net interest expense was $28.9 million, compared to $17.2 million in fiscal 1979. Interest expense increased $12.3 million due to significantly higher rates and increased levels of short-term borrowings during the year, while interest income increased $.6 million. The fiscal 1980 interest expense is net of a $2.1 million reduction for interest capitalized under the provisions of F.A.S.B. Statement No. 34.

Net interest expense in fiscal 1979 was $17.2 million, an increase of 25 percent over fiscal 1978 as a result of higher rates and increased borrowings.

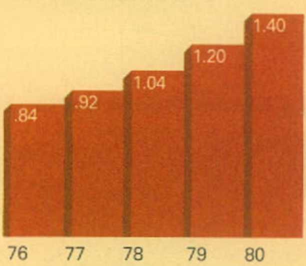
Other Expenses. In fiscal 1980, other expenses were $1.7 million, compared to $10.7 million in fiscal 1979. This decrease was primarily due to net foreign exchange gains in fiscal 1980, compared with net foreign exchange losses in fiscal 1979. The financial statement note on page 52 provides further details of the change between these years. Other expenses in fiscal 1979 were $1.6 million higher than in fiscal 1978.

Tax Rate. The effective tax rate for fiscal 1980 remained level with fiscal 1979 at 44 percent. In fiscal 1979, the tax rate was two percent lower than the previous year. The reduction was primarily the result of the adoption, in fiscal 1979, of the flow-through method of accounting for the investment tax credit. (See Note to Financial Statements on page 42 for a full explanation of this accounting change).

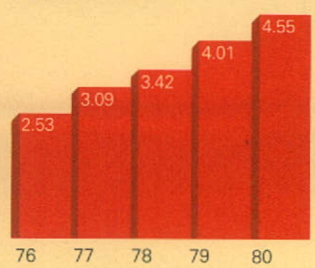
Net Income. Net income in fiscal 1980 was $96.4 million, a 14 percent increase over prior year earnings before the cumulative effect of the change in the method of accounting for the U.S. investment tax credit recorded in 1979. Factors contributing to this increase were a 17 percent improvement in operating income and net foreign exchange gains of $1.8 million in fiscal 1980, compared to foreign exchange losses of $4.8 million in fiscal 1979, partially offset by an increase of $11.7 million in net interest expense.

dollars

Dividends Declared per Common Share



Net Income per Common Share*



*Fiscal 1979 earnings per share exclude $.74 per share cumulative effect of change in method of accounting for the U.S. investment tax credit. Fiscal 1976 to fiscal 1978 earnings per share are pro forma, assuming retroactive application of change in method of accounting for the U.S. investment tax credit.

Fiscal 1979 income, excluding the cumulative effect of the change in the method of accounting for the U.S. investment tax credit, was $84.5 million, a 12 percent increase over comparable fiscal 1978 net income. The major factors contributing to this increase were a lower effective tax rate and improved operating income in U.S. Grocery Products, International Grocery Products, and Fisher-Price Toys.

Net Income per Share*. Income per common share for fiscal 1980 was $4.55, a 13.5 percent increase over fiscal 1979. The increase was due to the higher net income, as explained above. Fiscal 1979 income per share of $4.01 represents a 17 percent increase over comparable fiscal 1978 income per share of $3.42. This increase was due to higher net income and the effect of a lower number of average common shares outstanding in fiscal 1979 compared to fiscal 1978, as a result of repurchases of common shares for use in our Stock Option and Employee Stock Award Plans and for general corporate purposes.

Receivables and Inventories. Total receivables and inventories at June 30, 1980, are 30 percent and 18 percent higher than last year, respectively. The higher levels of receivables and inventories are directly related to the overall increase in business activity, with International Grocery Products and Fisher-Price Toys representing the most significant increases.

Capital Expenditures. Fiscal 1980 capital expenditures were a record $112.4 million, compared to fiscal 1979 capital expenditures of $75.8 million. The increase in fiscal 1980 spending relates primarily to the expansion of facilities to accommodate increased production requirements. The Notes to Financial Statements on pages 38 and 44 show details of capital spending.

Dividends. The quarterly common share dividend was increased from 30 cents a share to 35 cents a share effective with the October 20, 1979, payment. This was the thirteenth consecutive year in which the common stock dividend was increased.

Financing. The maturity of the Company's $135 million revolving credit agreement was extended another year to June 30, 1985. The Company also has domestic bank lines of credit totalling $62 million. None of these $197 million in bank facilities are currently in use. Quaker's non-U.S. subsidiaries have credit facilities totalling $195 million, of which $128 million were not being used at June 30, 1980.

*See note on page 29.

Consolidated Statement of Income

The Quaker Oats Company and Subsidiaries

Millions of Dollars Except Share Data

Year Ended June 30	1980	1979
Net Sales	**$2,405.2**	$1,966.3
Cost of goods sold	**1,628.2**	1,331.2
Gross profit	**777.0**	635.1
Selling, general and administrative expenses	**571.7**	457.2
Interest expense—net	**28.9**	17.2
Other expenses	**1.7**	10.7
Income Before Income Taxes and Minority Interest	**174.7**	150.0
Provision for income taxes	**76.7**	65.5
Minority interest	**1.6**	—
Income Before Cumulative Effect of Change in Accounting Principle	**96.4**	84.5
Cumulative effect of change in method of accounting for investment tax credit	—	14.7
Net Income	**96.4**	99.2
Preference dividends	**4.8**	4.8
Net Income Available for Common	**$ 91.6**	$ 94.4
Per Common Share:		
Income before cumulative effect of change in accounting principle	**$ 4.55**	$ 4.01
Cumulative effect of change in method of accounting for investment tax credit	—	.74
Net income	**$ 4.55**	$ 4.75
Dividends declared	**$ 1.40**	$ 1.20
Average Common Shares Outstanding (in thousands)	**20,144**	19,884

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

The Quaker Oats Company and Subsidiaries

Assets

	Millions of Dollars	
June 30	**1980**	1979
Current Assets:		
Cash and marketable securities	**$ 25.0**	$ 22.4
Receivables (less allowances of $14.2 and $10.8, respectively)	**315.8**	242.0
Inventories	**342.5**	290.8
Prepaid expenses	**18.6**	15.0
Current assets	**701.9**	570.2
Other Receivables and Investments	**9.5**	12.1
Property, Plant and Equipment, at cost:		
Land	**17.3**	12.8
Buildings and improvements	**271.4**	230.4
Machinery and equipment	**540.2**	474.2
	828.9	717.4
Less accumulated depreciation	**256.1**	210.0
Properties—net	**572.8**	507.4
Intangible Assets:		
Excess of cost over net assets of acquired businesses, less amortization	**46.7**	38.1
Patents, trademarks and designs, less amortization	**3.3**	3.7
	$1,334.2	$1,131.5

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

June 30	1980	1979
	Millions of Dollars	
Current Liabilities:		
Short-term debt	**$ 155.1**	$ 88.1
Current portion of long-term debt	**6.8**	4.6
Accounts payable and accrued expenses	**257.0**	205.9
Income taxes payable	**17.3**	18.2
Dividends payable	**8.3**	7.1
Current liabilities	**444.5**	323.9
Long-Term Debt	**151.7**	157.5
Other Liabilities	**18.5**	19.7
Deferred Income Taxes	**81.0**	66.8
Minority Interest	**5.6**	—
Redeemable Preference Stock, without par value, $100 stated value, $9.56 cumulative, authorized 1,500,000 shares; issued 500,000 shares	**50.0**	50.0
Common Shareholders' Equity:		
Common stock, $5 par value, authorized 35,000,000 shares; issued 20,997,349	**105.0**	105.0
Additional paid-in capital	**22.3**	22.6
Reinvested earnings	**473.6**	413.0
	600.9	540.6
Less treasury common stock, at cost	**18.0**	27.0
Common shareholders' equity	**582.9**	513.6
	$1,334.2	$1,131.5

Consolidated Statement of Common Shareholders' Equity

The Quaker Oats Company and Subsidiaries

Millions of Dollars

	Common Stock	Additional Paid-in Capital	Reinvested Earnings	Treasury Common Stock
Balance at June 30, 1978	$105.0	$22.8	$342.3	$23.3
Net income			99.2	
Dividends on—				
Redeemable preference stock			(4.8)	
Common stock			(23.7)	
Common stock issued for stock options and stock awards		(.2)		(1.0)
Treasury shares acquired				4.7
Balance at June 30, 1979	$105.0	$22.6	$413.0	$27.0
Changes resulting from acquisition accounted for as pooling of interests		(.3)	(3.0)	(6.9)
Net income			96.4	
Dividends on—				
Redeemable preference stock			(4.8)	
Common stock			(28.0)	
Common stock issued for stock options and stock awards				(2.1)
Balance at June 30, 1980	$105.0	$22.3	$473.6	$18.0

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

The Quaker Oats Company and Subsidiaries

		Millions of Dollars
Year Ended June 30	**1980**	1979
Sources of Funds:		
Operations		
Income before cumulative effect of change in accounting principle	**$ 96.4**	$ 84.5
Depreciation and amortization	**48.8**	44.6
Deferred income taxes and minority interest	**15.8**	10.4
Total from operations	**161.0**	139.5
Increase (decrease) in short-term debt	**67.0**	(3.8)
Increase in accounts payable and accrued expenses	**51.1**	50.5
Sales and disposals of properties	**7.9**	2.0
Proceeds from new long-term debt	**3.2**	—
Decrease in other receivables and investments	**2.6**	5.3
Increase in current portion of long-term debt	**2.2**	3.7
Treasury stock issued for stock options and stock awards	**2.1**	1.0
Other increase—net	**5.9**	.2
Total funds provided	**303.0**	198.4
Uses of Funds:		
Additions to properties	**112.4**	75.8
Increase in receivables	**73.8**	51.8
Increase in inventories	**51.7**	45.0
Cash dividends	**32.8**	28.5
Cost of acquisitions, less working capital acquired	**14.2**	11.9
Decrease in long-term debt	**11.0**	5.8
Increase (decrease) in prepaid expenses	**3.6**	(1.3)
Decrease (increase) in income taxes payable	**.9**	(4.0)
Acquisition of treasury stock	**—**	4.7
Total funds used	**300.4**	218.2
Net increase (decrease) in cash and marketable securities	**$ 2.6**	$ (19.8)

See accompanying notes to consolidated financial statements.

Sales and Operating Income by Industry Segment

The Quaker Oats Company and Subsidiaries

Year Ended June 30	1980		
	Sales	Operating Income	Sales
U.S. Grocery Products	**$ 903.0**	**$103.9**	$ 819.7
International Grocery Products	**726.4**	**37.2**	513.8
Toys and Crafts			
Fisher-Price, Needlecraft and Direct Mail Marketing*	**470.5**	**59.6**	343.1
Marx operations sold	**—**	**—**	—
Total	**470.5**	**59.6**	343.1
Chemicals	**123.6**	**6.8**	114.5
Institutional Foods and Restaurants	**181.7**	**4.2**	175.2
Total Sales/Operating Income	**$2,405.2**	**$211.7**	$1,966.3
Less: General corporate expenses		**9.9**	
Interest expense—net		**28.9**	
Foreign exchange (gain)/loss—net		**(1.8)**	
Income before income taxes		**$174.7**	

*Sales and operating income amounts for Brookstone, which was acquired in March, 1980, and is being accounted for as a pooling of interests, are included in 1980 only. Prior years have not been restated because the effect is not material. See page 43 (Acquisitions) for additional information.

Segments of the Business

The Company's operations are classified into five industry segments. The segments and their principal product lines are:

United States Grocery Products—ready-to-eat and hot cereals; mixes, syrups and corn products; frozen pizza and breakfast products; canned chili; dry, semi-moist and canned dog foods, and semi-moist and canned cat foods.

International Grocery Products—food and pet food products principally in Canada, Europe, Latin America and the Pacific.

Toys and Crafts—infant, pre-school, early school-age, and audio-visual toys; yarns, needlecraft, embroidery, and latchhook rug kits; mail order crafts, specialty tools and gifts.

Chemicals—furan chemicals (produced from agricultural by-products), which are used in the foundry industry, the refining of petroleum and the processing of a wide range of products, including rubber and plastics.

Institutional Foods and Restaurants—institutional and food service products, specialty biscuit products, cookies and crackers, and specialty restaurants.

Millions of Dollars

	1979	1978		1977		1976	
	Operating Income	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income
	$ 94.8	$ 746.8	$ 86.1	$ 713.9	$ 93.4	$ 680.4	$ 90.0
	33.2	397.1	28.1	356.3	25.8	336.0	24.4
	38.7	276.5	32.5	243.8	36.7	204.7	29.6
	—	—	—	—	—	42.8	(35.1)
	38.7	276.5	32.5	243.8	36.7	247.5	(5.5)
	5.3	112.5	3.0	108.6	(8.2)	104.3	11.9
	9.5	152.7	9.9	128.7	11.5	104.8	12.6
	$181.5	$1,685.6	$159.6	$1,551.3	$159.2	$1,473.0	$133.4
	9.5		8.5		8.1		8.2
	17.2		13.8		12.9		13.4
	4.8		.7		3.0		.9
	$150.0		$136.6		$135.2		$110.9

Sales between industry segments were not material and are not separately set forth.

In computing operating income, none of the following has been deducted from revenues: general corporate expenses, net interest expense, net foreign exchange gains and losses, and income taxes.

Segment Information

Identifiable assets, capital expenditures, depreciation and amortization expense for each industry segment are shown in the following tables. Corporate assets are principally cash and marketable securities.

Millions of Dollars

	Identifiable Assets			
	1980	1979	1978	1977
U.S. Grocery Products	**$ 388.2**	$ 354.9	$ 327.0	$ 302.8
Int'l. Grocery Products	**348.7**	262.8	194.4	160.2
Toys and Crafts	**361.6**	273.9	231.9	206.3
Chemicals	**118.8**	125.2	130.6	139.3
Inst. Foods & Restaurants	**83.0**	78.6	66.6	53.7
Corporate	**33.9**	36.1	58.3	62.0
Total Consolidated	**$1,334.2**	$1,131.5	$1,008.8	$ 924.3

Millions of Dollars

	Capital Expenditures		Depreciation & Amortization	
	1980	1979	**1980**	1979
U.S. Grocery Products	**$ 38.7**	$28.7	**$16.6**	$16.8
Int'l. Grocery Products	**31.3**	17.6	**11.5**	8.3
Toys and Crafts	**29.4**	11.2	**9.7**	9.8
Chemicals	**2.4**	3.6	**5.0**	4.8
Inst. Foods & Restaurants	**10.6**	14.7	**6.0**	4.9
Total Consolidated	**$112.4**	$75.8	**$48.8**	$44.6

Sales, operating income and identifiable assets by geographic area are shown in the following tables. Sales by geographic areas consist of sales to unaffiliated customers.

Millions of Dollars

	Sales			
	1980	1979	1978	1977
United States	**$1,498.7**	$1,302.7	$1,166.1	$1,093.4
Canada	**133.8**	117.5	110.2	109.0
Europe	**536.3**	371.3	265.7	222.7
Latin America & Pacific	**236.4**	174.8	143.6	126.2
Total	**$2,405.2**	$1,966.3	$1,685.6	$1,551.3

Millions of Dollars

	Operating Income			
	1980	1979	1978	1977
United States	**$147.6**	$124.9	$117.0	$117.1
Canada	**5.8**	5.5	4.7	5.8
Europe	**35.5**	29.4	19.6	19.8
Latin America & Pacific	**22.8**	21.7	18.3	16.5
Total	**$211.7**	$181.5	$159.6	$159.2

Millions of Dollars

	Identifiable Assets			
	1980	1979	1978	1977
United States	**$ 832.3**	$ 734.2	$ 670.7	$ 619.6
Canada	**53.6**	45.1	40.1	39.0
Europe	**272.7**	217.2	153.4	137.1
Latin America & Pacific	**141.7**	98.9	86.3	66.6
Corporate	**33.9**	36.1	58.3	62.0
Total	**$1,334.2**	$1,131.5	$1,008.8	$ 924.3

Notes to Consolidated Financial Statements

The Quaker Oats Company and Subsidiaries

Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include The Quaker Oats Company and all of its majority-owned subsidiaries. All significant intercompany transactions have been eliminated. Investments in joint ventures are carried on the equity basis.

Currency Translation. The Company translates non-U.S. currency transactions and financial statements in accordance with the provisions of Financial Accounting Standards Board Statement No. 8.

Intangibles. Excess of cost over net assets of acquired businesses, including $25.8 million related to acquisitions prior to November 1, 1970, (principally Fisher-Price Toys, Inc.), represents the amounts paid in excess of the fair values of the net assets of such businesses, less amortization. Such costs are considered to represent continuing values and are adjusted only if reduction of the continuing values of underlying businesses is indicated. All such costs resulting from acquisitions after October 31, 1970, are amortized on a straight-line basis over periods not in excess of 20 years. Amortization for 1980 and 1979 was $1.6 million and $1.7 million, respectively.

Costs incurred in acquiring patents, trademarks and designs are amortized on a straight-line basis over their estimated useful lives. Amortization for 1980 and 1979 was $.4 million and $.3 million, respectively.

Inventories. Inventories are priced at the lower of cost or market using a first-in, first-out (FIFO) method for restaurants, crafts, and international toys; last-in, first-out (LIFO) for domestic chemicals, toys, and U.S. Grocery Products packaging materials; and average quarterly cost for other inventories. At June 30, 1980, 55 percent of the inventories were priced using average quarterly cost, 19 percent using FIFO, and 26 percent using LIFO. At June 30, 1979, 62 percent of the inventories were priced using average quarterly cost, 16 percent using FIFO, and 22 percent using LIFO. In fiscal 1980, the Company changed its method of pricing U.S. Grocery Products packaging materials in inventory from average quarterly cost to last-in, first-out, retroactively to the beginning of fiscal 1980. The effect of the change in the current year was to reduce earnings by 6 cents per share. Inventories used in computing costs of goods sold are summarized in the following table:

	Millions of Dollars		
	1980	1979	1978
Finished goods	**$208.2**	$179.9	$148.0
Grain and materials	**110.8**	91.6	76.5
Supplies	**23.5**	19.3	14.5
	$342.5	$290.8	$239.0

If the LIFO method of valuing certain inventories were not used, total inventories would have been $21.8 million and $10.3 million higher than reported at June 30, 1980 and 1979, respectively.

Depreciation and Properties. Depreciation is computed using the straight-line method, and is designed to write-off the cost of the properties over their estimated useful lives. Depreciation expense for 1980 and 1979 was $46.8 million and $42.6 million, respectively. The rates used were:

Buildings and improvements	2% to 10%
Machinery and equipment	5% to 20%
Automobiles and trucks	20% to 33%
Miscellaneous equipment, office furniture and fixtures	5% to 33%

In 1979 and 1980, certain operating units changed from the composite to the unit method of recording property dispositions. The unit method, which is now used throughout the Company, requires that all gains and losses on sales or retirements of property be recognized currently in income.

Maintenance and repairs, which are charged to expense as incurred, were $48.8 million in 1980 and $44.8 million in 1979. Significant replacements and betterments are capitalized.

Research and Development. Research and development expenditures are expensed as incurred. During 1980 and 1979, these expenses were $23.0 million and $19.7 million, respectively.

Advertising and Merchandising. Expenditures are charged to expense as incurred. Advertising and merchandising expenses were as follows:

	Millions of Dollars	
	1980	1979
Advertising media and production	**$113.7**	$ 87.5
Merchandising	**168.4**	134.2
Total	**$282.1**	$221.7

Income Taxes. Deferred income taxes are provided on timing differences and result primarily from the use of accelerated depreciation methods for tax purposes.

In 1979, the Company changed its method of accounting for U.S. investment tax credits from the deferral to the flow-through method in order to achieve greater comparability with the general accounting practices of most other companies. The flow-through method recognizes credits in income when the assets are placed in service. The deferred method amortizes the investment tax credits over the estimated useful lives of the related assets. The cumulative effect of this change, which was made retroactive to July 1, 1978, was to increase 1979 net income by $14.7 million, or $.74 per share.

Except for minor amounts, no U.S. federal income taxes have been provided on the undistributed earnings of non-U.S. subsidiaries, since they are expected to be permanently invested in those countries. Reinvested earnings of these non-U.S. subsidiaries amounted to $146.3 million and $122.5 million at June 30, 1980 and 1979, respectively.

Pension Plans. The Company and its subsidiaries have various plans covering a majority of the employees. The amount charged to income each year is sufficient to cover normal costs of the plans and, for principal plans, amortization of prior-service costs over 30 years. Pension costs are funded currently, and the pension funds are in excess of the actuarially computed value of vested benefits. The total actuarial liability at June 30, 1980, is approximately $49.4 million in excess of the actuarial value of the assets. Pension expense was $16.1 million in 1980 and $15.6 million in 1979.

Net Income Per Common Share. Net income per common share is based on the weighted average number of common shares outstanding. Dilution, which would result from the exercise of stock options outstanding, is not significant.

Acquisitions

In March, 1980, the Company acquired Brookstone Company, Inc., a retailer of specialty tools and gifts, for 309,012 shares of common stock. The acquisition has been accounted for as a pooling of interests, and the results of operations of the company have been included in the consolidated statements retroactive to July 1, 1979. Prior years have not been restated because the effect is not material.

In January, 1980, the Company acquired The Walbron Group, a leading manufacturer of steel wool household products in Colombia, South America, for $16.7 million in a transaction accounted for as a purchase. The results of operations of the company have been consolidated since January, 1980.

Cash and Marketable Securities

	Millions of Dollars	
	1980	1979
Cash	**$16.1**	$ 7.0
Time deposits and certificates of deposit*	**6.6**	13.9
Marketable securities*	**2.3**	1.5
	$25.0	$22.4

*At cost, which approximates market

Accounts Receivable Allowances

	Millions of Dollars	
	1980	1979
Balance at beginning of year	**$10.8**	$ 7.7
Provision for doubtful accounts	**3.1**	2.4
Provision for discounts and allowances	**11.3**	9.4
Write-offs of doubtful accounts—net of recoveries	**(.6)**	(.7)
Discounts and allowances taken	**(10.4)**	(8.0)
Balance at end of year	**$14.2**	$10.8

Property, Plant and Equipment

Millions of Dollars

1980	Balance at Beginning of Year	Additions	Retirements and Sales	Acquisitions and Other	Balance at End of Year
Gross property:					
Land	$ 12.8	$ 2.1	$ —	$ 2.4	$ 17.3
Buildings & improvements	230.4	39.9	(3.3)	4.4	271.4
Machinery & equipment	474.2	70.4	(13.5)	9.1	540.2
Total	$717.4	$112.4	$ (16.8)	$ 15.9	$828.9
Accumulated depreciation:					
Buildings & improvements	$ 48.4	$ 7.5	$ (.5)	$ 1.1	$ 56.5
Machinery & equipment	161.6	39.3	(8.4)	7.1	199.6
Total	$210.0	$ 46.8	$ (8.9)	$ 8.2	$256.1
1979					
Gross property:					
Land	$ 10.2	$ 1.2	$ (.2)	$ 1.6	$ 12.8
Buildings & improvements	205.7	18.6	(.8)	6.9	230.4
Machinery & equipment	427.5	56.0	(19.0)	9.7	474.2
Total	$643.4	$ 75.8	$ (20.0)	$ 18.2	$717.4
Accumulated depreciation:					
Buildings & improvements	$ 43.1	$ 6.3	$ (1.0)	—	$ 48.4
Machinery & equipment	142.3	36.3	(17.0)	—	161.6
Total	$185.4	$ 42.6	$ (18.0)	—	$210.0

The Acquisitions and Other column in fiscal 1979 relates primarily to the acquisition of Chiari & Forti in March, 1979. Fiscal 1980 relates primarily to the acquisitions of Brookstone Company, Inc., The Walbron Group in Colombia, South America; and a reclassification between asset and accumulated depreciation balances relating to amounts recorded in previous years.

Intangible Assets

Millions of Dollars

1980	Balance at Beginning of Year	Additions at Cost	Amortization	Other	Balance at End of Year
Excess of cost over net assets of acquired businesses	$38.1	$10.7	$ (1.6)	$ (.5)	$46.7
Patents, trademarks and designs, at cost	$ 3.7	$ .2	$ (.4)	$ (.2)	$ 3.3
1979					
Excess of cost over net assets of acquired businesses	$39.9	$ 1.4	$ (1.7)	$ (1.5)	$38.1
Patents, trademarks and designs, at cost	$ 2.4	$ .1	$ (.3)	$ 1.5	$ 3.7

The additions to excess of cost over net assets of acquired businesses relate principally to the acquisition of The Walbron Group in 1980 and the acquisition of Pampas Sales Pty., Ltd., Australia, in 1979.

Short-Term Debt

Millions of Dollars

	1980	1979
Notes payable to banks— Non-U.S. subsidiaries	**$ 67.3**	$44.5
Commercial paper—		
Dealer placed	**65.8**	21.6
Master trust notes	**22.0**	22.0
	$155.1	$88.1
Weighted average interest rates on debt outstanding at end of year—		
Notes payable to banks—non-U.S.	**27.7%**	19.4%
Commercial paper—U.S.	**8.3%**	9.7%
Weighted average interest rates on debt outstanding during the year—		
Notes payable to banks—non-U.S. (computed on month-end balances)	**27.2%**	17.2%
Commercial paper—U.S. (computed on daily balances)	**12.3%**	9.4%
Weighted average amount of debt outstanding during the year	**$125.2**	$78.8
Maximum month-end balance during the year	**$155.1**	$95.3

Credit Facilities

The Company has a revolving credit agreement, none of which has been utilized, that provides for $135 million in either domestic or Eurodollar borrowings at the Company's option and expires June 30, 1985. The agreement requires the payment of an annual commitment fee of ½ of 1% for any unused portion.

The Company, in addition to the unused $135 million revolving credit agreement, has $62 million available in unused domestic bank lines of credit to meet general corporate purposes. The Company's non-U.S. subsidiaries had additional unused lines of credit of approximately $128 million at June 30, 1980.

The Company has informal arrangements with certain banks to maintain balances in compensation for credit facilities. These compensating balance arrangements, which approximated $5.2 million at June 30, 1980, are based on the average annual amount on deposit according to bank records and impose no restrictions upon the Company's withdrawal of funds. At certain other banks, compensation for credit facilities is on a fee basis.

Accounts Payable and Accrued Expenses

	Millions of Dollars	
	1980	1979
Accounts payable	**$127.6**	$106.0
Payrolls, pensions and bonuses	**63.7**	55.7
Consumer couponing	**12.3**	14.2
Taxes payable, not based on income	**12.2**	10.9
Interest	**8.6**	4.3
Miscellaneous	**32.6**	14.8
	$257.0	$205.9

Long-Term Debt

	Millions of Dollars	
	1980	1979
Industrial revenue bonds due from 2002 through 2009 at rates ranging from 6% to 6⅝%	**$ 10.1**	$ 9.1
8⅜% industrial revenue bonds payable annually through 2002	**8.2**	8.3
Solid waste disposal revenue bonds—		
5½% bonds due 1991	**3.0**	3.0
6½% bonds due annually from 2000 through 2006	**12.0**	12.0
6⅝% bonds due annually from 2005 to 2009	**2.0**	—
7.70% sinking fund debentures, $1.8 million due annually through 2001 (net of $5.5 million and $2.8 million held at June 30, 1980 and 1979, respectively)	**37.3**	41.8
7.80% notes, $3.7 million due annually from 1981 through 1989 and $3.8 million due annually from 1990 through 1994	**52.3**	56.0
8¾% note, $1.7 million due annually from 1981 through 1994	**25.0**	25.0
Capitalized lease obligations	**1.7**	1.9
Obligations of non-U.S. subsidiaries	**4.9**	5.0
Obligations of U.S. subsidiaries	**2.0**	—
	158.5	162.1
Less: Current portion	**6.8**	4.6
	$151.7	$157.5

Aggregate required payments of maturities for fiscal 1981 through 1985 on long-term debt are: $6.8 million, $7.1 million, $6.8 million, $8.2 million, and $7.7 million, respectively.

Under the most restrictive terms of the various loan agreements in effect at June 30, 1980, $172.9 million of reinvested earnings is not available for payment of cash dividends and/or certain other distributions to preference and common shareholders, and minimum working capital of $175 million must be maintained.

Redeemable Preference Stock

There were 500,000 shares of $9.56 cumulative preference stock issued and outstanding at June 30, 1980 and 1979. The preference stock is redeemable, at the option of the Company, in whole or in part at prices decreasing from $109.56 per share currently to $100 after July 19, 2000, except that until July 20, 1980, such redemption cannot be made from the proceeds of indebtedness or the issuance of stock, other than common stock, having a cost of less than 9.56%. Each year, commencing on July 20, 1981, the

Company must make payments to a sinking fund in an amount adequate to retire a minimum of 20,000 shares (maximum 40,000 shares) of preference stock at $100 per share, plus accrued dividends.

Common Stock

Changes in shares of common stock follow:

	Common Stock	Treasury Common Stock
Balance at June 30, 1978	20,997,349	1,042,456
Stock issued for stock options and stock awards		(44,317)
Shares acquired		200,000
Balance at June 30, 1979	20,997,349	1,198,139
Stock issued for stock options and stock awards		(93,276)
Stock issued in connection with acquisition accounted for as a pooling of interests		(309,012)
Balance at June 30, 1980	20,997,349	795,851

The repurchase of common shares in fiscal 1979 was for use in the Stock Option Plan, the Employee Stock Award Plan and for other general corporate purposes.

Employee Stock Option and Award Plans

Under the Company's Stock Option Plan, eligible officers and other managerial employees may be granted options for the purchase of common stock at a price not less than the fair market value at the date of grant. Shares may be issued from either treasury shares or unissued common shares. Options are generally exercisable after one or more years and expire no later than ten years from date of grant. Options outstanding at June 30, 1980, will expire between December, 1983, and March, 1990. No options may be granted after December 31, 1983. The Plan also provides for the granting of stock appreciation rights on outstanding options. The exercise of stock appreciation rights accordingly reduces the outstanding stock options.

Changes in stock options outstanding are summarized as follows:

	Shares Available for Grant	Options Outstanding Shares	Option Price Per Share	Option Price Total (in Millions)
Balance at June 30, 1978	581,742	790,528	$13.13-31.00	$17.0
Granted	(228,690)	228,690	22.57-23.19	5.2
Exercised		(37,392)	15.06-23.44	(.6)
Expired or terminated	21,807	(21,807)	15.06-31.00	(.5)
Balance at June 30, 1979	374,859	960,019	13.13-31.00	21.1
Granted	(274,245)	274,245	26.69-26.94	7.3
Additional authorization	700,000			
Exercised		(88,981)	13.13-31.00	(1.6)
Expired or terminated	89,761	(89,761)	15.06-31.00	(2.1)
Balance at June 30, 1980	890,375	1,055,522	$15.06-31.00	$24.7

In November, 1979, the shareholders approved an amendment to the Employee Stock Option Plan, authorizing an increase in the number of shares available under the Plan by 700,000.

The options outstanding at June 30, 1980, were granted in fiscal years 1974 (104,165 shares), 1975 (146,068 shares), 1976 (7,750 shares), 1977 (150,525 shares), 1978 (177,215 shares), 1979 (200,279 shares), and 1980 (269,520 shares).

Included in the outstanding stock options at June 30, 1980 and 1979, are stock appreciation rights for 192,107 shares and 145,850 shares, respectively. In 1980, 7,775 stock appreciation rights were exercised.

Additional stock option data is summarized below:

	Shares	Option Price Per Share	Option Price Total (in Millions)	Fair Market Value Per Share	Fair Market Value Total (in Millions)
Options which became exercisable during:					
1980	**186,171**	**$21.44-23.44**	**$4.2**	**$26.25-27.63**	**$5.0**
1979	124,641	21.44-25.19	2.8	23.00-24.75	2.9
Options exercised during:					
1980	**88,981**	**$13.13-31.00**	**$1.6**	**$23.88-34.19**	**$2.7**
1979	37,392	15.06-23.44	.6	22.13-26.88	.9

In 1977, an Employee Stock Award Plan was approved by the shareholders. The plan provides that all domestic and certain non-U.S. employees will receive five shares of common stock if they complete five years of service prior to January 1, 1982. The maximum number of shares that may be awarded is 60,000. As of June 30, 1980, 54,580 shares have been awarded under the plan.

In November, 1979, a Performance Unit Incentive Plan was approved by the shareholders. The plan provides for the granting of performance units in conjunction with an equal number of stock options. The ultimate value of each performance unit is dependent upon achieving predetermined financial goals during a subsequent two to five year period and are exercisable only if the goals for the selected period are achieved. Performance units earned expire ten years from the date of original grant. The exercise of earned performance units cancels the related stock options, and the exercise of stock options cancels the related performance units.

Management Incentive Plans

The principal management incentive plan provides that an annual bonus be paid out of earnings to certain managerial employees, as determined by a committee of directors of the Company who do not participate in the plan. Other plans are in effect in certain non-U.S. and domestic subsidiaries; the provision for these other plans amounted to approximately 31 percent of the consolidated provision for 1980. The provision for all plans was $5.5 million in 1980 and $4.8 million in 1979.

Leases

The Company accounts for leases in accordance with Financial Accounting Standards Board Statement No. 13. Capital leases which are included in fixed assets, and minimum lease payments under such leases, are not significant.

Certain equipment and operating properties are rented under non-cancellable operating leases that expire at various dates through 2062. Subleases are not significant.

Total rental expense under these operating leases for 1980 and 1979 was:

	Millions of Dollars	
	1980	1979
Minimum rentals (including restaurant rentals of $4.3 million in 1980 and $4 million in 1979)	**$24.1**	$19.8
Contingent rentals based on restaurant sales	**.6**	.7
	$24.7	$20.5

The following is a schedule of future minimum annual rentals on non-cancellable operating leases, primarily leased restaurants, stores, sales offices and warehouses, in effect at June 30, 1980:

	Millions of Dollars								
	1981	1982	1983	1984	1985	1986-1990	1991-1995	1996-2000	Later
Total payments	$13.3	10.8	9.0	7.6	6.9	17.9	2.9	4.4	1.2

Provisions for Other Taxes (not based on income)

	Millions of Dollars	
	1980	1979
Payroll	**$39.0**	$32.0
Real estate, personal property, and miscellaneous	**7.7**	8.1
	$46.7	$40.1

Interest Expense—Net

	Millions of Dollars	
	1980	1979
Interest expense on long-term debt	**$14.6**	$12.4
Interest expense—other	**22.9**	10.7
Interest expense capitalized	**(2.1)**	—
Interest income on marketable securities, including time deposits and certificates of deposit	**(3.4)**	(4.5)
Interest income—other	**(3.1)**	(1.4)
	$28.9	$17.2

In the fourth quarter of fiscal 1980, the Company adopted the provisions of F.A.S.B. Statement No. 34. The effect of this change, which was made retroactive to July 1, 1979, was to capitalize a portion of the interest expense incurred during the year and assign it to the historical cost of the related acquired fixed assets.

Other Expenses

	Millions of Dollars	
	1980	1979
Net foreign exchange (gains)/losses	**$ (1.1)**	$ 7.3
Amortization of intangibles	**2.0**	2.0
Provisions for restaurant closings	**2.5**	—
Commitment fees for credit facilities	**.8**	.8
Miscellaneous—net	**(2.5)**	.6
	$ 1.7	$10.7

As required by F.A.S.B. Statement No. 8, inventories included in the computation of cost of goods sold are translated at exchange rates in effect at the time of acquisition rather than using current average exchange rates. The sum of the pre-tax exchange and balance sheet translation gains and losses included in this caption, plus the amount included in cost of goods sold results in a gain of $1.8 million in 1980, compared to a loss of $4.8 million in 1979. The approximate after-tax impact of net foreign exchange results in 1980 was a gain of 16 cents per share, compared to a loss of 11 cents per share in 1979.

Provision for Income Taxes

	Millions of Dollars	
	1980	1979
Currently payable—		
Federal	**$42.9**	$35.6
Non-U.S.	**15.1**	15.8
State	**4.5**	3.7
Deferred—net (primarily relating to depreciation)		
Federal	**10.0**	8.2
Non-U.S.	**3.4**	1.4
State	**.8**	.8
	$76.7	$65.5

See Income Taxes note on page 42 for a description of the change in 1979 in the method of accounting for the investment tax credit.

The provision for income taxes varied from the "expected" tax provision as follows:

Millions of Dollars

	1980		1979	
	Amount	**% of Pretax Income**	**Amount**	**% of Pretax Income**
Computed "expected" tax provision	$80.4	46.0%	$70.5	47.0%
State and local income taxes, net of federal income tax benefit	2.9	1.6	2.4	1.6
Non-U.S. tax rate differential	(3.7)	(2.1)	(4.9)	(3.2)
Investment tax credit	(3.8)	(2.2)	(3.9)	(2.6)
Miscellaneous items—net	.9	.6	1.4	.9
Actual tax expense	$76.7	43.9%	$65.5	43.7%

Segment Information

Industry and geographic information included on pages 36-39 of this report is incorporated herein by reference.

Quarterly Financial Data (Unaudited)

Year Ended June 30					Millions of Dollars Except Share Data
1980	**First Quarter* (Sept. 30)**	**Second Quarter* (Dec. 31)**	**Third Quarter* (Mar. 31)**	**Fourth Quarter (June 30)**	**Full Fiscal Year**
Net sales	$574.7	$617.3	$626.5	$586.7	$2,405.2
Cost of goods sold	388.2	417.0	426.8	396.2	1,628.2
Gross profit	$186.5	$200.3	$199.7	$190.5	$ 777.0
Net income	$ 23.9	$ 22.5	$ 28.4	$ 21.6	$ 96.4
Preference dividends	1.2	1.2	1.2	1.2	4.8
Net income available for common	$ 22.7	$ 21.3	$ 27.2	$ 20.4	$ 91.6
Income per common share	$ 1.13	$ 1.06	$ 1.35	$ 1.01	$ 4.55
Cash dividends declared per common share	$ .35	$ .35	$ .35	$ .35	$ 1.40
Market price range per common share	27¾-23½	29⅞-24⅝	31¾-24½	34½-24½	34½-23½

*First, second and third-quarter data have been restated to include the results of operations of Brookstone Company, Inc., acquired in March, 1980, and accounted for as a pooling of interests. Fiscal 1979 has not been restated because the effect is not material. The first three quarters have also been restated to reflect the capitalization of interest under F.A.S.B. No. 34, and the U.S. Grocery Products change in method of pricing of packaging material inventory to the LIFO method.

Year Ended June 30					Millions of Dollars Except Share Data
1979	**First Quarter (Sept. 30)**	**Second Quarter (Dec. 31)**	**Third Quarter (Mar. 31)**	**Fourth Quarter (June 30)**	**Full Fiscal Year**
Net sales	$459.7	$508.8	$502.1	$495.7	$1,966.3
Cost of goods sold	308.9	340.9	338.1	343.3	1,331.2
Gross profit	$150.8	$167.9	$164.0	$152.4	$ 635.1
Income before cumulative effect of change in accounting principle	$ 19.0	$ 19.2	$ 24.2	$ 22.1	$ 84.5
Cumulative effect of change in method of accounting for investment tax credit	14.7	—	—	—	14.7
Net income	33.7	19.2	24.2	22.1	99.2
Preference dividends	1.2	1.2	1.2	1.2	4.8
Net income available for common	$ 32.5	$ 18.0	$ 23.0	$ 20.9	$ 94.4
Income per common share before cumulative effect of change in accounting principle	$ .89	$ .90	$ 1.16	$ 1.06	$ 4.01
Cumulative effect of change in method of accounting for the investment tax credit	.74	—	—	—	.74
Income per common share	$ 1.63	$ .90	$ 1.16	$ 1.06	$ 4.75
Cash dividends declared per common share	$ .30	$ .30	$ .30	$ .30	$ 1.20
Market price range per common share	27½-23½	27-22	25⅛-22⅜	24¾-22⅛	27½-22

Financial Reporting and Changing Prices

(Unaudited)

The Quaker Oats Company and Subsidiaries

General Discussion

Financial statements which are prepared using historical cost accounting principles do not reflect the impact of inflation on a company's financial position and results of operations. In an attempt to measure this impact, the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices. Accordingly, we are presenting on pages 58 and 59 selected financial information adjusted for the effect of inflation.

Statement No. 33 requires that historical data be adjusted using two distinct concepts: the "constant dollar method" and "current cost method." The specific financial statement data which must be adjusted using these two methods are cost of goods sold, depreciation expense, inventory and property, plant and equipment. In addition, disclosure of certain other inflation-adjusted information regarding net monetary assets and liabilities, dividends and market price of the common stock is required.

Because the development of inflation-adjusted data requires the use of estimation techniques and assumptions, caution should be exercised in comparing the financial data presented herein with that of other companies. Also, since the Statement requires that the inflation-adjusted data be developed using the hypothetical assumption that all fixed assets would be replaced in exactly the same state as they currently exist, it does not reflect how the Company would actually replace existing assets. Technological changes, which significantly influence a company's decision regarding fixed asset replacement, are not considered under either of the two methods.

As a result of adjusting selected financial data for the effects of inflation, the effective tax rate for fiscal 1980 is 59 percent using the "constant dollar method" and 75 percent using the "current cost method." This compares with a 44 percent rate in the historical financial statements. The data illustrates that, in general, the tax structures throughout the world are confiscatory in the sense that they effectively tax the income of the Company at a higher than intended rate. We believe that the data will provide a better understanding of how, in an inflationary environment, the current tax regulations reduce the amount of cash available for expansion or replacement of existing assets, and hope that this understanding will ultimately result in the passage of significant tax reform.

Although the data required by Statement No. 33 does not result in a totally accurate or realistic portrayal of the effect of inflation on the financial results of the Company, we recognize the importance of identifying the eroding effect of inflation and support the F.A.S.B.'s initial requirements relating to the disclosure of inflation-adjusted data.

Constant Dollar Information

The constant dollar method adjusts historical cost dollars to dollars of equivalent purchasing power by applying the U.S. Consumer Price Index (CPI-U) to selected historical values. The CPI-U is a very broad index that attempts to measure the general rate of inflation and does not give effect to foreign inflation rates or rates that apply to specific types of costs in a particular industry. Accordingly, although this index does provide a uniform and consistent basis of measurement, it does not necessarily reflect the appropriate rate for a diversified company with many locations and products. Therefore, use of this index has limited value in measuring the true impact of inflation on a company and in comparing one company with another.

The adjusted information provided herein, using the constant dollar method, was developed by determining the years the inventory and properties were acquired and adjusting the historical dollar values of these assets as well as the related cost of goods sold and depreciation expense, by applying the appropriate Consumer Price Index. All data has been restated to reflect the fiscal 1980 Consumer Price Index.

Current Cost Information

The current cost method of accounting adjusts financial data for the effects of specific price changes in goods and services, in order to reflect the current cost of these items. This "specific pricing method" follows the logical assumption that inflation does not escalate at the same rate for all items. Accordingly, in developing the current cost asset data reflected herein, specific industry indices from sources such as the Construction Cost Index, Producer Price Index, Chemical Engineering Cost Index, or the Factory Mutual Building Cost Index, were applied to inventory and properties as appropriate. These adjusted values were then used to compute the related cost of goods sold and depreciation expense. Although this method results in a more meaningful measure of inflation compared to the constant dollar method, it should be recognized that it does require a greater number of estimates and assumptions.

Purchasing Power Gain

Monetary assets such as cash and receivables lose purchasing power during inflationary periods because the same dollars will purchase fewer goods or services, but monetary liabilities such as accounts payable are satisfied with "cheaper" dollars. Since the Company's monetary liabilities exceeded the monetary assets during the period covered in this report, the Company realized a purchasing power gain. In accordance with the provisions of Statement No. 33, this "gain" in purchasing power is not included in restated earnings but is reflected separately in the statements provided herein.

Consolidated Statement of Income from Continuing Operations Adjusted for Changing Prices

The Quaker Oats Company and Subsidiaries

Millions of Dollars Except Share Data

Year Ended June 30, 1980	As Reported in the Primary Statements or Notes Thereto	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
Net Sales	$2,405.2	$2,405.2	$2,405.2
Cost of goods sold (excluding depreciation expense)	1,589.8	1,609.0	1,631.8
Depreciation and amortization expense	46.8	71.4	77.1
Selling, general and administrative expenses (excluding depreciation expense)	563.3	563.3	563.3
Interest expense—net	28.9	28.9	28.9
Other expenses	1.7	1.7	1.7
Provision for income taxes	76.7	76.7	76.7
Minority interest	1.6	1.6	1.6
Net Income from Continuing Operations	$ 96.4	$ 52.6	$ 24.1
Net Income from Continuing Operations per Common Share	$ 4.55	$ 2.37	$ .96
Net Assets at Year End (A)		$ 909.7	$ 988.5
Gain from decline in purchasing power of net amounts owed		$ 39.3	$ 39.3
Increase in (specific prices) current cost of inventories and property, plant and equipment held during the year (B)			$ 162.2
Effect of increase in general inflation level			$ 163.4
Excess of increase in the general price level over increase in specific prices			$ 1.2

(A) Expressed in average 1980 dollars.

(B) At June 30, 1980, current cost of inventory was $380.8 and current cost of property, plant and equipment, net of accumulated depreciation, was $951.1.

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

The Quaker Oats Company and Subsidiaries

Sales Data in Millions

Year Ended June 30	1980	1979	1978	1977	1976
Net sales					
—adjusted (A)	**$2,405.2**	$2,227.8	$2,089.0	$2,051.6	$2,060.6
—historical	**2,405.2**	1,966.3	1,685.6	1,551.3	1,473.0
Dividends declared per common share					
—adjusted (A)	**$ 1.40**	$ 1.36	$ 1.29	$ 1.22	$ 1.18
—historical	**1.40**	1.20	1.04	.92	.84
Market price per common share at year end					
—adjusted (A)	**$ 32.12**	$ 25.63	$ 29.46	$ 28.29	$ 36.91
—historical	**32.12**	23.88	24.75	22.12	27.00
Average consumer price index (1967=100)	**232.5**	205.2	187.6	175.8	166.2
Year end consumer price index	**247.6**	216.6	195.3	181.8	170.1

(A) Expressed in average 1980 dollars.

Auditors' Report

To the Shareholders of The Quaker Oats Company:

We have examined the consolidated balance sheet of The Quaker Oats Company (a New Jersey corporation) and Subsidiaries as of June 30, 1980, and 1979, and the related consolidated statements of income, common 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.

In our opinion, the financial statements referred to above present fairly the financial position of The Quaker Oats Company and Subsidiaries as of June 30, 1980, and 1979, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles, applied on a consistent basis subsequent to the change (with which we concur) made as of July 1, 1978, in the method of accounting for investment tax credits as indicated in the Notes to the Consolidated Financial Statements.

Arthur Andersen & Co.
Chicago, Illinois,
August 13, 1980.

Report of Management

Management is responsible for the preparation and integrity of the Company's financial statements. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgment.

To fulfill their responsibility, management maintains a strong system of internal accounting controls, supported by formal policies and procedures that are communicated throughout the Company. Management also maintains a staff of internal auditors who evaluate the adequacy of and investigate the adherence to these controls, policies and procedures.

The financial statements have been audited by our independent public accountants, Arthur Andersen & Co., who render an opinion as to the fairness and consistency of the Company's financial statements. They obtained an understanding of the Company's internal control systems and performed tests and other procedures to the extent required by generally accepted auditing standards.

The Audit Committee of the Board of Directors, composed solely of non-management directors, is responsible for assuring that management fulfills its responsibility in the preparation of the financial statements. The committee meets periodically with the independent public accountants, internal auditors and management to assure that all are properly discharging their responsibilities. The Committee reviews the scope of the annual audit and the recommendations the independent accountants have for improving internal accounting controls. The Board of Directors, on recommendation of the Audit Committee, engages the independent auditors, subject to shareholder approval.

Both the independent and internal auditors have unrestricted access to the Audit Committee.

Members of the Board of Directors

Silas S. Cathcart
Chairman and
Chief Executive Officer
Illinois Tool Works, Inc.
(Diversified Products)
Chicago, Illinois

Richard D. Harrison
President and
Chief Executive Officer
Fleming Companies, Inc.
(Wholesale and Retail Foods)
Oklahoma City, Oklahoma

Augustin S. Hart, Jr.
Retired Vice Chairman

Dr. Thomas C. MacAvoy
President
Corning Glass Works
(Diversified Products)
Corning, New York

Kenneth Mason
Retired President

* **Luther C. McKinney**
Senior Vice President–Law
Corporate Secretary

Donald E. Meads
Chairman and
Chief Executive Officer
Carver Associates, Inc.
(Consulting Services)
Plymouth Meeting, Pennsylvania

G. G. Michelson
Senior Vice President
External Affairs
Macy's New York
(Retail Merchandising)
New York, New York

* **M. Mead Montgomery**
Executive Vice President
Restaurants and Specialty
Retailing

* **Frank J. Morgan**
Executive Vice President
U.S. and Canadian Grocery
Products

* **Paul E. Price**
Senior Vice President
Finance

Dr. Walter J. Salmon
Stanley Roth, Sr. Professor of
Retailing
Harvard Business School
Boston, Massachusetts

Gilbert H. Scribner, Jr.
Chairman
Scribner & Co.
(Real Estate Brokerage,
Management & Appraisals)
Chicago, Illinois

* **William D. Smithburg**
President and
Chief Operating Officer

* **Robert D. Stuart, Jr.**
Chairman and
Chief Executive Officer

* **Robert N. Thurston**
Executive Vice President
International Grocery Products

Caspar W. Weinberger
Vice President
and General Counsel
Bechtel Corporation
(Engineering and Construction)
San Francisco, California

Arthur M. Wood
Retired Chairman and
Chief Executive Officer
Sears, Roebuck and Co.
(Retail Merchandising and
Insurance)

* Member, Executive Committee

Committees

Audit Committee
Mr. Meads, Chairman;
Messrs. Scribner and Wood,
Dr. Salmon

Compensation and Stock Option Committee
Dr. MacAvoy, Chairman;
Mrs. Michelson,
Messrs. Cathcart and
Weinberger

Nominating Committee
Mr. Weinberger, Chairman;
Mrs. Michelson,
Messrs. Cathcart, Harrison,
Mason, Meads, Scribner
and Wood,
Drs. MacAvoy and Salmon,
Mr. Stuart, Ex Officio

Public Responsibility Committee
Mrs. Michelson, Chairman;
Messrs. Harrison, Mason and
Weinberger, Dr. Salmon

Officers

Senior Officers

Robert D. Stuart, Jr.
Chairman and
Chief Executive Officer

William D. Smithburg
President and
Chief Operating Officer

Luther C. McKinney
Senior Vice President–Law
Corporate Secretary

M. Mead Montgomery
Executive Vice President
Restaurants and Specialty
Retailing

Frank J. Morgan
Executive Vice President
U.S. and Canadian Grocery
Products

Paul E. Price
Senior Vice President
Finance

Robert N. Thurston
Executive Vice President
International Grocery Products

Corporate Staff Officers

Lawrence M. Baytos
Vice President
Corporate Personnel

Leland R. Chalmers
Vice President
Corporate Taxes

Joseph G. Egan
Vice President and
General Corporate Counsel

R. Thomas Howell, Jr.
Vice President and Associate
General Corporate Counsel

Richard D. Jaquith
Vice President and Treasurer

Richard E. Kozitka
Vice President
Corporate Administrative
Services

Robert O. Nesheim
Vice President
Science and Technology

Jack T. Redwine
Vice President and
Special Counsel

Hedric E. Rhodes
Vice President
Corporate Planning and Analysis

Thomas F. Roeser
Vice President
Government Relations

Donald K. Stunoff
Vice President
Corporate Information Services

James S. Van Pelt, Jr.
Vice President
Business Development

Donald G. Wittmer
Vice President and
Corporate Controller

William F. Debelak
Assistant Secretary

Kristine M. Elmlund
Assistant Secretary

Louis J. Mallardi, Jr.
Assistant Secretary
Manager–Shareholder Services

Joann A. Pitcher
Assistant Secretary

Verinder K. Syal
Assistant Treasurer

Herbert E. Trenning
Assistant Treasurer

M. Gail Waller
Assistant Secretary

Operating Executives of Quaker Divisions and Subsidiaries

U.S. Grocery Products Area Staff

Gary Bayer
Vice President and
Creative Director
AdCom, Inc.

Raymond C. Eggleston
Vice President and Controller

J. Byron Felter, Jr.
Vice President
Sales

Felix J. Germino
Vice President
Human Foods Research and Development

Elizabeth D. Harrington
Vice President–Advertising
President–AdCom, Inc.

Kenneth W. Lebermann
Vice President
Pet Foods Research and Development

Max M. Lomont
Vice President
Packaging Design

Clifford F. Lynch
Vice President
Distribution

Paul R. Pearce
Vice President
Personnel

Lois I. Ross
Vice President
Consumer Services

Dudley M. Ruch
Vice President
Marketing Research

* **R. Bruce Sampsell**
Vice President
Research and Development

Joan G. Stark
Vice President and
Media Director
AdCom, Inc.

Foods Division

* **Jack M. Young**
President

Douglas W. Mills
Vice President
Product Management
Cereals, Corn Goods and Mixes

David R. Nogle
Vice President
Operations

Royce S. Ramsland
Vice President
Purchasing

U. B. Shockley
President
Wolf Brand Products

Pet Foods Division

* **Richard H. Glantz**
President

James B. Kauffman
Vice President
Product Management

William M. Whiteford
Vice President
Purchasing

* also corporate vice president

Operating Executives of Quaker Divisions and Subsidiaries

International Grocery Products

Richard K. Clark
Vice President and Director
Pacific Grocery Products

***Anthony J. Dimino**
Vice President and Director
Mexican Grocery Products
Mexico City D.F., Mexico

***Kenneth J. Fedor**
Vice President
Business Development and Planning
European Grocery Products
Brussels, Belgium

***Jon K. Grant**
President and Chief Executive Officer
The Quaker Oats Company of Canada, Ltd.
Peterborough, Ontario, Canada

***William L. Jorgenson**
Vice President and Director
South and Central America

***Ronald G. Lagden**
Vice President and Director
European Grocery Products
Brussels, Belgium

Richard C. Larson
Vice President
Operations

J. A. Nelson
Vice President and Controller

Robert S. Thomason
Vice President
Business Development and Planning
South and Central America

***George J. Yapp**
Vice President and Managing Director
Quaker Oats, Ltd.–U.K.
Southall, England

Peter E. Batty
Director
Special Markets Division
Southall, England

Enrico Chiari
Chairman of the Board and Managing Director
Chiari & Forti
Silea (Treviso), Italy

Luis Fabini
Manager
Molino, Puritas, S.A.
Montevideo, Uruguay

David W. Gaffney
Managing Director–Australia
Quaker Products Australia, Ltd.
West Footscray, Australia

Alfredo G. Halle
General Manager
Elaboradora Argentina de Cereales, S.A.
Buenos Aires, Argentina

E. Charles Longley
General Manager–Asia
Quaker Products (Malaysia) Sdn. Bhd.
Kuala Lumpur, Malaysia

Giulio Malgara
President–Quaker Italia, S.p.A.
Managing Director
Chiari & Forti
Silea (Treviso), Italy

Pierre Mary
Managing Director
Quaker France
Marseille, France

Pierson S. Oliver, Jr.
President and General Manager
Productos Quaker, S.A.
Cali, Colombia

Hector Pedraza
General Manager
Quaker de Centroamerica
Guatemala City, Guatemala

Jose A. Rodriguez
President and Director
Produtos Alimenticios Quaker, S.A.
Sao Paulo, Brazil

Simon Sorensen
Managing Director
Ota A/S
Copenhagen, Denmark

Fernando Trejo
General Manager
Productos Quaker, C.A.
Caracas, Venezuela

Tom Zaaijer
Managing Director
Quaker Oats B.V.
Rotterdam, The Netherlands

*also corporate vice president

Fisher-Price Toys Division

* **Henry H. Coords**
President

Franklyn S. Barry, Jr.
Executive Vice President

Manuel D. Barreiro L.
Vice President and
General Manager
Plastimarx
Mexico City, Mexico

John C. Belden
Vice President
Planning and Business
Development

Harvey W. Busch
Vice President
Facilities Planning

James H. Frank
Vice President
International

Mary Ann Lambertsen
Vice President
Personnel

Charles E. Murphy
Vice President and Controller

Charles S. Riter
Vice President
Research and Development

James R. Tindall
Vice President
Marketing

John Zahorjan
Vice President
Operations

James Arnold-Baker
Managing Director
Europe
Reading, England

Direct Mail Marketing Division

* **Samuel B. Slade, Jr.**
President

Richard Chollet
President
Brookstone Company, Inc.

Stephen B. Cummings
Vice President
Mail Order Furniture

Needlecraft Division

* **James M. Stuart**
President

Edward R. Cowell
Vice President
Manufacturing

Chemicals Division

* **R. Bruce Sampsell**
President

A. William Haarlow
Acting General Manager

Andre deBokay
Vice President
Europe
Paris, France

Michael S. Krause
Vice President
Operations

William J. McKillip
Vice President
Research and Marketing

Burry Division

* **Alan R. Ryan**
President

D. J. Rhea
Vice President
Sales and Marketing

Restaurants Division

* **James J. Durkin**
President

Samuel T. Gentles
Vice President
Site Development

Donna L. Smith
Vice President
Marketing

*also corporate vice president

Shareholder Information

Shareholder Services

The Shareholder Services Department is prepared to assist you on any matters concerning your Quaker common or preference stock.
Please write:
Mr. Louis J. Mallardi, Jr., Manager
Shareholder Services
The Quaker Oats Company, Merchandise Mart Plaza
Chicago, Illinois 60654, or telephone: (312) 222-6751.

Dividend Reinvestment

Owners of Quaker common stock may use the Company's Shareholder Investment Service to purchase additional shares through automatic dividend reinvestment and/or voluntary cash investments. There are no service and brokerage charges. For more information, contact the Shareholder Services Department.

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 charge. Please write or call the Shareholder Services Department.

Annual Meeting

The annual meeting of shareholders will be held at the headquarters of the Fisher-Price Toys Division, 636 Girard Avenue, East Aurora, New York, at 9:30 a.m. on Wednesday, November 12, 1980.

Corporate Headquarters
Merchandise Mart Plaza
Chicago, Illinois 60654

U.S. Transfer Agent and Registrar
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Canadian Transfer Agent
National Trust Company, Limited
21 King Street East, Toronto, Ontario

Canadian Registrar
Crown Trust Company
302 Bay Street, Toronto, Ontario

Dividend Disbursing Agent
The First National Bank of Chicago

Shareholder Investment Service
The First National Bank of Chicago

Auditors
Arthur Andersen & Co.
33 West Monroe Street
Chicago, Illinois 60603
(312) 580-0033

Shares Listed
New York Stock Exchange
Midwest Stock Exchange
Pacific Coast Stock Exchange
The Toronto Stock Exchange
The Stock Exchange, London
Amsterdam Stock Exchange
Ticker Symbol: OAT

QUAKER

The Quaker Oats Company
Merchandise Mart Plaza
Chicago, Illinois 60654

(312) 222-7111