Rockwell International

1973 Annual Report

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Contents

Annual Meeting

The annual meeting of shareowners of Rockwell International will be held at the Pittsburgh Hilton Hotel, Gateway Center, Pittsburgh, Pennsylvania, on Thursday, February 7, 1974 at 10:00 a.m. Formal notice of the meeting, Proxy Statement and form of Proxy will be sent to shareowners in January.

Rockwell International is comprised of five product groups:

Automotive Group
Stephen J. Tompkins, President
1000 West Maple Road
Troy, Michigan 48084

North American Aerospace Group
William B. Bergen, President
1700 East Imperial Highway
El Segundo, California 90245

Electronics Group
Donn L. Williams, President
3370 Miraloma Avenue
Anaheim, California 92803

Industrial Products Group
Robert F. Stewart, President
600 Grant Street
Pittsburgh, Pennsylvania 15219

Utility & Consumer Products Group
Louis Putze, President
600 Grant Street
Pittsburgh, Pennsylvania 15219

Rockwell International *and Consolidated Subsidiaries*

Financial Results

	1973	1972
Sales	$3,179,049,000	$2,677,507,000
Net Income	$130,983,000	$103,682,000
Earnings Per Common Share:		
Primary:		
Income Before Extraordinary Credit	$4.08	$2.94
Extraordinary Credit	.17	.29
Net Income	$4.25	$3.23
Fully Diluted:		
Income Before Extraordinary Credit	$3.56	$2.65
Extraordinary Credit	.13	.22
Net Income	$3.69	$2.87
Dividends Declared	$57,208,000	$52,768,000
Per Common Share	$1.65	$1.50
Shareowners' Equity	$957,261,000	$929,613,000
Per Common Share	$25.93	$23.40
Total Backlog	$2,860,000,000	$2,370,000,000

Sales & Income For Each Product Group(1)

Amounts in millions of dollars	1973 Sales Amount	1973 Sales % of Total	1973 Income(2) Amount	1973 Income(2) % of Total	1972 Sales Amount	1972 Sales % of Total	1972 Income(2) Amount	1972 Income(2) % of Total
Automotive Group: (Almost entirely Automotive Components)	$ 883	27.8%	$ 92.3	37.2%	$ 697	26.0%	$ 69.1	36.1%
Electronics Group: (Almost entirely Electronics & Electro-Mechanical Equipment)	448	14.1	35.4	14.3	504	18.8	38.3	20.0
Industrial Products Group: (Including Textile Machinery, Graphic Arts, General Aviation, and Industrial Components)	614	19.3	36.3	14.7	480	17.9	9.7	5.1
North American Aerospace Group:								
Aircraft	489	15.4	18.2	7.3	365	13.6	21.9	11.5
Space Systems and Rocket Engines	325	10.2	19.8	8.0	261	9.8	13.2	6.9
Other	74	2.3	5.4	2.2	56	2.1	1.5	.8
Total	888	27.9	43.4	17.5	682	25.5	36.6	19.2
Utility & Consumer Products Group:								
Flow Measurement and Control Equipment	170	5.4	22.9	9.2	170	6.4	24.9	13.0
Other	176	5.5	17.6	7.1	145	5.4	12.6	6.6
Total	346	10.9	40.5	16.3	315	11.8	37.5	19.6
Total	$3,179	100.0%	$247.9	100.0%	$2,678	100.0%	$191.2	100.0%

(1) The above table shows the relative contribution to sales and income of each of the Company's operating groups. It also shows those product lines within each group which contributed 10% or more to the Company's total sales or income in either fiscal year.

(2) Income before interest expense, United States and foreign income taxes, extraordinary credit, and minority interest.

Directors

*Willard F. Rockwell, Jr.
Chairman of the Board and Chief Executive Officer
Rockwell International

*Robert Anderson
President and Chief Operating Officer
Rockwell International

J. L. Atwood
Senior Consultant to Rockwell International

*Wallace W. Booth
Senior Vice President, Finance and Administration
Rockwell International

James W. Coultrap
Former Chairman of the Board
MGD Graphic Systems Division
Rockwell International

Fred L. Hartley
President and Chief Executive Officer
Union Oil Company of California, Los Angeles

Thomas Phillips Johnson
Partner, Kirkpatrick, Lockhart, Johnson & Hutchison, Attorneys, Pittsburgh

George F. Karch
Honorary Chairman
The Cleveland Trust Company, Cleveland

Frederick G. Larkin, Jr.
Chairman of the Board and Chief Executive Officer
Security Pacific National Bank, Los Angeles

William H. Muchnic
President
Valley Company, Inc., Atchison, Kansas

Henry T. Mudd
Chairman of the Board and Chief Executive Officer
Cyprus Mines Corporation, Los Angeles

*Louis Putze
Vice President and President
Utility & Consumer Products Group,
Rockwell International

Roy L. Reierson
Senior Vice President and Economist
Crocker International Bank, New York

Bruce M. Rockwell
Vice President
First of Michigan Corporation, Detroit

William A. Seifert, Jr.
Partner, Reed, Smith, Shaw & McClay
Attorneys, Pittsburgh

Robert E. Seymour
President
Consolidated Natural Gas Company, Pittsburgh

Robert C. Wilson
Vice President and President
Collins Radio Company
Rockwell International

Executive Committee Member

Advisory Directors

Col. Willard F. Rockwell
Honorary Chairman of the Board
Rockwell International

Fred C. Babcock
Chairman
Babcock Lumber Company, Pittsburgh

Dupuy Bateman, Jr.
Consultant
Rockwell International

William F. Crawford
Consultant

Fred W. Parker, Jr.
Former President, Automotive Divisions
Rockwell International

S. Kent Rockwell
President
Keystone Aeronautics Corporation
Connellsville, Pennsylvania

Corporate Officers

Willard F. Rockwell, Jr.
Chairman of the Board and Chief Executive Officer

Robert Anderson
President and Chief Operating Officer

Wallace W. Booth
Senior Vice President, Finance and Administration

William B. Bergen
Vice President and President
North American Aerospace Group

William H. Cann
Vice President and Secretary

George M. Cayce
Controller

H. Walton Cloke
Vice President, Public Relations and Advertising

Robert A. DePalma
Treasurer

John J. Henry
Vice President, Corporate Development

Alonzo B. Kight
Vice President, International

Donald S. MacLeod
Vice President, Investor Relations

C. J. Meechan
Vice President, Research and Engineering

Carl J. Oles
Vice President, Personnel

Louis Putze
Vice President and President
Utility & Consumer Products Group

John J. Roscia
Vice President and General Counsel

Ralph H. Ruud
Vice President, Operations

Robert F. Stewart
Vice President and President
Industrial Products Group

Stephen J. Tompkins
Vice President and President
Automotive Group

Donn L. Williams
Vice President and President
Electronics Group

Robert C. Wilson
Vice President and President
Collins Radio Company

Letter to Shareowners

The 1973 fiscal year was more than just another good year for Rockwell International. Earnings were the highest in the company's history.

With management providing strong leadership, the company achieved results exceeding virtually all of its planned objectives for the year. Sales climbed past the $3 billion mark, and both net earnings and earnings per share set records. Shareowners will want to review the breakdown of sales and earnings as shown on page one.

The regular quarterly common stock dividend was increased during each of the past three years, most recently in August 1973. The August action raised the quarterly dividend from 40 cents to 45 cents per share. The company's excellent financial performance and confidence in continued earnings improvement were factors in the decision.

New Era of Expansion

The Rockwell Manufacturing Company merger approved by shareowners in February marked the beginning of a new era of expansion for the company. At the same time the company changed its name from North American Rockwell to Rockwell International, a name which more accurately describes its broadening scope of operations and its status as an international, multi-industry organization.

The merger of Rockwell Manufacturing into Rockwell International contributed $346 million to the company's total fiscal 1973 sales, almost all of it in non-government activity. This is consistent with the objective established five years ago of increasing the volume of commercial sales to obtain a better balance between commercial business and government business.

In 1973 commercial business accounted for 60 per cent of company sales, and government sales 40 per cent. Excluding acquisitions, the commercial share five years ago was 29 per cent.

International Business Expands

The growth of the company's international business in the last few years has been dramatic, and we believe the biggest growth years for Rockwell International are still ahead.

Through a carefully planned program of selective acquisition and internal growth, the company has placed increasing emphasis on international activity, and recent results reflect the success of this effort.

In 1973 the company experienced its greatest single-year increase in international sales—export sales and sales of consolidated foreign subsidiaries—with volume reaching a record $517 million, up approximately 75 per cent from 1972.

Rockwell International is actively pursuing its foreign expansion program and expects continued growth in overseas markets. Shareowners will find further details on page 26 under the heading, "International Operations."

Reasons For Growth

The company's strong performance over the past three years has been due to many factors: carefully planned and well executed growth domestically and internationally, including substantial expansion of manufacturing capacity and sound acquisitions of successful companies serving growth markets; and new product development programs made possible in part through transfer of aerospace technology to commercial products.

Other factors included the development of innovative marketing strategies, notably in the commercial areas, to increase our market penetration; and continuing, successful cost control programs.

Another key action was the reorganization of company operations two years ago into the present group and divisional structure. This realignment, along the lines of the company's main market areas, has helped to sharpen management focus on these markets, each of which has unique demands and great opportunities.

We have developed in the past five years a highly competent management team at corporate, group and divisional levels.

These talented executives are dedicated to an expanding high level of performance in the months and years ahead.

Group Performance

The outstanding financial performance in 1973 was the product of a truly corporate-wide effort.

The Automotive Group had the best year in its history. With demand for its truck and passenger car components at an all time high, the group produced record sales and profits.

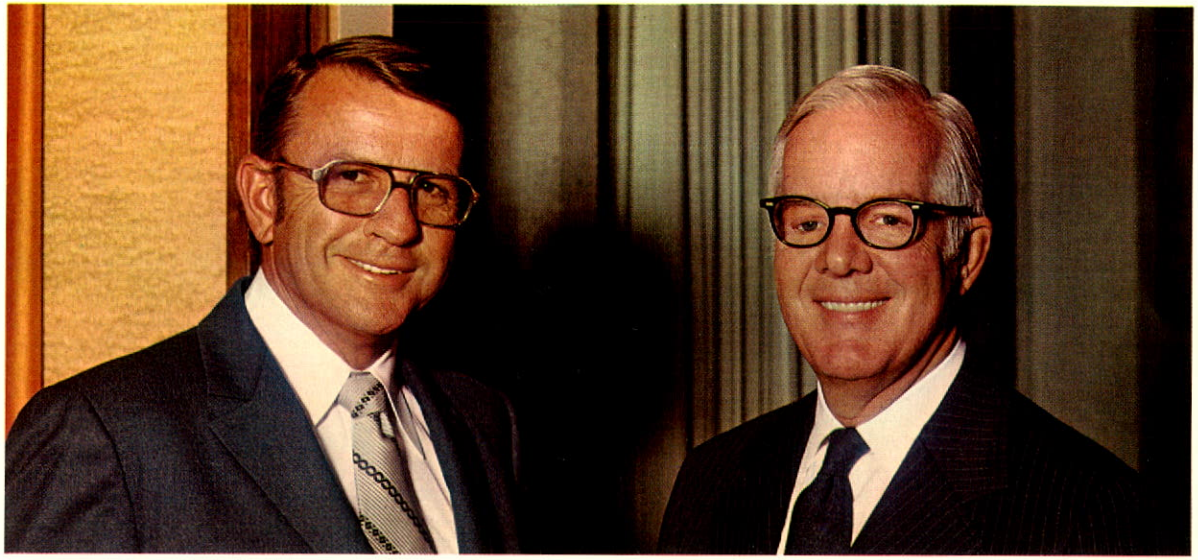
North American Aerospace had higher sales principally because of increased activity on its major programs, particularly the B-1 strategic aircraft, the Space Shuttle and the Space Shuttle Main Engine. At the time of the corporate name change this group changed its name from Aerospace Group to retain its identity as a descendant of North American Aviation, one of the great companies in the aerospace industry.

The Industrial Products Group, led by strong printing machinery sales and a sharp turnaround in its textile machinery business, enjoyed a vastly improved year.

The Utility & Consumer Products Group, the former Rockwell Manufacturing Company, achieved record sales and profits. The Power Tool Division performed especially well, with power tool sales having risen almost 26 per cent from 1972 levels.

The Electronics Group's emphasis on commercial business in recent years paid off well in 1973. Commercial electronics sales and profits were substantially higher than 1972, offsetting much of the group's decline in government electronics business. Four years ago the group relied almost entirely on government contracts.

While the group's share of its traditional government electronics business continued to decline in fiscal 1973, gains were registered in a number of other government business areas, such as command and control communications, electronic warfare, electro-optics, sonar and tactical and strategic missile systems.



R. Anderson *W. F. Rockwell, Jr.*

Collins Radio Investment

In August 1973 Rockwell International's board of directors authorized a tender offer to purchase all of the approximately 3.0 million outstanding shares of common stock of Collins Radio Company at $25 per share. The offer expired on October 1 and all of the 2,225,103 shares tendered were purchased.

In accordance with its previously announced intention, Rockwell International proposed that Collins be merged into Rockwell International. On October 2 the Collins board of directors approved the proposed merger, and Collins' shareholders voted in favor of the merger at a special meeting on November 2, 1973. The merger became effective on November 14, 1973.

An investment in Collins in 1971 of $35 million enabled Rockwell International to elect a majority of the board of directors. Rockwell executives elected to the board were: Willard F. Rockwell, Jr., who became chairman of the Collins board; Robert Anderson, who became chairman of the executive committee; Wallace W. Booth and Dupuy Bateman, Jr., who also became members of the executive committee; and Robert C. Wilson, a director and former corporate officer of Rockwell, who became a director and president and chief executive officer of Collins. Other Rockwell executives named to the Collins management team include Donald R. Beall, executive vice president.

At the time of that investment, Collins had heavy financial losses and was in a position of high economic vulnerability. This year, this multi-national manufacturer of a broad range of avionics and telecommunications products has become profitable.

Collins' net income for the latest fiscal year ended August 3, 1973, was $12.8 million, compared with a loss of $63.8 million for the fiscal year 1972. The 1972 loss of $63.8 million included an abnormal provision for loss in the amount of $36 million. Operating income for 1973, before extraordinary items consisting principally of tax benefits arising from prior year losses, was $7.1 million, or $1.42 per common share. Sales in 1973 were $350 million, up from $250 million in 1972.

In view of Collins' recent performance and its potential for long-range growth, we believe that its future financial performance will be strong. This cash acquisition should add considerably to earnings per share in 1974 and future years.

Proposed Merger with Admiral Corporation

The company and Admiral Corporation have agreed in principle to merge the two firms, subject to negotiation of a definitive agreement and approval by the directors of each company and shareholders of Admiral. If necessary approvals are obtained, it is expected the merger would be completed in April 1974. Admiral, which had sales of $468 million in 1972, is a full-line manufacturer of consumer electronics products and major home appliances.

Company Stock Purchased

Rockwell International purchased all of the approximately 1,460,000 shares of its common stock received from shareowners in response to a cash tender offer in May to buy the stock at $27.50 per share. The purchase of this stock reduces long-term dividend requirements and provides treasury shares to meet commitments upon conversion of outstanding convertible securities and under stock option plans.

On July 23 the company's common stock was admitted for trading on the stock exchanges of Zurich, Basel, Geneva and Lausanne, Switzerland. The company's stock is also traded on the New York, Boston, Detroit, Midwest, Pacific, PBW and the Toronto stock exchanges.

New Directors Elected

Elected to the board of directors were: Louis Putze, president of the Utility & Consumer Products Group; William H. Muchnic, president of Valley Company, Inc., Atchison; and Robert E. Seymour, president of Consolidated Natural Gas Company, Pittsburgh. Messrs. Putze, Muchnic, and Seymour all had served on the board of directors of Rockwell Manufacturing Company. H. B. Massey, president of Massey Buick Company, Pittsburgh, did not stand for re-election in 1973, having reached retirement age. The board of Rockwell International now comprises 17 directors.

Executive Changes

Wallace W. Booth, formerly vice president—Finance, was named senior vice president—Finance and Administration, responsible for a number of corporate staffs, including Finance, Personnel, Operations, Material, Engineering, and Investor Relations.

George M. Cayce, formerly staff vice president—Financial Planning and Analysis, became controller.

Robert A. DePalma was elected treasurer, succeeding Robert D. Krestel, who resigned.

Donald S. MacLeod, formerly vice president—Administration, was named vice president—Investor Relations, a new position.

Robert C. Wilson, a member of Rockwell's board of directors and president of Collins Radio Company, was elected vice president of the corporation.

Minority Employment Up

Important gains in equal employment opportunity and affirmative action programs were achieved in 1973. The overall minority work force increased to 12.2 per cent, compared with less than 11 per cent in 1972. Minority employees participated in greater numbers in promotions to management positions and in career development programs.

In 1973 the company also expanded its Advanced Career Training (ACT) program to include all divisions of the North American Aerospace and Electronics groups. Begun in 1970, the ACT program is an effort to lower the dropout rates in local schools serving disadvantaged areas. Since then, more than 4,000 students have received training in skills related to their school work from company volunteer instructors. The company bears the cost of the program and provides equipment for the classes, which are held after work hours on company premises.

Local school systems enthusiastically have supported the ACT program. In 1973 the company initiated the annual award of four-year college scholarships to outstanding ACT students.

Labor Agreements

There were no significant work stoppages or strikes at company facilities during fiscal 1973, and collective bargaining agreements covering 12 plants and approximately 3,100 represented employees in the United States and Canada were renewed following negotiations. In the coming year 35 collective bargaining agreements covering approximately 16,000 employees at 47 plants will expire. These include two company-wide agreements covering 8,280 employees in the Automotive Group represented by the United Auto Workers and the Steelworkers.

Stock Option Plans

The excellent financial results achieved in 1973 can be attributed to an outstanding performance by the company's employees and, in particular, by its key employees. We feel our key people are highly motivated and, in our view, the stock option plans which the shareowners have approved in the past are an important ingredient of that motivation. Options to key employees have been granted at the market price of the company's common stock at the date of grant.

A desirable characteristic of such an option is that, in order for an executive to benefit from the option, there must be increases in the market price of the company's stock. Thus, the granting of options on a periodic basis stimulates continually improving corporate performance with a view to attaining such stock price increases.

For ourselves and the other executives of Rockwell International we wish to express our appreciation to the shareowners who, by approving stock option plans for the company, have given us the opportunity to benefit personally if we are able to benefit the shareowners generally.

Outlook

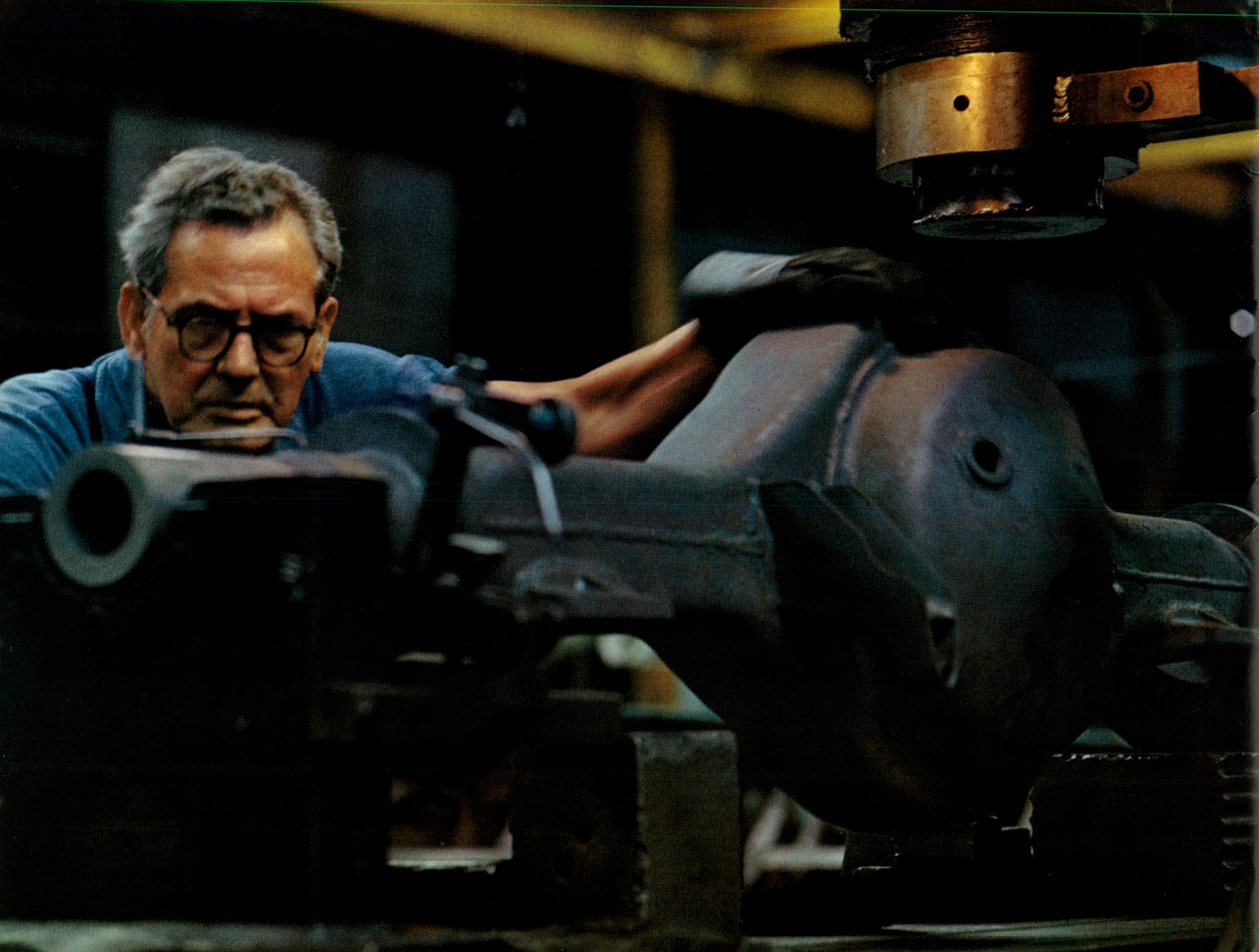
In 1974 we intend to continue our current expansion program both domestically and internationally by broadening our present markets, developing new ones and capitalizing on opportunities for promising new ventures.

With the outlook favorable in all of our major business areas, we are looking for further improvements in both sales and earnings in fiscal 1974.

We wish to thank our employees, customers and suppliers for their confidence and support, which were of inestimable value in making 1973 a success.

W. F. Rockwell, Jr.
Chairman and Chief Executive Officer

R. Anderson
President and Chief Operating Officer



Automotive Group

The Automotive Group had the best year in its history, with sales and profits reaching record levels.

Both the Rockwell-Standard and Automotive Products divisions participated in the improved performance. Rockwell-Standard is the world's largest builder of axles and brakes for heavy-duty trucks, trailers and buses. Automotive Products Division is a major supplier of passenger car components including springs, wheel covers, bumpers and plastic products, and truck and highway trailer parts such as springs, plastics and universal joints.

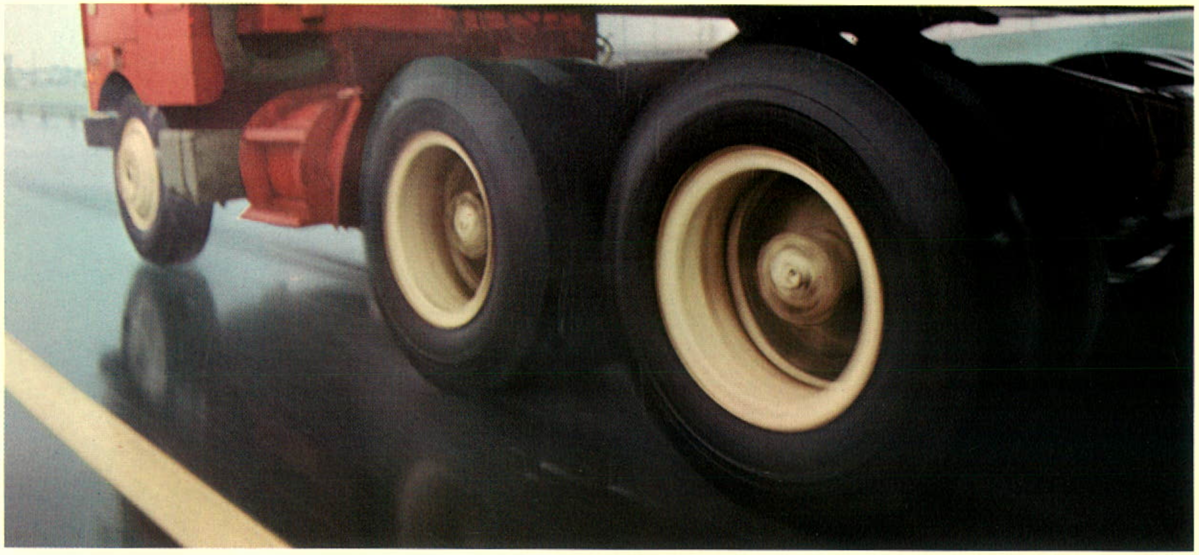
The primary reason for the group's improved performance was that automobile and truck production in the United States and Canada climbed to all-time highs, and the Automotive Group increased its share of this growing market.

Improved domestic and foreign marketing programs, greater production capacity and a number of product improvements helped the group to capitalize on the upturn in business.

The group also continued its international expansion during the year with increased sales overseas and acquisitions in the United Kingdom, Germany and Brazil. As a result it extended its overseas market for axles and related products, and became involved, for the first time, in the manufacture of such automotive components as car and truck frames, sun roofs, window regulators and wheels.

New product development is progressing well. The company believes that its all-new Skid-Trol® anti-skid system and the newly introduced Stopmaster® II brake, both designed for heavy vehicle use, will compete very favorably in their markets.

Looking at the future, although U.S. truck and car production in calendar year 1974 is not expected to match the record-breaking pace of 1973, growth in international sales and increased domestic market penetration are expected to offset any downturn. The automotive industry should show continued steady growth and the Automotive Group plans to maintain its strong market share.



Skid-Trol® is a computerized anti wheel-lock system which helps heavy-duty trucks make safer stops.

Market Growth

In the 1973 fiscal year passenger car output reached a record 11.0 million units, up from 9.7 million in fiscal 1972, and truck production also set a record—3.3 million units compared with 2.6 million last year.

Rockwell-Standard's gains during the year reflect, in particular, the unparalleled growth in the market for heavy-duty highway trucks and tractor-trailers.

Factory sales of heavy-duty trucks in the United States and Canada increased approximately 12 per cent during fiscal 1973 to pass the 200,000 unit mark for the first time. And sales of highway trailers topped fiscal 1972 by almost 20 per cent.

In the off-highway sector of the vehicle market, the group benefited from an increasing growth rate in construction, industrial and farm vehicle markets, to which it supplies components. Farm equipment, notably, ended several years of negligible growth with a 10 per cent gain.

In 1974 truck and car sales could continue to climb in the early part of the fiscal year, and then the market is expected to ease somewhat from its recent high growth rate. Off-highway markets, however, will remain strong and possibly expand.

Sales of components for military vehicles are expected to increase next year, reversing the downtrend of the last several years.

During 1973, sales and profits from the group's international operations increased sharply, and continued growth is forecast for 1974.

Overseas Acquisitions

Rockwell-Standard is improving its position in the rapidly expanding markets for heavy-duty vehicles overseas, particularly in the Common Market countries and South America. During the year Rockwell acquired the Pressings Division of Clarke Chapman-John Thompson Ltd. in the United Kingdom, a producer of axle housings, car and truck frames and other products. This new operation, with annual sales of about $17 million, has been renamed Rockwell-Thompson Ltd.

< Axles for European truck and bus manufacturers are built at the Maudslay plant of Rockwell-Standard Ltd. in England.

Fiber glass box covers for pickup trucks are produced at the Centralia, Illinois, plastics plant.

Rockwell also purchased a 90 per cent interest in a Brazilian company, Fumagalli S.A., now known as Rockwell-Fumagalli, and Rockwell-Standard Division is responsible for its operation. This subsidiary, with $10 million in annual sales, produces wheels for automobiles, tractors and truck trailers for the Brazilian market. This is a new Rockwell-Standard product line.

In addition, the company acquired H. T. Golde GmbH, based in Germany, a leading producer, worldwide, of sun roofs, which are becoming an increasingly popular feature on automobiles. Golde also is one of the world's largest manufacturers of window regulators for cars. These are two entirely new product lines for the Automotive Products Division, which is responsible for Golde's operations.

Increased Production Capacity

To help meet current demands and prepare for future growth, the group in 1973 increased manufacturing capacity. It invested some $32 million to expand facilities by more than a quarter of a million square feet and to install new machinery. Among the advantages realized were the establishment of a second source in the company for front axles, and additional capacity for plastics and suspension springs.

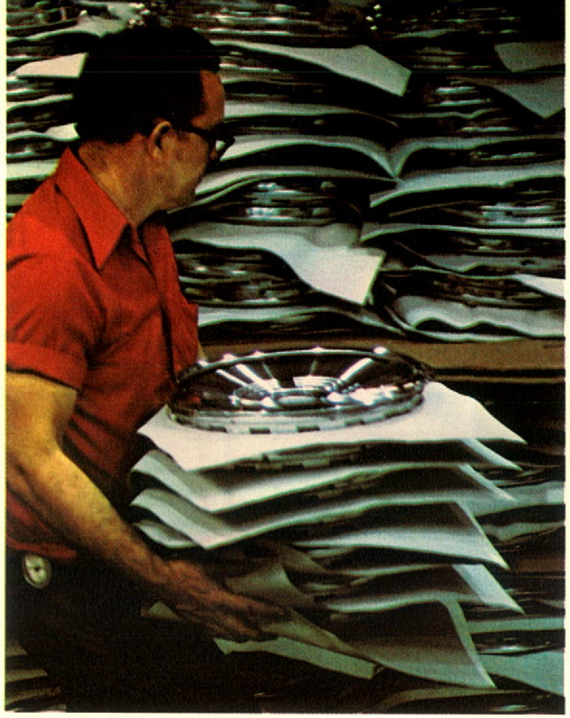
Projects scheduled for completion in 1974 include a $4 million capital expenditure at the Ashtabula, Ohio, brake plant; a $4 million expenditure at the New Castle, Pennsylvania, front axle facility; a $2 million expansion at the New Castle suspension spring plant; and a $3 million expansion of the Milton, Ontario, spring plant.

In the United Kingdom, expansions to increase capacity for production of axle housings are planned for 1974 at Rockwell-Thompson and Rockwell-Maudslay. This will help meet the growing demand for heavy-duty vehicle components in England and Western Europe.

The Detroit axle and forge plants, portions of which date back to the turn of the century, were phased out of operation in 1973.

Federal Safety Standards

Federal Motor Vehicle Safety Standard No. 121, which is scheduled to take effect September 1, 1974, is having a major impact on the heavy-duty truck business. This standard will require that all newly



The company built more than 23 million wheel covers and hubcaps in 1973.

manufactured, on-highway, heavy-duty vehicles equipped with air brakes be able to stop in substantially shorter distances and stay within a 12-foot-wide lane, even during emergency stops.

To meet the requirements of the federal regulation, Rockwell-Standard is redesigning brakes and front, driving rear and trailer axles. It is also developing a computerized anti wheel-lock device called Skid-Trol.® All these components, brakes, axles and anti-skid devices, interact to make certain the vehicle operates dependably and efficiently. The division will spend $6 million on new machinery and tooling for redesigned products.

In another safety area, the Automotive Products Division is helping the automotive companies meet federal impact requirements. Rockwell, a leading bumper supplier since the company developed the industry's first spring-bar bumper in 1922, is producing a bumper energy absorbing device for 1974 model cars. Also a leader in automotive plastics, the division is producing a one-piece, soft plastic front-end panel in 1974.

New Products

Approximately 12 firms are competing for the market that will develop for anti-skid systems. Rockwell-Standard's Skid-Trol® system is a product of the company's continuing technology transfer program, and it utilizes Rockwell Electronics Group's digital computers which have been successfully used by the aerospace industry. Other anti-skid systems coming to market rely on analog computers. The digital approach offers significant advantages over the analog system in terms of reliability and comprehensive problem-solving capability.

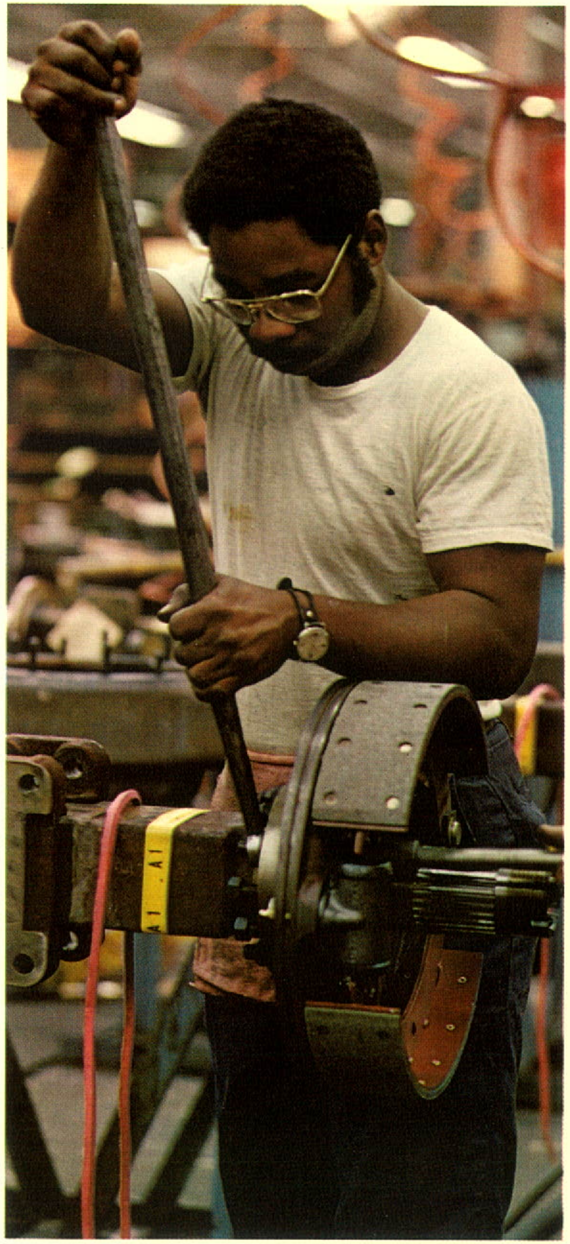
A new advanced wedge brake for heavy vehicles, Stopmaster® II, has been introduced. Incorporating many advantages not available in other types of brakes, the Stopmaster® II features an improvement in the design of the automatic adjustment assembly aimed at providing safe, sure stops for the lining life without periodic maintenance.

Initial marketing began of an all-new tandem axle designed for the greater gear and bearing loading that today's highway trucks and tractors impose because of higher horsepower engines which allow them to travel safely at passenger car speeds. New design concepts include an oil pump that delivers pressurized and filtered lubrication to important wear surfaces for longer axle life.

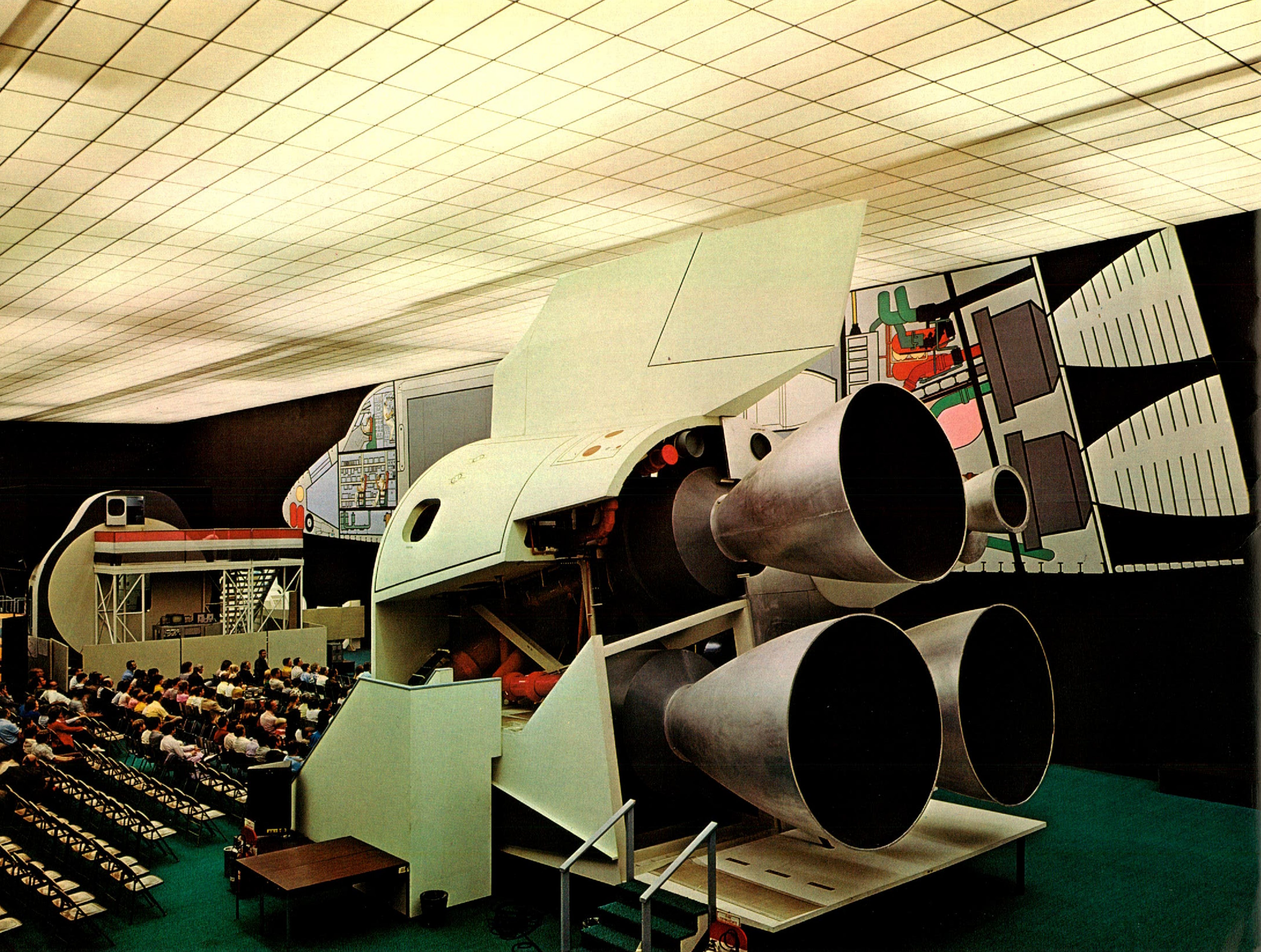
A new series of trailer axles has been developed, and initial marketing is expected to begin early in 1974. These axles are designed for greater load-carrying capability, longer life and improved efficiency.

In response to customer needs, Rockwell-Standard Division has developed a three-stage speed reducer to directly drive the drums in transit cement mixers. The new product reduces maintenance and helps to improve operating safety and will be brought to market early in fiscal 1974.

The division is examining new approaches to moving people. In September it won a $3 million-plus contract for building gear box and coupling components for light rail vehicles for mass transit systems being developed in Boston and San Francisco. This contract gives the division an important advantage in a market of major potential. Some 230 vehicles are called for initially in these two systems, and the projected need in other cities contemplating similar systems totals 3,000 vehicles by 1982.



New, improved Stopmaster® II brakes for heavy-duty trucks provide greater braking power and longer brake life.



North American Aerospace Group

With higher sales and profits, the North American Aerospace Group had an excellent year.

The group continued to move forward with development work on its three largest projects, the Air Force B-1 strategic aircraft, the Space Shuttle orbiter and the shuttle main engine.

The outlook for 1974 is good, with sales for the year expected to reach nearly $1 billion.

B-1 Program

Under a major research and development contract, valued at more than $1 billion, the B-1 Division is building three swept-wing supersonic aircraft for the Air Force. Although some difficulties have been encountered in aircraft assembly operations, these are being overcome. Even though the development pace has been slowed somewhat to keep the schedule more in line with available funding, the overall progress of the program is good. First flight is scheduled to take place in 1974. Both the Air Force and the company have expressed confidence that the B-1 will meet all of its operational mission requirements. Even before first flight, the B-1 design will have been more thoroughly proven in wind tunnel, structure and systems testing than any airplane Rockwell has built.

Department of Defense officials have said the United States Triad concept of utilizing bombers, undersea-based missiles and land-based missiles is more important than ever as a strategic deterrent. Considered a major future element of the Triad, the B-1 will be more versatile, have a greater payload capability and have nearly three times the speed of the aging subsonic B-52 bomber which the B-1 is designed to replace.

With a favorable production decision, the B-1 would create billions of dollars in new business for the company and its thousands of subcontractors and suppliers throughout the nation.

Space Shuttle Development

Activity on the Space Shuttle program is expected to accelerate during the next year at both the Space and Rocketdyne divisions.

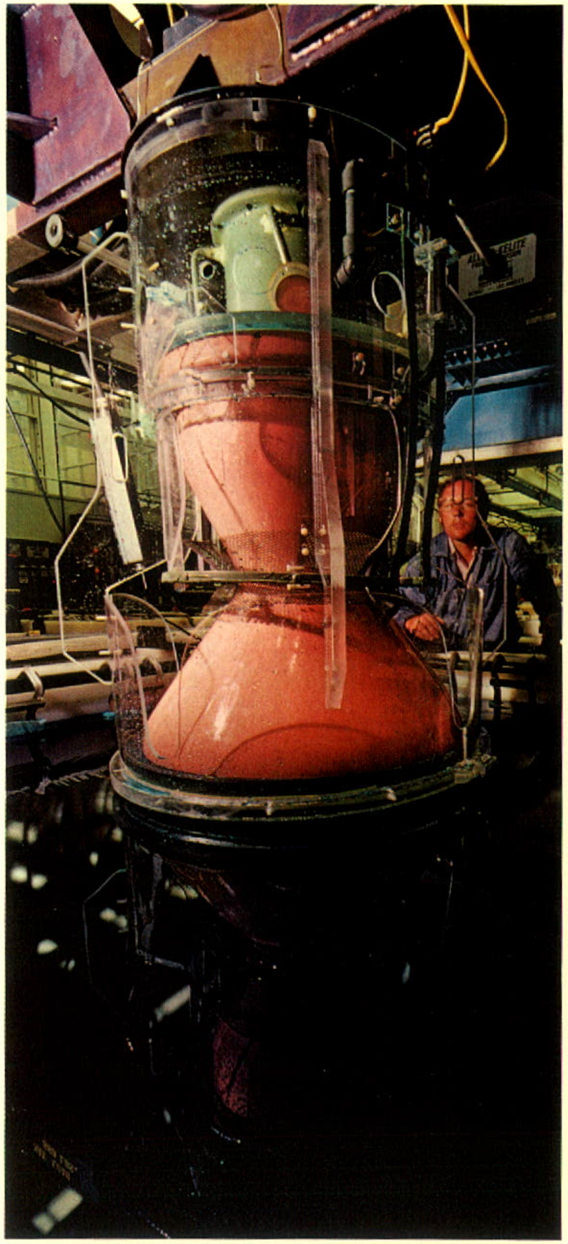
Continuing its role as the nation's principal producer of manned spacecraft, the North American Aerospace Group's Space Division is developing the Space Shuttle orbiter and is integrating all elements of the shuttle system under a $2.6 billion program awarded the company by the National Aeronautics and Space Administration (NASA) in July 1972.

Rocketdyne is developing the 470,000-pound thrust main engine for the shuttle. This power plant is described as the most advanced liquid oxygen/liquid hydrogen engine in the world. Rocketdyne plans to begin testing of components and subassemblies next year.

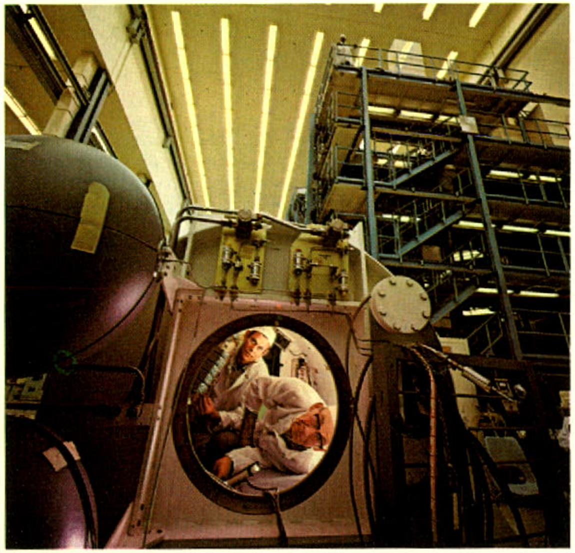
An entirely new concept in space transportation, the Space Shuttle is expected to provide a practical lower cost method of placing scientific payloads and astronauts into orbit for better utilization of resources on earth.

Planned as the nation's space workhorse of the future, the shuttle is the first reusable space transportation system. Each craft will be designed for numerous flights.

< Mockup of the Space Shuttle. This reusable space transportation system is designed to carry up to 65,000 pounds of cargo into earth orbit.



Rocketdyne uses a unique electroplating facility in the production of an advanced design combustion chamber for the Space Shuttle Main Engine.



Docking adapter for the Apollo spacecraft will enable it to join with a Soviet Soyuz craft in a combined U.S.S.R./U.S. joint mission in 1975.

Columbus Aircraft Division is developing a unique V/STOL > *(vertical and short takeoff and landing) aircraft for the Navy.*

Skylab

Following the successful flight last December of Apollo 17, the last lunar landing mission, the group focused its talents on the Skylab program.

Two successful launches of Skylab command and service modules built by Rockwell were conducted during 1973, with one more mission planned for 1973 as this report goes to press. In addition to the Apollo spacecraft built by the Space Division, Skylab employed Rocketdyne engines in its launch vehicles.

Rocketdyne engines now have been used in more than 1,000 successful launches—a major achievement—in America's space program.

Apollo/Soyuz Project

Progress is on target for the first United States-Soviet Union joint project in space, scheduled for 1975. The project calls for an Apollo spacecraft, built by the

Space Division, to dock with a Soviet Soyuz space vehicle, enabling the American and Soviet crews to conduct joint activities. The Space Division also is building the docking module and the U.S. half of the international docking system that will be used for the mission. The spacecraft and other hardware for the mission are scheduled to be delivered to NASA in the latter part of 1974.

V/STOL

An entirely new concept for vertical flight is being developed for the United States Navy at Rockwell's Columbus, Ohio, Aircraft Division. Under a $48 million contract awarded in October 1972, the division is developing two prototypes of a fighter/attack aircraft, designated XFV-12A, popularly known as V/STOL, which stands for Vertical and Short Takeoff and Landing.

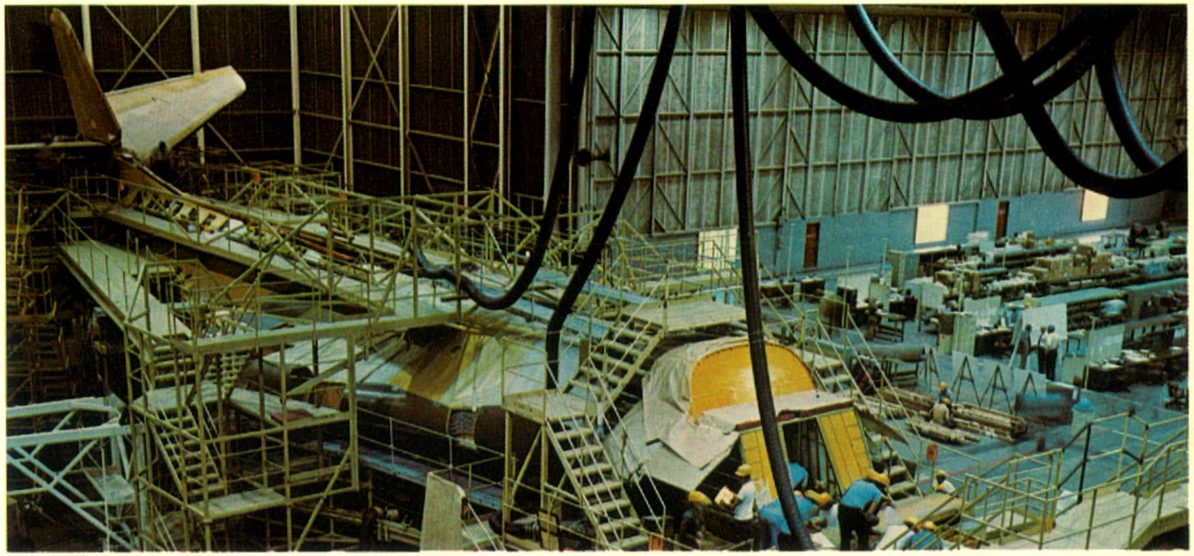
This aircraft will employ a unique aerodynamic principle, in which outside air is utilized to augment the vertical thrust of the aircraft's single jet engine. Flight testing will begin in the fall of 1974.

Preliminary testing has given the division considerable confidence in this new approach, not only for military fighter aircraft, but also for commercial transport applications.

The Columbus Aircraft Division also produces the OV-10 Forward Air Control/Light Strike Aircraft for the U.S. military and for foreign nations, and the highly versatile T-2 jet trainer for the U.S. Navy and foreign governments. The division's foreign sales in 1973 were substantially higher than international sales in 1972.

The group's Los Angeles Aircraft Division is conducting a preliminary study for an advanced Fighter Technology Integration Demonstrator aircraft for the U.S. Air Force. The company also is pursuing other areas of technology to retain its capability to participate in future military and commercial transport programs, including a possible advanced supersonic transport.

While the Tulsa, Oklahoma, Division continues as a major subcontractor producing structural components for the Boeing 747 jet transport, the division expects to accelerate activity in such new business opportunities as noise abatement, antenna structures and specially hardened cables.



The first B-1 aircraft takes shape at the Palmdale, California manufacturing facility.

New Engine Applications

A technological spinoff from the nation's space program is Rocketdyne's waterjet propulsion system which is being developed for the Boeing Company's hydrofoil passenger boats. At the heart of the system are two 3,700-horsepower waterjet pumps which are a direct derivative of the J-2 engine's pump used on the Saturn V Apollo launch vehicle. The 250-passenger jetfoil craft will be capable of 50 mph speed and is scheduled to go into operation in 1974.

In addition, Rocketdyne maintains a capability to produce solid rocket motors at its facility in Texas.

Toward A Cleaner Environment

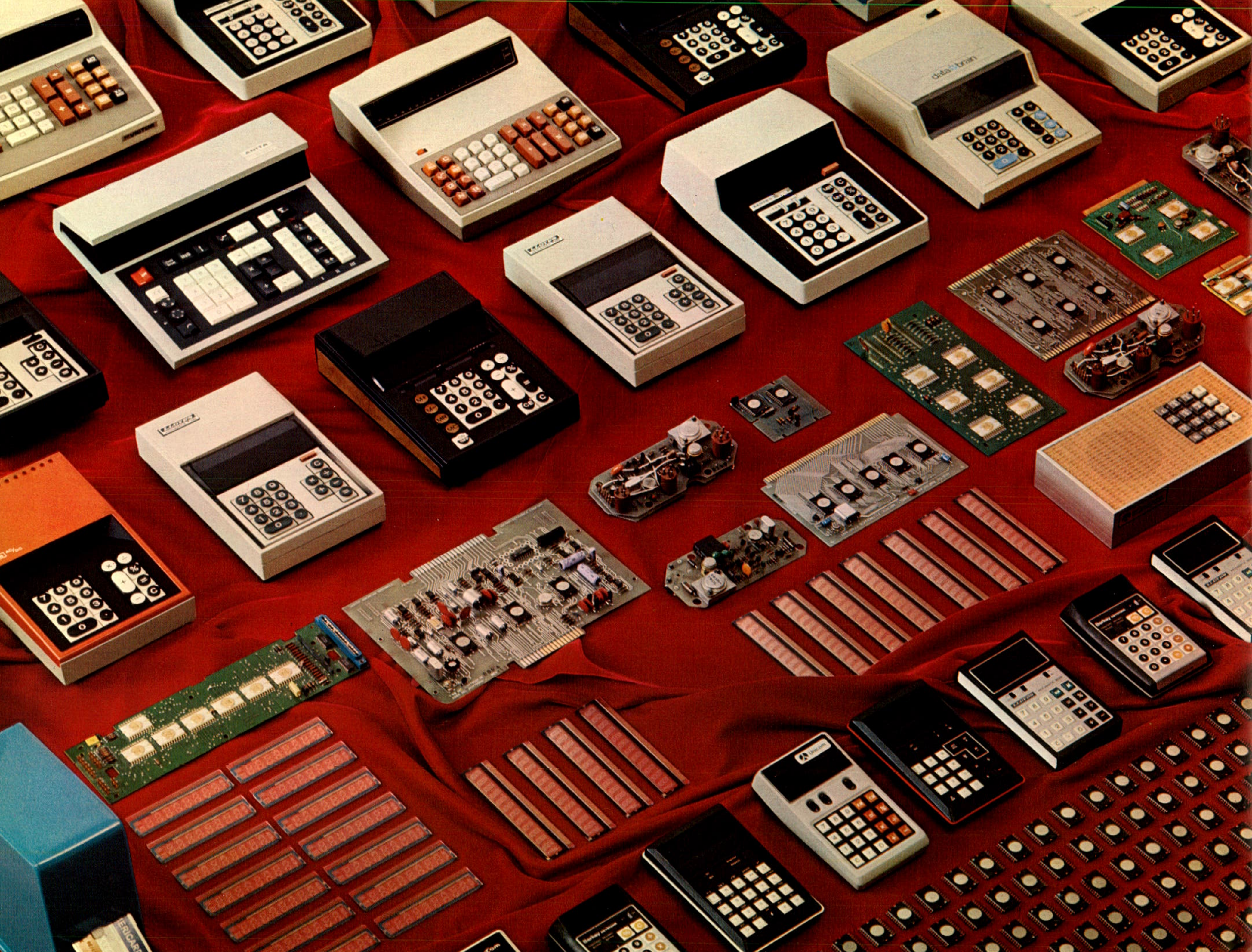
A major step toward a cleaner environment was taken by Atomics International with the highly promising start-up of its process to remove sulphur and other pollutants from industrial smokestacks.

The division placed into operation a pilot test facility at the Consolidated Edison plant on Staten Island, New York, a project that could lead to solving major air pollution problems in large cities. The tests will continue for several months, after which large scale power plant applications are planned.

Atomics International also expects to participate as a major subcontractor in the Liquid Metal Fast Breeder Reactor program for generating electricity through nuclear energy. Major research efforts also are being directed toward other advanced areas of energy and environmental control.

The company's Science Center at Thousand Oaks, California in 1973 won the largest single contract for air pollution research and monitoring awarded to date by the U.S. Environmental Protection Agency. Under the $5 million program, a newly established Regional Air Monitoring System will conduct an intensive air sampling project in St. Louis to provide the in-depth information needed to predict air quality in urban atmospheres throughout the nation.

The Science Center is engaged in other air research and monitoring programs and conducts basic research in electronics, materials, physics and chemistry.


data brain

Electronics Group

Unicom Systems makes calculators ranging from consumer hand-held "minis" to multi-memory printers for sophisticated business use.

Major commercial growth highlighted Electronics Group achievements in 1973. Principal factors in this growth were the microelectronics and business equipment operations where year-end results were substantially ahead of earlier projections.

Major objectives were met or exceeded in many areas of the group's business although group sales were below the 1972 fiscal year level.

The remarkable growth in commercial electronics and significant expansion into government business areas new to the company give the group a broader base on which to build sales and increase profitability.

Business Balance

In 1973 major progress was made in meeting the long-term objective of a better balance between commercial and government business.

From a virtually non-existent commercial sales base in 1969, the Electronics Group has successfully established a business mix which is now 21 per cent commercial. By 1975 commercial business is expected to increase to approximately 40 per cent. At the same time, with emphasis shifting toward new programs and a broadened electronics base, government business will continue to play a significant role in the highly promising future of the group.

Reorganization

A major move to further sharpen technical and management focus on both government and commercial business goals was accomplished late in the year with the restructuring of the Electronics Group into four operating units:

■ The *Government Products Divisions,* consisting of the Autonetics, Missile Systems and Electronics Research divisions.

■ The *Microelectronics Divisions,* dividing the predecessor organization into two parts—the Microelectronic Product Division and the Microelectronic Device Division.

■ The *Business Equipment Divisions,* consisting of Unicom Systems, acquired in September 1972, and the British-based Sumlock Anita, acquired in July 1973. They design, manufacture and distribute electronic calculators and other business machines.

■ *System Monitoring Division,* now concentrating its attention on the growing market for automated monitoring and control systems for electric utilities.

Microelectronics

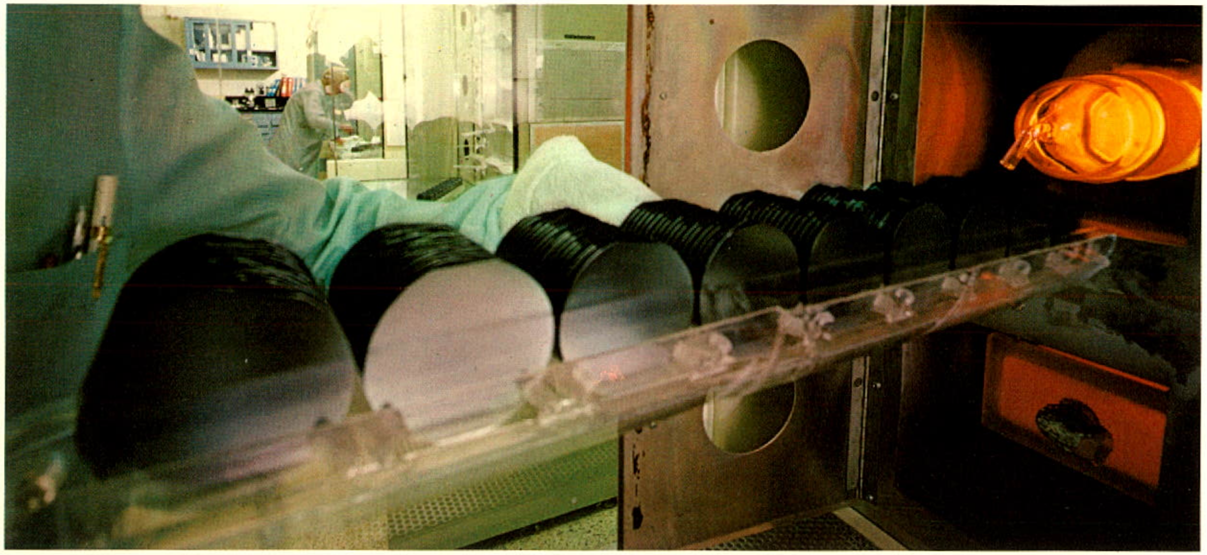
With a significant and growing share of the worldwide market for MOS/LSI (metal oxide semiconductor/large scale integrated) custom logic devices, the Microelectronics Divisions reached production rates in excess of six million circuits annually for a large number of original equipment manufacturers and merchandisers around the world. Circuit production capacity is being doubled for 1974.

Volume production of custom-designed consumer calculators began early in the fall of 1972 for a variety of U.S. and international customers, including a number of large mass merchandisers. Additionally, the Microelectronics Divisions manufactured several types of calculators for the company's Business Equipment Divisions. Eight models currently are in volume production and at least eight others are scheduled for production during 1974.

Other high volume orders were received for a new set of MOS/LSI circuits to be used as a flexible micro-processor. This system is expected to be the functional basis for complex calculators, cash registers and accounting machines of the future. Among developments giving the Microelectronics Divisions a leadership position in the industry were the mass production of liquid crystal displays and a new family of powerful one-chip calculator circuits.

The Microelectronics Divisions continued to broaden their base beyond calculator applications, with penetration of the business machine market a near-term target. Subsequent substantial growth is expected in telecommunications, business terminals, watches, and other new consumer product areas.

< The Microelectronics Divisions manufacture circuits, subassemblies and microelectronic calculators for other manufacturers and mass merchandisers.



Wafers, containing as many as 100 electronic circuits each, are heat treated at temperatures up to 1000° C.

Business Equipment

The newly established Business Equipment Divisions represent another substantial growth area for the Electronics Group.

Unicom Systems, headquartered in Cupertino, California, has become an important factor in the field of electronic calculators in less than three years of operation.

Its product line—which includes more than a dozen calculator models, from inexpensive hand-held "minis" to sophisticated multi-memory printers—is sold through 33 company-owned branches, nearly 300 franchised dealers, and a separate network of more than 3,700 consumer dealers located throughout the United States.

Broad international marketing of Unicom products was being accomplished at year's end through distribution and service outlets in Western Europe, the Far East and Latin America, and in Canada through a subsidiary, Unicom Systems Canada. Sales showed a marked increase over 1972.

The acquisition of three subsidiaries of Lamson Industries Ltd. in England (Sumlock Comptometer Ltd., Sumlock Anita Electronics Ltd., and RUF Organisation Ltd.) was an important move toward a stronger position in the international marketplace.

Now combined into one unit, Sumlock Anita, these three newly acquired companies offer a broad line of electronic calculators, some of which will be marketed by Unicom in the U.S. Similarly, it is planned that Sumlock Anita will market Unicom products in the United Kingdom—thus strengthening the product lines of both companies.

Energy Control Systems

In a market redirection aimed at promising near-term prospects within the power utility industry, System Monitoring Division began concentrating full resources on energy monitoring and control systems.

In April, the central transmission/distribution control system for Philadelphia Electric Company was placed in service, with the expectation that full operational status would be achieved by year-end.

A similar contract for $10 million was awarded the division by Potomac Electric Company serving the Washington, D.C., area. Completion is scheduled for 1976. Other major System Monitoring work for the electric utility industry is underway for Ontario Hydro in Toronto and Delmarva Power & Light Company, serving Delaware and parts of Maryland and Virginia.

Government Sales

Although sales volume in the group's traditional defense electronics business declined, significant gains were recorded in other government business areas such as command and control communications, electronic warfare, electro-optics, sonar, tactical and strategic missile systems, air defense and radar/laser fire control.

Helping maintain Autonetics' primary business base and its leadership position in ballistic missile guidance and control systems was the award of Air Force production and support contracts for Minuteman III totaling $175 million.

Since start of work on the Minuteman III production contract, the division has earned substantial incentive fees by sharing in a $15.4 million cost underrun, the result of a continuing effort for greater efficiency and economy on government contracts.

In new awards, a contract was received for integration of the Air Force Missile Performance Measurement System for Minuteman. Other significant continuing programs included production of master computers for the Air Force SRAM (Short Range Attack Missile); development of MICRON, a microminiaturized navigation system, through the systems test phase; and support and services for the operational F-111D fighter/bomber avionics system.

Marine Systems Developments

Application of the Autonetics Ships Inertial Navigation System (SINS) to initial models of the Trident Class submarines began this year with an engineering study contract awarded by the U.S. Navy. SINS are now installed in all 41 U.S. Navy and four United Kingdom ballistic missile submarines.

First deliveries of MiniSINS, a compact inertial navigator for attack submarines, were accomplished during the year. Meanwhile development continued on an electrostatically suspended gyroscope for Mini-SINS to further reduce size and improve accuracy.

A Towed Array Sonar system for surface ships on anti-submarine missions entered development stages, and initial deliveries were made to the Navy of equipment for a Fast-Time Analyzer system to process acoustic data obtained from patrol aircraft.

In other areas, Autonetics is under Navy contract for development of an advanced ships control system for Trident Class submarines, and will provide the preliminary design of the combat system for the Bell Aerospace Company entry in the competition for the Navy's 2,000-ton Surface Effects Ship.

Missile Systems

At Missile Systems Division, progress continued in development and production of precision-guided weapon and fire control systems for all three branches of the military.

Among activities highlighting the year were the Department of Defense authorization for pilot production of the Navy's Condor air-to-surface missile, and continued progress in the development of a dual-mode, all-weather version of the missile.

Awarded in April was a contract to provide air-to-air ranging radar sets for the two prototype lightweight aircraft being built for the Air Force by Northrop. The division is also providing precision radar antennas for the B-1 and Space Shuttle.

The television guided HOBOS bomb system, labeled "smart bomb," proved its effectiveness in Southeast Asia. HOBOS underwent a product improvement program, designed to give added and updated capability to this effective modular weapon.

Other Missile Systems activity was directed toward engineering development of the Army's Hellfire anti-armor weapon, with contracts received for integration of the company's laser seekers into the Air Force's Maverick air-to-surface missiles and the engineering development of an airborne laser tracker for use on Army helicopters. Also awarded was an Army contract for the Air Defense Suppression Missile development program, for which the division will fabricate dual-mode prototype missiles to be used by the Army in evaluating the technical and operational potential of the dual-mode seeker concept.

Clean room assembly is needed to achieve precision in the Autonetics-built guidance system for the Minuteman III missile.

< The Rockwell Sabre 75A is the newest and largest in the popular Sabre business jet series.

Industrial Products Group

The Industrial Products Group had a very productive year, with sales and profits significantly higher than those in fiscal 1972.

The strong growth reflected increased business in both domestic and international markets, good customer acceptance of new products, and a generally healthy national economy.

International activity also expanded sharply during the year. The company increased ownership in Virginio Rimoldi & C., S.p.A. of Milan, Italy, from 40 to 100 per cent. Rimoldi, with sales of approximately $45 million in 1973, is one of the world's leading makers of industrial sewing machines.

Noteworthy gains also were made in exports, with sales of textile and printing machinery and general aviation aircraft showing sizable increases.

In other overseas developments, the newly built Rockwell plant in Singapore reached a near-capacity production rate in the manufacture of precision roller chain and cable control components, and joint ventures were established in the United Kingdom and Japan to produce and sell Rockwell industrial components in international markets.

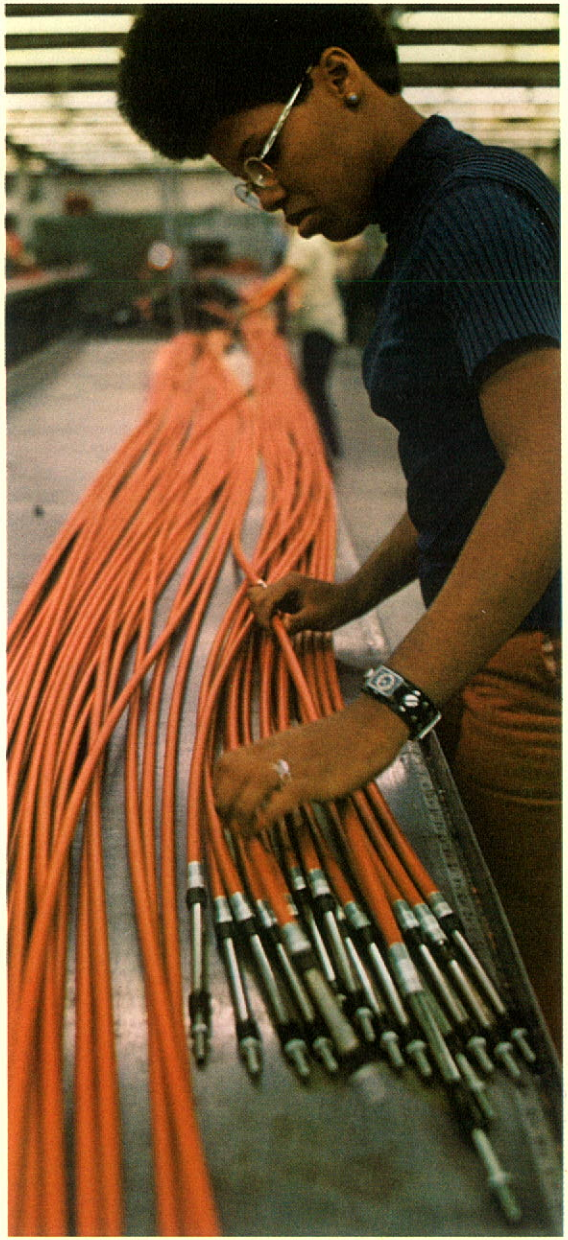
In 1974, the group anticipates continued sales and profit improvement, with all divisions expecting to maintain or improve their positions in their major markets. One indicator of future business improvement is the group's large year-end backlog. In addition, Rimoldi should make important contributions to sales and profits in 1974 and beyond.

Graphic Arts Equipment

Aggressive marketing coupled with an accelerated product development program provided the impetus for MGD Graphic Systems Division during the year. MGD maintained its firm position as the world's leading supplier of printing machinery and related graphic arts equipment.

Sales of Goss web-fed newspaper presses reached record levels, and the demand for Miehle commercial sheet-fed offset presses was strong.

MGD has been broadening its markets around the world and has been providing new products and



Morse Controls produced a record 3,600 miles of cable in 1973 for use with its marine and industrial controls.

MGD's laser-equipped Metro-reader, an optical character reading machine, has been installed by some of the nation's leading newspapers.

increased systems capability to its customers. New products introduced in late 1972, including a computerized phototypesetter, have been well received.

New Markets

While continuing to attract new domestic business, the division and its British-based subsidiary, MGD Graphic Systems Ltd., are seeking a greater share of the international market. MGD presses are being installed in an increasing number of foreign countries, including Yugoslavia, Romania, Poland, Malaysia, and South Vietnam.

In the United States two of every three major daily newspapers are printed on company presses.

On an exploratory and fact-finding basis, teams of MGD representatives conducted a technological printing seminar in the U.S.S.R. for top-level Soviet printing officials. MGD also took part in a trade exhibition in Peking, China. The division is studying the results of the meetings as a guide to future relationships with those countries.

The new Rockwell 225-II braider, made by the Textile Machinery Divisions, is used by plants worldwide in the manufacture of reinforced hydraulic hose.

New Products
MGD's newly formed Information Products unit has received good response to two new products introduced in late 1972, the Metro-set, a computerized phototypesetter developed jointly by MGD and the Electronics Group, and the Metro-reader, an optical character reading machine. A number of these new machines have been purchased and installed by key American newspapers, and market projections for these units are favorable.

The new Goss Cosmo-offset press, also introduced in late 1972, has had a good reception, with approximately 75 units ordered in 1973. At the same time new Miehle Super 60 sheet-fed offset presses were installed in some of the foremost carton printing plants in North America.

Textile Machinery

The Textile Machinery Divisions (TMD) recorded a dramatic turnaround during the year, with both domestic and foreign sales and profits sharply higher.

A heavy influx of orders resulted in a year-end backlog that was 87 per cent greater than 1972. Major penetration of foreign markets, including Eastern Europe and Asia, favorable customer reception of new products, and a streamlining of the organization helped improve performance. All division markets are expected to remain strong in 1974.

International Activity
International sales of TMD more than quadrupled over 1972 and accounted for approximately 35 per cent of the divisions' total business in 1973.

With completion of the Rimoldi acquisition, TMD entered a promising new area of machinery sales. Rimoldi is a highly respected supplier of industrial sewing machines throughout the world. The acquisition increases machinery sales to the textile industry by more than 26 per cent over 1972 and adds modern production facilities and a worldwide network of distributors to TMD operations.

A strong overseas marketing program produced excellent results. Draper Division obtained the largest foreign order in its 156-year history—an order for 5,000 flyshuttle looms from Textile Alliance Ltd. of Hong Kong at a total value of over $10 million.

The Soviet Union's textile machinery trade agency contracted with the Knitting Machinery Division for the purchase of $5.6 million of high pile machines, and other machinery sales in Eastern European countries are under negotiation. The Export-Import Bank already has approved financing for $11.5 million of this business, including the contract with the Soviet Union.

In 1974 Textile Machinery Divisions expect foreign business to rise to about 48 per cent of sales.

New Products
New products introduced in 1973 included a Draper DML model loom, for extra-wide woven fabrics, like king-size bedsheets, and the Draper DGL loom, for improved quality of denim.

Also introduced was a versatile, solid-state pattern control for the ElectroKnit 48 knitting machine, another product of Rockwell technology transfer. Other new products included an improved version of the Spunwarp knitting machine and an advanced pantyhose machine, the "Quadrasonic."

Industrial Components

The Industrial Components Divisions were another source of higher sales and profits in 1973.

These divisions produce a broad line of industrial products, including: precision roller chain; air and liquid filters; gears and power transmission systems; spherical and linear bearings; mechanical control systems for industrial and marine equipment; electronic drive systems; diesel and automotive filters; and cotton seed processing equipment.

Morse Controls Division and Teleflex Ltd., a British subsidiary, expanded sales of their industrial and marine controls. Morse, with limited production capacity in the face of rising demand, opened a plant in Porterville, California, for production of marine cable controls and steering systems, and as a west coast service center. The company entered into a 50/50 joint venture with NHK Spring Co., Ltd. in Japan for manufacture and sale of Rockwell's marine and industrial controls in the Far East.

Acme Chain Division increased sales of its precision roller chain and specialty chain.

Boston Gear Division, which markets power transmission products, also reported strong sales. It expanded its product lines and improved its distribution system by setting up four regional distribution centers in the United States and Canada.

Heim Division's new line of linear ball bearings introduced in late 1972, has been well received, with several major customers placing large orders.

Rockwell International and Locker Industries Ltd. formed a joint venture company in the United Kingdom, with Rockwell owning a 40 per cent interest. The new company, Locker Air-Maze Ltd., manufactures Rockwell's Air-Maze air and liquid filters and will manufacture Luber-finer oil filters for the United Kingdom and Western European markets.

General Aviation

The General Aviation Divisions are benefiting from an upturn in their industry and from the timely introduction of new, competitive business aircraft. Sales were up about 70 per cent, and unit deliveries were more than double those of a year ago.

International business also grew rapidly, with foreign deliveries up more than 130 per cent.

Sales of all business aircraft were strong, and sales and orders were at record levels for the Thrush agricultural aircraft.

The outlook for 1974 is for continued sales growth.

Two important new twin engine, business aircraft were introduced during the year—the Rockwell Sabre 75A fan-jet and the Rockwell Turbo Commander 690A prop-jet. Both already have had good customer acceptance. The 690A was introduced in April 1973. In the next five months, 19 of the 690A's were delivered, and the backlog reached 43 by year-end. The 75A, announced in January, is expected to be certified this fall. The year-end backlog for the new twin jet was 26, including an order of 11 from the Federal Aviation Administration.

The Sabreliner Division received the largest number of commercial orders in its history. It also received an order for five Rockwell Sabre 60's from the U.S. Navy. The Commander Aircraft Division was created, consolidating into one unit the manufacture of all aircraft except the Sabre business jet series.

Designed to produce extra-wide cloth, the new Draper DML loom weaves fabrics from 90 to 220 inches in width. >

Utility & Consumer Products Group

In 1973 the Utility & Consumer Products Group achieved record highs in sales and profits, and the 1974 outlook is excellent.

The group, formerly Rockwell Manufacturing Company, is the newest of the five groups in the corporation. Rockwell Manufacturing was merged into Rockwell International in February.

The Power Tool Division performed particularly well and continued to be the fastest-growing unit in the group. In the last three years division sales increased nearly 70 per cent.

Consumer power tool sales are expected to continue their rapid growth as the "do-it-yourself" individual finds more leisure time and tries to reduce the cost of professional help. The division has vastly increased its distribution of tools through major wholesalers and mass merchandisers.

The Municipal & Utility Division, again in 1973, made major contributions to sales.

Its flow measurement and control equipment, comprised largely of a complete line of gas and water meters, is utilized in the expanding construction, energy and municipal markets.

Non-residential construction represents a strong growth area for large capacity water meters while increased gas drilling activity and new pipeline safety requirements are boosting gas meter, regulator, and instrumentation sales. The emphasis on water conservation offers additional potential for water meter business growth.

Also, cleaning equipment utilized by municipalities to reduce infiltration in sewer and water lines now can be federally funded through the Environmental Protection Agency. This already has had a beneficial effect on sales of sewer cleaning equipment supplied by the Municipal & Utility Division.

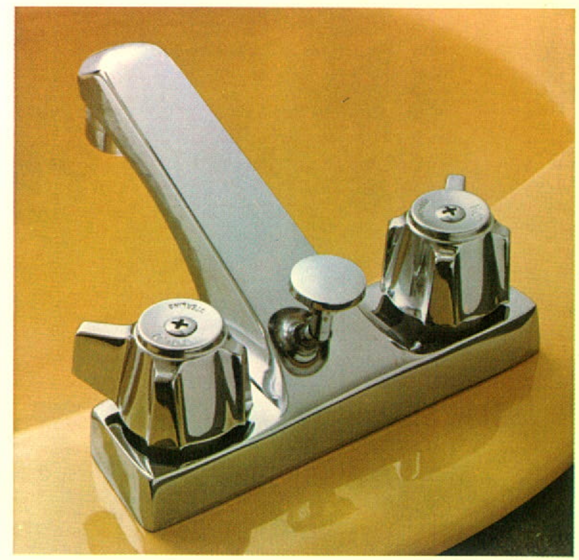
Gas and oil pipelines planned for construction during the mid-1970's represent another worldwide potential growth area. The group's Flow Control Division is placing a high priority on developing and supplying large valves for pipelines around the world, particularly in Canada and the Soviet Union, and for crude oil tanker offshore facilities at domestic terminal ports.

The Flow Control Division also has supplied large main steam isolation valves for every nuclear power plant built in the United States. As nuclear plant construction increases, the division's business should benefit substantially.

In the growing mass transit field, the Transportation Equipment Division supplies custom-designed lightweight truck assemblies on which rapid transit

< *In this proving room, every Rockwell domestic gas meter is double-checked for accuracy before shipment.*

The Building Components Division makes a complete line of faucets for lavatories, baths, showers and kitchens.



< *Rockwell-Nordstrom valves are an integral part of oil refineries around the world.*

Millions of novice handymen and professional carpenters use Rockwell's shockproof, double-insulated power tools.

cars, such as those used in the new BART system in San Francisco, ride.

An increase in federal grants has more than doubled the projection of new rapid transit cars to be built in the next ten years. For that reason, the division looks for a substantial sales increase in transit truck assemblies in the mid-1970's.

Consumer Power Tools

In late 1972, the Power Tool Division was reorganized into two separate units: industrial products and consumer products.

This will prove beneficial to both areas of business since each is specialized, with different channels of distribution, discounting structures, and sales promotion methods.

In a major change of marketing strategy, consumer power tools are now distributed through large wholesalers having chains of retail outlets, and national mass merchandisers, instead of being sold directly to retailers. This action has greatly broadened and improved the distribution system, and helped produce increased sales.

As a strong expression of confidence in the quality of Rockwell tools, the Power Tool Division instituted a new consumer protection guarantee. It is a one-year, over-the-counter replacement guarantee on all double-insulated, portable electric power tools.

The division also made an across-the-board price reduction in the portable tool line, a move made possible by manufacturing efficiencies and increased sales volume.

Industrial Power Tools

In the industrial power tool line, introduction of new products has enhanced the Power Tool Division's competitive position. Among them is a line of double-insulated portable tools for industry, formerly available only for consumer markets.

The division also is penetrating new industrial markets. One example is the successful entry in 1973 into the automotive after-market where Rockwell offers the most complete line of portable and stationary electric and air tools in the industry. The package of 74 different products and accessories includes: electric and air drills; sanders; magnetic drill presses; and air and electric impact tools.

Flow Control Equipment

The Flow Control Division is expanding its market share as the leading producer of large main steam isolation valves for nuclear plants, which is potentially a very large business for the division. The valves are used in the engineered safeguard system for each nuclear plant.

The division received an order from the Soviet Union for the first American-built valves to be used in a Soviet-designed atomic power plant to be built in Finland. Also, a major domestic builder of nuclear equipment has placed an order for main steam isolation valves which it is including for the first time in the package it offers to utility customers. The division objective is to make Rockwell valves the accepted standard throughout the power industry.

Efforts also are being made to strengthen an already excellent valve reputation on a worldwide basis. New business includes orders for valves and wellhead equipment from Algeria and orders for valves to be used in propulsion systems of liquefied natural gas tankers being built in France.

Rockwell-patented breech-block connectors, developed initially for connecting drive pipe on offshore drilling rigs, now are being produced in much larger sizes for connecting pilings supporting offshore drilling platforms. A $2 million order was received for two North Sea platforms now under construction, and more orders are expected.

Building Components

The Building Components Division, formerly the Sterling Faucet Company, embarked on a far-reaching program during 1973 to enhance its performance. Major changes have included a new management team, a shift in marketing strategy, redesigned products and plant improvements.

The entire building components product line was reviewed. Eliminated were those products which proved too costly to manufacture, did not meet new standards for high quality or did not meet profit objectives. As a result, the product line was reduced from 3,230 items to 1,166. In addition, nearly every product in the fittings line is being redesigned to improve its marketability.

Increased emphasis has been placed on selling to mass merchandisers, so that selling techniques not based on price alone can be employed to secure a more stable sales volume. Product quality has been upgraded and new packaging, built around the Rockwell identity and name, has been developed.

Rockwell and predecessor companies have built water meters for home and industrial use since 1870.

Municipal & Utility

To improve efficiency and effect cost reductions, the Municipal & Utility Division consolidated distribution facilities, sales offices and major sales forces. Twelve manufacturing plants are being consolidated into four major facilities and three smaller ones.

There has been a significant drop in the price of residential water meters to meet competitive bids and prices. Nevertheless, the division was able to improve profits in the overall water meter line through additional sales volume and manufacturing efficiencies.

Recent high levels of housing and non-residential construction have generated increased unit sales of water meters of all sizes. Further increases in non-residential construction should provide even higher levels of business for large capacity meters in 1974.

Turbo-Meters, a line of turbine-type water meters pioneered by Rockwell, are gaining rapid acceptance in non-residential construction. This should help offset an expected decline in water meter sales in a softening residential construction market.

Threat of a natural gas shortage has caused moratoriums on new service hook-ups in some localities, and a general lack of growth in the gas meter industry. Conversely, the shortage is causing large volume gas users to consider purchases of large capacity meters with alarm and control devices. As that market develops, Rockwell is expected to gain its share.

Transportation Equipment

The largest portion of the Transportation Equipment Division's business comes from the production of the truck assemblies for rapid transit cars. It also produces trucks and bolster plates for diesel locomotives, and custom steel castings for other companies.

The division has major orders that will maintain heavy production during 1974 and 1975. These include custom-designed transit trucks for the Washington, D.C., Metropolitan Area Transportation Authority, the New York City Transit Authority and another order for the BART system in San Francisco, which follows the original order.

Acquired in July 1973, Sumlock Anita is Britain's largest manufacturer of electromechanical calculators, comptometers and adding machines.

International Operations

International operations are becoming an increasingly important factor in the company's growth.

Sales for the year outside the United States climbed to a record $517 million. Foreign sales include export sales to customers and sales by consolidated foreign subsidiaries. Not included in this total are sales by unconsolidated affiliates owned 20 per cent to 50 per cent, which amounted to about $150 million.

Exports Climb

Export sales increased about 100 per cent over 1972, with the most dramatic increases shown by the Textile Machinery, Microelectronics, General Aviation and Columbus Aircraft divisions.

An aggressive implementation of an internationally oriented marketing strategy took full advantage of recent dollar devaluations and contributed to the sharp sales and profit rise outside the United States.

A highlight of the year was the initial penetration of East Europe. The Textile Machinery Divisions, for example, concluded large equipment sales with the U.S.S.R. and Poland and entered into additional negotiations in Eastern Europe.

This is one of the results of the company's international effort to develop East-West trade with the U.S.S.R., Eastern European countries and the People's Republic of China.

The company also expanded its sales in numerous other foreign markets. Shipments increased substantially to such countries as Iran, Italy, Nigeria, Venezuela and Malaysia.

More than 20 per cent of the Electronics Group's commercial sales in 1973 were to international customers, with the Microelectronics and Business Equipment divisions moving rapidly to capture an increasing share of foreign business.

Merger And Acquisition Activity

Also contributing to increased international business was an active acquisition program.

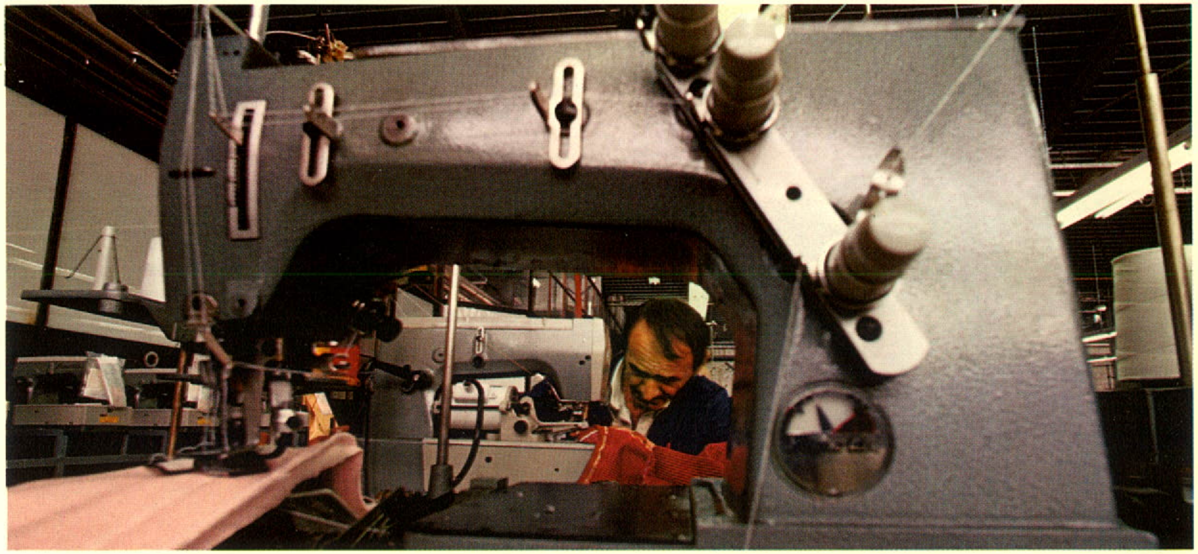
With the Rockwell Manufacturing merger, the company gained a number of foreign subsidiaries and affiliates, primarily in Canada and Western Europe. These companies produce and market a wide range of utility and consumer products including: gas, water, and industrial meters; valves; and portable and stationary power tools.

The company continued to improve its overseas position in the automotive components business with several key acquisitions.

They include: the Pressings Division of Clarke Chapman-John Thompson Ltd. in the United Kingdom, builder of axle housings, car and truck frames and other products; H.T. Golde GmbH, based in Germany, manufacturer of sun roofs and window regulators for automobiles; and a 90 per cent interest in Fumagalli S.A., of Brazil, maker of wheels for automobiles, tractors and truck trailers.

In the industrial products area, investments included the acquisition of the remaining 60 per cent ownership of Virginio Rimoldi in Italy and the establishment of joint ventures in the United Kingdom for the manufacture and sale of Rockwell filters, and in Japan, for marine controls.

As noted elsewhere in this report, the Electronics Group acquired three British companies which together comprise one of the leading manufacturers of electronic calculators and business machines in the United Kingdom. This acquisition, coupled with other manufacturing operations and distribution outlets already established or planned in Europe, Canada, Latin America and the Far East, is expected to give the group a strong position in the international market for business equipment.



In May, Rockwell acquired full ownership of Virginio Rimoldi & C., S.p.A., Milan, Italy, a leading maker of industrial sewing machines.

Specific acquisitions and other foreign activities are discussed in more detail in the sections of this report covering group operations.

European Emphasis

Rockwell's international acquisitions reflect the growing importance and emphasis on the company's European activities.

As part of Rockwell's continued corporate international expansion plan, the office of staff vice president—Europe has been established to coordinate current and future European plants and business opportunities. Frank Delzio, an executive with an extensive international business background, has been appointed to this post.

The board of directors held its May quarterly meeting in London, its first meeting outside North America. The directors met with the key executives of several of the company's European facilities to discuss future international activities, objectives and plans.

100 Foreign Operations

At year-end the corporation had more than 100 subsidiaries, affiliates and branches in 26 foreign countries with an equity investment of more than $175 million.

Rockwell International employment outside the United States was 14,010 at year-end, or about 14 per cent of total employment.

Rockwell plans to continue its rapid international growth in the years ahead by increasing export sales, by expansion of its existing operations and markets, by penetration of new markets and by selective acquisition of companies with good growth potential.

It is worth noting that in 1973 Rockwell contributed more than $100 million toward a favorable U.S. balance of payments.

W. W. Booth

Financial Review

Rockwell International's sales and earnings increased significantly in 1973. Compared with the previous year, sales were up 19 per cent, operating earnings 32 per cent and primary earnings per share before extraordinary items 39 per cent.

Primary earnings per share surpassed those of 1972 by $1.14. Improvements in earnings from operations accounted for $1.07 of the total $1.14. The reduction in average number of shares outstanding in 1973 compared with 1972 added $.05 to earnings per share. Other minor sources of added income were offset by an increase in interest charges equal to $.06 per share.

The improvements in financial performance that have taken place in the Company's operations are described in more detail in other sections of this report. The effective management of a company as complex as Rockwell International is aided to a significant extent by the existence of a comprehensive and sophisticated financial planning and control system. Using the resources of one of the nation's largest and most advanced data processing centers, the Company has developed and installed a financial management system that aids all levels of operating management in optimizing performance of the activities for which they are responsible. The overall system embraces long- and short-run business planning, the measurement of actual or forecasted performance against objectives or planned performance, and the identification and quantification of causal factors responsible for trends or variances. The existence of this complex of business systems and the related data processing hardware and software offers the Company an ancillary opportunity to develop and install business management systems for outside customers.

In June, the Company recognized a growing requirement for broadened contacts with the investment community by appointing Donald S. MacLeod, Vice President-Investor Relations. As a rapidly expanding multi-national, multi-market Company, Rockwell today requires a top-level executive to direct the wide spectrum of its relationships with a broad variety of institutional and private investors.

The Company's data processing capabilities, mentioned earlier, were expanded significantly during the year. The Southern California Data Processing Center was expanded by the integration of a number of satellite computers located in user's facilities to provide greater capacity and flexibility and improved customer service. Additionally, the Company is in the process of establishing several other major data processing centers elsewhere in the country. The magnitude of the Company's data processing resources is such that it is able to avail itself of the latest and best hardware, software, and communications devices and techniques.

The Audit Committee of the Board of Directors met a number of times during the year to review the Company's financial performance, to monitor and assess its internal financial controls and procedures, and to review the Company's internal and external audit programs. The Audit Committee helps assure the independence of our public accountants relationship with management which is beneficial to both the Company and its shareowners.

W. W. Booth
Senior Vice President, Finance and Administration

Sales and Earnings

Sales for the fiscal year ended September 30, 1973 were $3,179,049,000 up 19 per cent from last year's sales of $2,677,507,000. Commercial sales in 1973 increased to 60 per cent of total sales compared to 55 per cent in 1972.

Operating earnings for fiscal year 1973 were $126,163,000 up 32 per cent from $95,518,000 a year ago. The related primary earnings per common share rose to $4.08 from $2.94 in 1972, an increase of 39 per cent. The above amounts exclude an extraordinary credit of $4,820,000 or $.17 per share in 1973, substantially all of which resulted from the sale of the Company's Marine Division and an extraordinary credit of $8,164,000 or $.29 per share in 1972 resulting from the sale of a portion of the Company's common stockholdings of Envirotech Corporation and its interest in NHK Spring Company, Ltd., Tokyo, Japan.

Including extraordinary items for both years, earnings for 1973 were $130,983,000 up from $103,682,000 a year ago, and the related primary earnings per share rose to $4.25 in 1973 from $3.23 in 1972, an increase of 32 per cent.

The results for all periods have been restated to give effect to the merger with Rockwell Manufacturing Company on a pooling of interests basis.

The 1973 per share earnings are based on 28,203,000 average number of common shares outstanding during the year, after recognition of preferred dividend requirements of $11,058,000. Per share earnings for 1972 are based on 28,585,000 average number of common shares outstanding after preferred dividend requirements of $11,351,000.

Dividends

Cash dividends declared in 1973 on common stock totaled $1.65 per share compared with $1.50 in 1972. In August 1973 the quarterly dividend on common stock was increased from $.40 to $.45 per share. This was the third dividend increase in the past three years. The Board of Directors raised the regular dividend rate because of the Company's excellent performance in 1973 and its confidence in a continued strong earnings performance in the future.

Cash dividends of $4.75 ($1.1875 per quarter) and $1.35 ($.3375 per quarter) were declared on the Series A and Series B preferred stock, respectively.

Dividends declared on all classes of stock in 1973 totaled $57,208,000 or 44 per cent of net earnings for the year, compared with $52,768,000 or 51 per cent of net earnings for 1972.

Backlog

The total backlog on September 30, 1973 was $2.86 billion compared with $2.37 billion a year ago, a 21 per cent increase. The backlog of commercial and funded aerospace orders was $1.86 billion of which $855 million applied to funded Government orders. Unfunded aerospace orders amounted to $1.00 billion.

Funded Government orders include amounts which have been allotted under contracts by the procuring Government agency. Typically, only a portion of the price of a large Government aerospace contract is funded at the time work commences. Unfunded orders include portions of the prices (or estimated prices) that have not been funded. All Government contracts whether funded or unfunded are terminable at the convenience of the Government.

Approximately 66 per cent of the total North American Aerospace and Electronics Groups' backlog at September 30, 1973 relates to work expected to be performed during the 1974 fiscal year. The Automotive, Industrial Products, and Utility & Consumer Products Groups' backlog at September 30, 1973 relates to work which is to be largely performed during the 1974 fiscal year. Historically, backlog has been of greater significance in the business of the North American Aerospace and Electronics Groups than in that of the Company's other groups.

Research and Development

Research and development activities are conducted by all Groups of the Company and its Science Center.

Most of the North American Aerospace and Electronics Groups' research and development effort is concerned with developing, under contract, products for specific programs. These two Groups and the Science Center also perform research under study contracts with the Government. Costs under such study contracts amounted to approximately $25.2 million in 1973. In addition, these Groups and the Science Center spent about $40.8 million in fiscal 1973 on independent research and development, a large portion of which was recovered under Government contracts. Approximately 550 professional employees were engaged in study contracts and 1,000 professional employees in independent research and development.

The Automotive, Industrial Products, and Utility & Consumer Products Groups spent approximately $24.0 million in fiscal year 1973 on research and product development activities, with approximately 500 professional employees being involved in this activity.

Capital Expenditures

Expenditures on capital projects totaled $121,608,000 in fiscal 1973 compared to $107,371,000 in fiscal 1972. Depreciation and amortization charges increased to $71,309,000 in fiscal 1973 from $65,504,000 in fiscal 1972.

Capital expenditures during 1974 are currently budgeted at approximately $209,000,000. Provisions for depreciation and amortization during fiscal 1974 are expected to increase from 1973 levels.

Rockwell Repurchases Common Shares

The Company repurchased 1,458,361 shares of its common stock pursuant to a cash tender offer in May to buy the stock at $27.50 per share. This repurchase increased earnings per share by $.05 for 1973. These shares were purchased principally to reduce long-term dividend requirements and to provide treasury shares to meet commitments upon conversion of the Company's outstanding convertible securities and of its stock option plans.

Shareowners Information

Shareowners of record at the end of 1973 numbered 124,797. Included in the total are 114,213 common shareowners, 6,433 Series A preferred shareowners, and 4,151 Series B preferred shareowners. At the end of 1972, the Corporation had 116,799 shareowners of record; 106,008 common shareowners, 6,430 Series A preferred shareowners, and 4,361 Series B shareowners.

Rockwell shareowners live in all 50 states, the District of Columbia, the Canal Zone, Puerto Rico, the Virgin Islands, Canada and 42 other foreign countries on six continents.

Consolidated Balance Sheet

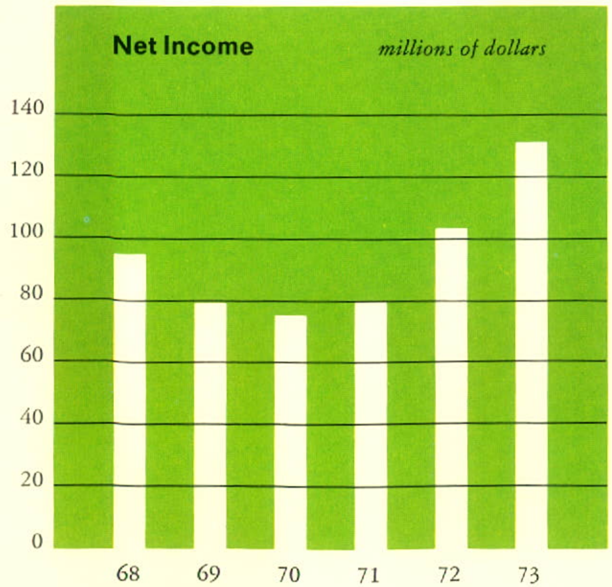
	September 30	1973	1972
Assets			
Current Assets	Cash and certificates of deposit	$ 90,955,000	$ 54,328,000
	Short-term investments—at cost, which approximates market	18,299,000	80,191,000
	Accounts and notes receivable:		
	United States Government	23,525,000	17,967,000
	Commercial, less allowance for doubtful accounts: 1973, $6,054,000; 1972, $5,387,000	380,452,000	274,365,000
	Unreimbursed costs and accrued profits to be billed, principally related to United States Government contracts	23,525,000	65,624,000
	Inventories	617,692,000	494,260,000
	Deferred United States income taxes	26,899,000	18,513,000
	Prepaid expenses and other current assets	20,210,000	21,569,000
	Total current assets	1,201,557,000	1,026,817,000
Investments		132,063,000	118,081,000
Property—At Cost	Land	48,957,000	44,708,000
	Improvements to land and leaseholds	41,519,000	40,868,000
	Buildings	304,964,000	292,820,000
	Machinery and equipment	735,457,000	682,399,000
	Furniture, fixtures, and office equipment	80,827,000	78,042,000
	Construction in progress	68,058,000	58,204,000
	Total	1,279,782,000	1,197,041,000
	Less accumulated depreciation and amortization	706,529,000	684,320,000
	Net property	573,253,000	512,721,000
Other Assets		107,308,000	82,840,000
	Total	$2,014,181,000	$1,740,459,000
Liabilities			
Current Liabilities	Notes payable	$ 102,171,000	$ 7,683,000
	Accounts payable	187,400,000	142,908,000
	Accrued payrolls and employee benefits	143,285,000	108,356,000
	Other accrued liabilities	164,370,000	166,879,000
	United States and foreign income taxes	70,343,000	33,165,000
	Dividends payable	2,747,000	2,819,000
	Total current liabilities	670,316,000	461,810,000
Long-Term Debt		340,817,000	313,507,000
Other Liabilities	Deferred United States and foreign income taxes	43,295,000	34,033,000
	Minority interests in subsidiaries	2,492,000	1,496,000
	Total other liabilities	45,787,000	35,529,000
Shareowners' Equity	Capital stock:		
	Preferred stock, without par value:		
	Series A (entitled in liquidation to $150,439,000)	3,723,000	3,723,000
	Series B (entitled in liquidation to $100,405,000)	2,510,000	2,699,000
	Common stock, $1 par value	27,245,000	28,685,000
	Additional capital	158,979,000	165,322,000
	Retained earnings	764,804,000	729,184,000
	Total shareowners' equity	957,261,000	929,613,000
	Total	$2,014,181,000	$1,740,459,000

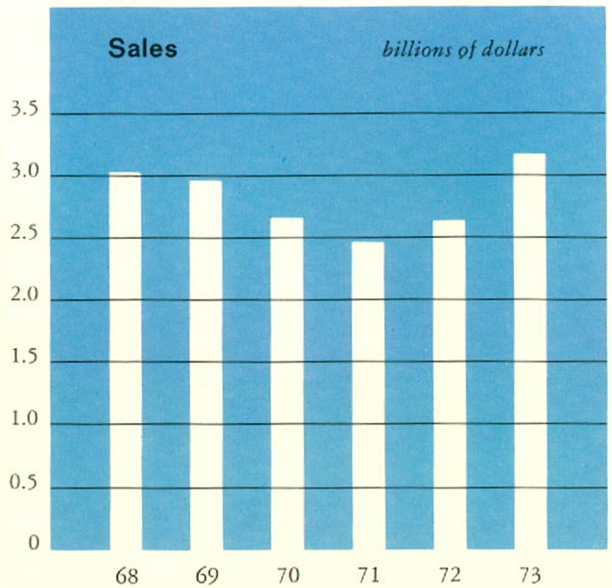
See notes to financial statements pages 34 through 41.

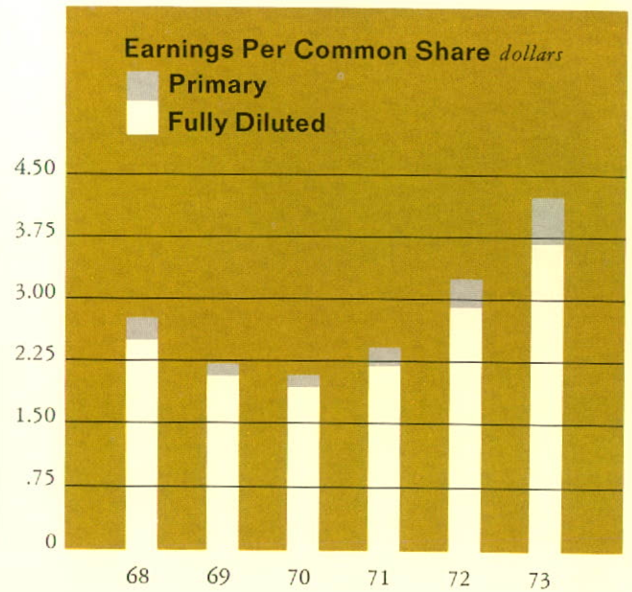
Consolidated Income

	Years Ended September 30	1973	1972
Sales and Other Income	Sales	$3,179,049,000	$2,677,507,000
	Other income	40,384,000	27,573,000
	Total	3,219,433,000	2,705,080,000
Costs and Expenses	Cost of sales and other operating charges	2,971,531,000	2,513,859,000
	Interest	27,065,000	24,033,000
	Minority interests	205,000	63,000
	Total	2,998,801,000	2,537,955,000
Income Before United States and Foreign Income Taxes, Etc.		220,632,000	167,125,000
United States and Foreign Income Taxes		94,469,000	71,607,000
Income Before Extraordinary Credit		126,163,000	95,518,000
Extraordinary Credit	(net of income taxes: 1973, $2,780,000; 1972, $3,748,000)	4,820,000	8,164,000
Net Income		$ 130,983,000	$ 103,682,000
Earnings Per Common Share	Primary:		
	Income before extraordinary credit	$4.08	$2.94
	Extraordinary credit	.17	.29
	Net income	4.25	3.23
	Fully diluted:		
	Income before extraordinary credit	3.56	2.65
	Extraordinary credit	.13	.22
	Net income	3.69	2.87

See notes to financial statements pages 34 through 41.







Consolidated Retained Earnings

		1973	1972
	Years Ended September 30		
Retained Earnings at Beginning of The Year	As previously reported		$598,357,000
	Restatement to give retroactive effect to Rockwell Manufacturing Company acquired in a pooling of interests		94,113,000
	As restated	$729,184,000	692,470,000
Add	Net income for the year	130,983,000	103,682,000
	Total	860,167,000	796,152,000
Deduct	Cash dividends declared:		
	Common (per share—1973, $1.65; 1972, $1.50)	44,030,000	32,959,000
	Preferred:		
	Series A (per share—$4.75 in each year)	7,146,000	7,146,000
	Series B (per share—$1.35 in each year)	3,912,000	4,205,000
	By Rockwell Manufacturing Company prior to acquisition	2,120,000	8,458,000
	Portion of cost of treasury stock purchased	38,155,000	14,200,000
	Total	95,363,000	66,968,000
Retained Earnings at End of The Year		$764,804,000	$729,184,000

Consolidated Capital Stock and Additional Capital

		Capital Stock			
		Preferred			
		Series A	*Series B*	*Common*	*Additional Capital*
Balance at October 1, 1971	As previously reported	$3,723,000	$2,921,000	$22,211,000	$138,844,000
	Restatement to give retroactive effect to Rockwell Manufacturing Company acquired in a pooling of interests			6,639,000	24,436,000
	As restated	3,723,000	2,921,000	28,850,000	163,280,000
Add (Deduct)	Issuance for purchased company			54,000	1,462,000
	Exercise of stock options		3,000	178,000	3,454,000
	Conversion of preferred stock		(225,000)	225,000	
	Portion of cost of treasury stock purchased			(622,000)	(3,106,000)
	Tax benefit arising from exercise of employee stock options				580,000
	Equity in capital transactions of affiliates				(348,000)
Balance at September 30, 1972		3,723,000	2,699,000	28,685,000	165,322,000
Add (Deduct)	Exercise of stock options		4,000	88,000	1,869,000
	Conversion of preferred stock		(193,000)	193,000	
	Portion of cost of treasury stock purchased			(1,721,000)	(8,435,000)
	Tax benefit arising from exercise of employee stock options				250,000
	Equity in capital transactions of affiliates				(27,000)
Balance at September 30, 1973		$3,723,000	$2,510,000	$27,245,000	$158,979,000

See notes to financial statements pages 34 through 41.

Consolidated Changes in Financial Position

Years Ended September 30		1973	1972
Resources Provided By	Income before extraordinary credit	$126,163,000	$ 95,518,000
	Add (deduct) items not requiring use of working capital:		
	Depreciation and amortization:		
	Property	71,309,000	65,504,000
	Intangibles	2,279,000	1,066,000
	Equity in income of unconsolidated subsidiaries and affiliates	(9,406,000)	(4,484,000)
	Deferred income taxes, etc.	8,752,000	9,067,000
	Total from operations, excluding extraordinary credit	199,097,000	166,671,000
	Proceeds from sale of businesses (including extraordinary credit)	26,336,000	
	Decreases in investments:		
	Proceeds from sale of investments (including extraordinary credit)		12,887,000
	Dividends received from affiliates	2,155,000	2,837,000
	Other	18,493,000	10,307,000
	Long-term borrowings	32,637,000	41,724,000
	Decreases in other assets	12,884,000	11,412,000
	Sales of property	13,487,000	12,886,000
	Issuances of capital stock (including common stock to retire convertible preferred)	2,154,000	5,376,000
	Other	510,000	2,251,000
	Total	307,753,000	266,351,000
Resources Applied To	Repayment of long-term debt	9,821,000	30,198,000
	Property additions	121,608,000	107,371,000
	Treasury stock purchases	48,311,000	17,928,000
	Cash dividends	57,208,000	52,768,000
	Increases in investments	21,623,000	7,885,000
	Increases in other assets	17,799,000	8,351,000
	Acquisitions of other businesses	59,277,000	12,761,000
	Other	5,872,000	3,125,000
	Total	341,519,000	240,387,000
	Increase (Decrease) in Working Capital	$(33,766,000)	$ 25,964,000
The Changes Within Working Capital Were As Follows	Increases (decreases) in current assets:		
	Cash and certificates of deposit	$ 36,627,000	$(11,508,000)
	Short-term investments	(61,892,000)	40,254,000
	Accounts and notes receivable	111,645,000	50,900,000
	Unreimbursed costs and accrued profits to be billed	(42,099,000)	(29,290,000)
	Inventories	123,432,000	47,921,000
	Deferred United States income taxes	8,386,000	8,412,000
	Prepaid expenses and other current assets	(1,359,000)	4,512,000
	Total	174,740,000	111,201,000
	Decreases (increases) in current liabilities:		
	Notes payable	(94,488,000)	(2,737,000)
	Accounts payable	(44,492,000)	(45,828,000)
	Accrued payrolls and employee benefits	(34,929,000)	(6,360,000)
	Other accrued liabilities	2,509,000	(33,638,000)
	United States and foreign income taxes	(37,178,000)	3,247,000
	Dividends payable	72,000	79,000
	Total	(208,506,000)	(85,237,000)
	Increase (Decrease) in Working Capital	$(33,766,000)	$ 25,964,000

See notes to financial statements pages 34 through 41.

Notes to Financial Statements

1 Summary of Significant Accounting Policies:

Consolidation and Equity Accounting. The consolidated financial statements include all significant majority-owned subsidiary companies. Investments in unconsolidated majority-owned subsidiaries and investments in common stock of affiliated companies owned 20% to 50% inclusive (affiliates) are accounted for on the equity method.

Foreign Currency Translation. Accounts of foreign subsidiaries and affiliates are translated into United States dollars as follows: Current assets, current liabilities and, beginning in fiscal 1973, long-term debt at year-end exchange rates; property and other noncurrent assets and liabilities at rates prevailing at dates of transactions; revenues and costs and expenses at average rates during the year except that depreciation and amortization charges are translated at exchange rates prevailing when the related assets were acquired. Beginning in 1973, net gains and losses relating to the translation of foreign currency long-term debt obligations are amortized by the interest method over the remaining life of the debt. Other translation gains are deferred to the extent they exceed previously recorded losses and other translation losses are included currently in consolidated net income. (See Note 14.)

Inventories. Inventories are stated at the lower of cost (average, FIFO, or LIFO methods) or market, less progress payments received on contracts as to which title to the related inventories vests in the United States Government.

Work in process inventories under United States Government fixed-price type contracts of the North American Aerospace and Electronics Groups are stated generally at the total of the direct costs of manufacturing, engineering, and tooling and overhead applicable thereto (including general and administrative expenses, bidding expenses, and independent research and development costs allowable in accordance with United States Government procurement practices), less costs allocated to delivered items and reductions, where applicable, to estimated realizable values. Portions of such inventories, which in general relate to long-term programs, are not expected to be delivered within one year but are included in current assets in accordance with industry practice.

Sales Under United States Government Contracts. Sales under cost-type contracts are recorded for costs, as incurred, plus a proportion of the profit expected to be realized on the contract in the ratio that costs incurred bear to total estimated costs. Sales under fixed-price-incentive contracts are recorded as deliveries are made at the cost of items delivered plus a proportion of the profit expected to be realized on the contract. The majority of the contracts contain cost or performance incentives which provide for increases in fees or profits for surpassing stated targets or decreases in fees or profits for failure to achieve such targets. Performance incentives for which a reasonable prediction of accomplishment cannot be made in advance are included in sales at the time there is sufficient information to relate actual performance to targets or other criteria. Profits expected to be realized on these contracts are based on the Company's estimates of total sales value and cost at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Losses on contracts are recorded in full as they are identified.

Installment Sales. Sales of printing presses made on installment terms are recorded and income therefrom is recognized at the time deliveries are made. Installment notes receivable applicable thereto, a portion of which mature after one year, are included in current assets in accordance with recognized trade practice.

Intangibles Resulting From Acquisitions and Investments In Affiliates. The intangibles resulting from acquisitions represent the unamortized portion of the excess of the cost of purchased businesses over their net assets at acquisition dates. Intangibles originating prior to November 1, 1970 are not being amortized because in the opinion of the Company there has been no decrease in their values. Intangibles arising after October 31, 1970 are being amortized by the straight-line method over forty years.

The intangibles resulting from investments in affiliates, which are included in the carrying value of such investments, represent the unamortized portion of the difference between the cost of the investments and the Company's equity in the underlying net assets of the affiliates at dates of investment. The Company's amortization policy with respect to these intangibles is the same as for intangibles resulting from acquisitions.

Research and Development Costs. Costs of independent research and development performed by the North American Aerospace and Electronics Groups are charged to work in process inventories to the extent allowable under United States Government procurement practices. Costs in excess of allowable amounts are charged against income. Research and development costs in connection with commercial activities of the Automotive, Industrial Products, and Utility & Consumer Products Groups are charged against income as incurred, except for development costs of commercial aircraft which are deferred and amortized over estimated future sales.

Retirement Plan Costs. It is the policy of the Company to fund accrued retirement plan costs. Costs with respect to the principal plans are actuarially computed using the "aggregate cost method" under which all presently unfunded costs, including prior service costs, and all changes in costs due to experience or other factors are spread over the remaining service lives of the participants. Costs with respect to the remaining plans are actuarially computed generally using the "entry-age-normal method" and include, in addition to current service costs, amortization of unfunded prior service costs based generally on a thirty-year period.

Depreciation and Amortization of Property. Depreciation and amortization of property of the North American Aerospace and Electronics Groups is based principally on accelerated methods. Depreciation and amortization of property of the Automotive and Industrial Products Groups is based principally on the straight-line method. Depreciation and amortization of property of the Utility & Consumer Products Group (formerly Rockwell Manufacturing Company) prior to the merger in February 1973 of Rockwell Manufacturing Company into the Company (see Note 2) was based principally on accelerated methods; however, effective with the merger depreciation and amortization of property acquired after that date is based on the straight-line method. This change in method to conform accounting practice did not have a material effect on consolidated net income.

Income Taxes. Taxes are provided, at appropriate rates, for items included in the income statement regardless of the period when such items are reported for tax purposes. Such provisions include taxes on earnings of subsidiaries which are intended to be remitted to the Company in the near future. The principal items that result in timing differences for financial and tax reporting purposes are installment sales, depreciation, property taxes, product warranties, commercial aircraft development costs, and equity in undistributed earnings of affiliates. Investment tax credits are recognized as a reduction of the provision for income taxes in the year the assets which give rise to the credits are placed in service.

2 Acquisitions:

In February 1973 Rockwell Manufacturing Company was merged into North American Rockwell Corporation and concurrently the name of North American Rockwell Corporation was changed to Rockwell International Corporation (the Company). Rockwell Manufacturing Company (now the Utility & Consumer Products Group of the Company) is engaged principally in the manufacture and sale of flow-measurement equipment, flow-control equipment, power tools, and plumbing fittings. Pursuant to the terms of the agreement and plan of merger, the Company issued 6,664,942 shares of its common stock for all of the outstanding shares of stock of Rockwell Manufacturing Company. The merger was accounted for as a pooling of interests and the consolidated financial statements are presented as though the companies had been combined throughout each period based on a fiscal year ended September 30. Accordingly, sales and net income for 1972 have been restated as follows:

	Sales	*Net Income*
As previously reported	$2,362,938,000	$ 86,083,000
Applicable to Rockwell Manufacturing Company	314,569,000	17,599,000
As restated	$2,677,507,000	$103,682,000

Sales, extraordinary credit, and net income (unaudited) of the constituent companies for the five-month period ended February 28 (the end of the interim period nearest the date of merger) were as follows:

	Sales	*Extraordinary Credit*	*Net Income*
North American Rockwell Corporation	$1,096,924,000	$4,820,000	$41,872,000
Rockwell Manufacturing Company	135,235,000		7,118,000

During 1973, the Company completed its purchase of the remaining interest in an affiliated group of foreign companies for $23,579,000. The Company also purchased several foreign and domestic businesses for cash of $25,451,000 in 1973 and for cash of $11,245,000 and 53,913 shares of common stock valued at $1,516,000 in 1972. The results of operations of these businesses were not material in relation to consolidated results of operations. A summary of the assets and liabilities recorded through the purchase of these businesses is as follows (all in thousands of dollars):

	1973	*1972*
Working capital	$ 8,750	$(2,169)
Property	32,263	12,352
Intangibles resulting from acquisitions	22,018	2,615
Other assets—net	1,844	3,223
Long-term debt assumed	(5,598)	(3,260)
Total net assets	59,277	12,761
Less carrying value of investment in affiliated group of foreign companies prior to purchase of remaining interest in 1973	10,247	
Cost of acquisitions for the year	$49,030	$12,761

3 Accounts and Notes Receivable:

Commercial accounts and notes receivable include installment notes receivable, relating to sales of printing presses, of $22,674,000 at September 30, 1972 and $28,866,000 at September 30, 1973, of which approximately $12,330,000 matures after September 30, 1974.

4 Inventories:

Inventories at September 30, 1973 and 1972 are summarized as follows:

	1973	1972
Finished goods	$113,967,000	$104,876,000
Work in process:		
United States Government contracts	78,753,000	105,252,000
Commercial	337,481,000	274,060,000
Raw materials, parts, and supplies	151,470,000	119,751,000
Total	681,671,000	603,939,000
Less allowance to reduce carrying value of certain inventories from a first-in, first-out basis to a last-in, first-out basis	37,469,000	32,105,000
Remainder	644,202,000	571,834,000
Less progress payments	26,510,000	77,574,000
Inventories—net	$617,692,000	$494,260,000

5 Investments:

Investments at September 30, 1973 and 1972 are summarized as follows:

	1973	1972
Investments in and advances to unconsolidated majority-owned subsidiaries	$ 34,314,000	$ 24,587,000
Investments in and advances to affiliates and other companies	58,897,000	58,287,000
Investment in Collins Radio Company	38,852,000	35,207,000
Total	$132,063,000	$118,081,000

The Company's principal unconsolidated majority-owned subsidiary is its wholly-owned finance subsidiary, Rockwell International Credit Corporation. Summary financial information for this subsidiary is as follows (all in thousands of dollars):

	1973	1972
Financial Position at September 30:		
Finance receivables—net	$ 97,633	$77,644
Receivable from parent company	5,643	13,904
Other assets	1,279	3,292
Total assets	$104,555	$94,840
Notes payable (guaranteed by parent company)	$ 82,000	$75,120
Other liabilities	2,989	1,662
Shareowner's equity	19,566	18,058
Total liabilities and shareowner's equity	$104,555	$94,840
Operations for the Year Ended September 30:		
Revenues	$ 8,180	$ 7,268
Net income	$ 1,508	$ 1,756

Investments in and advances to affiliates include the unamortized intangibles resulting from these investments which amounted to $6,487,000 and $9,518,000 at September 30, 1973 and 1972, respectively. Summary financial information for affiliates, combined as a group, for 1973 and 1972 and the Company's proportionate share therein is as follows (all in thousands of dollars):

	1973		1972	
	Total	Company's Share	Total	Company's Share
Total assets	$202,334	$72,253	$153,473	$59,224
Liabilities	75,652	26,003	68,988	27,420
Shareowners' equity	126,682	46,250	84,485	31,804
Revenues	230,579	90,385	155,227	60,962
Net income	23,660	9,504	12,636	3,516

The names and the Company's percentage of ownership of such affiliates at September 30, 1973 are listed below:

Domestic Companies:	*Percentage of Ownership*
Fairfield Manufacturing Company, Inc.	34.3
Geosource International, Incorporated	28.1
Golde-ASC Corporation	50.0
Foreign Companies:	
Aeronautica Agricola Mexicana, S.A.	30.0
Bramber Engineering Co., Ltd.	30.0
Braseixos Rockwell, S.A.	42.6
Brasprenas Rockwell, S.A.	29.9
G. Dikkers & Company N.V.	27.3
Howa do Brasil, S.A.	20.0
Ikegai-Goss Co., Ltd.	50.0
Industrias Erlo, S.A. de C.V.	20.0
Locker Air-Maze, Ltd.	40.0
Metalurgica Carabobo, S.A.	30.0
Moligal, Limitada	40.0
Narwin, S.A.	49.9
NHK-Rockwell Co., Ltd.	50.0
NHK-Teleflex-Morse Co., Ltd.	50.0
Rimoldi Espanola, S.A.	48.0
Rubery Owen-Rockwell, Ltd.	50.0
Rubery Owen-Rockwell (Mfg.) Ltd.	50.0
Teleflex G.m.b.H.	48.0

The Company's investment in Collins Radio Company (Collins) at September 30, 1973 and 1972 represented the cost of its purchase in September 1971 of 350,000 shares of $5 cumulative convertible preferred stock and warrants to purchase common stock of Collins, and, in 1973, accrued dividends on the preferred stock. As holder of all of the preferred stock of Collins, the Company had, and exercised, the right to elect a majority of the Board of Directors of Collins. Subsequent to September 30, 1973, the Company, as a result of its earlier tender offer to the shareholders of Collins common stock, acquired 2,225,103 shares or 75% of the Collins outstanding common stock at an approximate cost of $57,330,000. At a special meeting of the shareholders of Collins held on November 2, 1973, the merger of Collins into the Company was approved. The effective date of the merger is expected to be November 14, 1973. The estimated cost to the Company of acquiring the remaining outstanding Collins common shares and consummating the merger pursuant to the terms of the merger agreement is $19,170,000.

The following unaudited pro forma condensed balance sheet (in thousands of dollars) of the Company based on the Company's audited balance sheet and Collins unaudited balance sheet as of September 30, 1973 gives effect to the acquisition of Collins as if the acquisition, which is to be accounted for as a purchase, were consummated as of that date.

Current assets	$1,308,441
Investments	93,211
Property, plant, and equipment—net	663,731
Other assets	127,153
Total	$2,192,536

Current liabilities	$ 743,529
Long-term debt	445,959
Other liabilities	45,787
Shareowners' equity	957,261
Total	$2,192,536

Collins net assets at September 30, 1973 amounted to $57,138,000. The excess of the estimated purchase price over Collins net assets has been assigned to fair value adjustments and the intangible resulting from acquisition as summarized below (in thousands of dollars):

Estimated future tax benefit of Collins operating loss carryover and investment tax credits	$35,983
Reduction in Collins long-term debt to present value of future payments	7,611
Intangible resulting from acquisition (to be amortized over forty years)	14,620
Total	$58,214

During the past ten fiscal years, Collins sales, as reported to its shareholders, increased from $280,984,000 in 1964 to a high of $447,026,000 in 1968 after which sales declined to $250,416,000 in 1972; sales reported for 1973 were $350,273,000. For the corresponding periods, net income increased from $2,405,000 in 1964 to $13,014,000 in 1968 and thereafter declined to $432,000 in 1970 and losses of $46,643,000 and $63,846,000 (including abnormal provisions for loss aggregating $29,300,000 and $36,000,000) in 1971 and 1972, respectively; in 1973, Collins reported net income of $12,811,000 including an extraordinary credit of $5,663,000 resulting principally from tax benefits arising from prior year losses.

6 Other Assets:

Other assets at September 30, 1973 and 1972 are summarized as follows:

	1973	1972
Intangibles resulting from acquisitions	$ 73,996,000	$51,846,000
Deferred charges	16,665,000	13,304,000
Other	16,647,000	17,690,000
Total	$107,308,000	$82,840,000

7 United States Government Sales and Renegotiation:

Sales under United States Government contracts accounted for 40% of total sales in 1973 and 45% in 1972. Approximately 67% of the 1973 sales under these contracts were of the cost type, and approximately 21% were of the fixed-price-incentive type; corresponding percentages for 1972 were 53% and 33%, respectively.

The B-1 contract, which accounted for 31% of sales to the United States Government in 1973, is a cost-type contract under which all allowable costs, including overrun costs, are recoverable by the Company. If costs are estimated to exceed the contract target cost, the effect of such excess is recognized by the Company in recording fee applicable to the contract. The Company estimates a cost overrun on completion of this contract and, in accordance with its accounting policy, has reduced the effective fee rate used for calculating profit on the contract to take into account that estimated overrun plus a contingency provision deemed appropriate by senior management. The lower effective fee rate used for 1973 reduced the amount of profit recorded on the contract for the year from the profit that would have been recorded under the 1972 fee rate, in an amount not material in relation to consolidated net income for the year.

Substantially all sales under United States Government contracts are subject to the Renegotiation Act, which provides for recovery by the United States Government of any profits deemed excessive. Renegotiation proceedings have been completed for all years through 1967. The Company believes that no excessive profits were realized in subsequent fiscal years and, therefore, no provisions for renegotiation refunds have been made for these years.

8 Retirement Plans:

The Company has various retirement plans which cover most of its employees and which provide generally for monthly pension payments to eligible employees upon normal retirement at age 65. The total provision for retirement plan costs amounted to $68,204,000 for 1973 and $53,728,000 for 1972. The increase in costs is due principally to an increase in the number of participants and benefits under certain plans. The actuarially computed value of vested benefits, as of the most recent valuation dates, under certain plans exceeded the market value of fund assets and balance sheet accruals by approximately $92,454,000.

9 Long-Term Debt:

Long-term debt at September 30, 1973 and 1972 consisted of the following:

	1973	*1972*
4¼% convertible subordinated debentures, due 1991 (sinking fund payments sufficient to retire annually 6⅔% of the principal amount outstanding February 15, 1976, commence in 1977)	$ 50,000,000	$ 50,000,000
7.30% notes, due 1977, less $1,400,000 held in treasury at September 30, 1973	48,600,000	50,000,000
8.30% sinking fund debentures, due 1996 (sinking fund payments sufficient to retire $2,500,000 principal amount annually commence in 1977), less $2,000,000 held in treasury at September 30, 1973	48,000,000	50,000,000
5¼% sinking fund debentures, due 1991 (sinking fund payments sufficient to retire $2,500,000 principal amount annually), less $1,499,000 held in treasury at September 30, 1973	41,001,000	41,426,000
8½% sinking fund debentures, due 1995 (sinking fund payments of $1,750,000 annually commence in 1976)	35,000,000	35,000,000
6% bonds, due 1988 (redeemable through purchases by the Company of 20% of the original principal amount annually commencing in 1984, provided that purchases can be made at or below par)	25,932,000	
8¼% sinking fund debentures, due 1987 (sinking fund payments sufficient to retire $500,000, $2,000,000, and $3,000,000 principal amount annually commence in 1976, 1980, and 1983, respectively)	25,000,000	25,000,000
Forward	$273,533,000	$251,426,000
Forward	$273,533,000	$251,426,000
7¼% notes, due 1976	16,208,000	12,215,000
7¾% notes, due 1979 (sinking fund payments sufficient to retire $3,750,000 principal amount annually commence in 1977)	15,000,000	15,000,000
5⅞% sinking fund debentures, due 1987 (sinking fund payments sufficient to retire $900,000 principal amount annually), less $2,702,000 held in treasury at September 30, 1973	10,498,000	12,566,000
4½% sinking fund debentures, due 1978 (sinking fund payments sufficient to retire $720,000 principal amount annually)	8,640,000	9,360,000
4⅝% notes, payable in annual installments of $675,000	7,625,000	8,300,000
Other	14,523,000	7,914,000
Total	346,027,000	316,781,000
Less:		
Payments due within one year included in current notes payable	5,067,000	3,086,000
Unamortized discount	143,000	188,000
Net long-term debt	$340,817,000	$313,507,000

At September 30, 1973, long-term debt consisted of $292,398,000 payable in United States dollars and $53,629,000 representing the United States dollar equivalent at year-end exchange rates of amounts payable in foreign currencies. Aggregate maturities of long-term debt, after application of treasury bonds to sinking fund requirements, during the five years ending September 30, 1978 are as follows: 1974, $5,067,000; 1975, $6,170,000; 1976, $23,520,000; 1977, $65,287,000; 1978, $22,176,000.

The convertible subordinated debentures are convertible on the basis (subject to adjustment under certain conditions) of $46 principal amount of debentures for one share of common stock.

Among other covenants, certain of the long-term debt agreements contain limitations on creation of additional long-term debt and restrictions on payment of dividends and acquisition of treasury stock. Retained earnings at September 30, 1973 not so restricted amounted to approximately $117,000,000.

10 Capital Stock:

The authorized capital stock of the Company consists of 12,000,000 shares of preferred stock and 50,000,000 shares of common stock. The aggregate liquidation value of all shares of preferred stock at any time outstanding cannot exceed $650,000,000.

Each share of Series A preferred stock is convertible (subject to adjustment under certain conditions) into 2.4746 shares of common stock. Each share of Series B preferred stock is convertible (subject to adjustment under certain conditions) at any time into .9 of a share of common stock, or until June 30, 1979, upon payment to the Company of $10.125, into 1.125 shares of common stock. The Series A and Series B preferred stocks are stated in the accompanying financial statements at the aggregate par value of the number of shares of common stock into which such preferred stocks are convertible without cash payment.

The Company may redeem Series A preferred stock at a redemption price of $104.25 a share, decreasing annually to $100 a share after June 30, 1982, and Series B preferred stock after June 30, 1976 at an initial redemption price of $38 a share, decreasing annually to $36 a share after June 30, 1981.

No dividends may be paid on common stock unless the full amount of cumulative preferred dividends at the annual rate of $4.75 a share on Series A and $1.35 a share on Series B have been paid or declared.

Changes in shares of capital stock outstanding during 1972 and 1973 are summarized as follows:

	Preferred		
	Series A	*Series B*	*Common*
Shares outstanding, October 1, 1971:			
As previously reported	1,504,361	3,245,399	22,210,924
Restatement to give retroactive effect to Rockwell Manufacturing Company acquired in a pooling of interests			6,639,265
As restated	1,504,361	3,245,399	28,850,189
Shares issued in connection with:			
Exercise of stock options	56	3,611	178,870
Conversion of preferred stock	(24)	(249,619)	224,714
Purchase of a company			53,913
Shares purchased			(622,229)
Shares outstanding, September 30, 1972 (net of 2,600 Series A, 24,616 Series B, and 3,125,449 common shares held in treasury)	1,504,393	2,999,391	28,685,457
Shares issued in connection with:			
Exercise of stock options		4,566	87,959
Conversion of preferred stock		(214,918)	193,423
Shares purchased			(1,721,495)
Shares outstanding, September 30, 1973 (net of 2,600 Series A, 20,050 Series B, and 4,593,736 common shares held in treasury)	1,504,393	2,789,039	27,245,344

Shares of stock reserved for issuance at September 30, 1973 and 1972 were as follows:

	1973	*1972*
Common:		
For conversion of Series A preferred stock	3,729,257	3,729,257
For conversion of Series B preferred stock (including shares for additional conversion privilege: 1973, 634,502; 1972, 684,728)	3,172,509	3,423,639
For conversion of convertible debentures	1,086,957	1,086,957
For stock option plans:		
Options outstanding	986,642	782,997
Available for granting future options	722,000	335,240
For incentive compensation plan	125,000	125,000
Total	9,822,365	9,483,090
Series B preferred—for stock options outstanding	10,919	19,228

11 Employee Stock Option Plans:

Options to purchase common stock of the Company have been granted under various plans to officers and other key employees at prices equal to the fair market value of such stock on the dates the options were granted. Certain information relative to common stock options is summarized below.

	Number of Shares	*Aggregate Option Price*	*Corresponding Market Value*
Stock options, October 1, 1971:			
Outstanding	806,765	$16,353,000	$16,353,000*(a)*
Available for future grant	343,880		
Changes in stock options during 1972:			
Granted	247,482	7,639,000	7,639,000*(a)*
Became exercisable	228,310	4,767,000	6,633,000*(b)*
Exercised	178,870	3,524,000	5,819,000*(c)*
Expired	92,380	2,082,000	
Stock options, September 30, 1972:			
Outstanding	782,997	18,386,000	18,386,000*(a)*
Exercisable	185,195	4,198,000	
Available for future grant	335,240		
Changes in stock options during 1973:			
Granted	336,314	9,098,000	9,098,000*(a)*
Became exercisable	249,029	6,964,000	7,385,000*(b)*
Exercised	87,959	1,799,000	2,682,000*(c)*
Expired	44,710	1,038,000	
Stock options, September 30, 1973:			
Outstanding	986,642	24,647,000	24,647,000*(a)*
Exercisable	336,419	9,089,000	
Available for future grant	722,000		

(a) As of dates granted
(b) As of dates became exercisable
(c) As of dates exercised

Common stock options outstanding at September 30, 1973 have option prices ranging from $16.875 to $43.375 a share and expire at various dates from November 14, 1973 to November 10, 1982. No common stock options may be granted after November 30, 1982 under the existing plans.

In connection with the acquisition of two companies in prior years, the Company substituted options to purchase Series A or B preferred stock for outstanding options of the acquired companies. Information with respect to these options is summarized as follows:

	1973	*1972*	
	Series B	*Series A*	*Series B*
Exercised during the year:			
Shares	4,566	56	3,611
Exercise price	$17.75	$35.24	$14.19 to $33.31
Expired during the year	3,743		11,037
Outstanding at September 30:			
Shares	10,919		19,228
Option price	$33.31		$17.75 to $33.31

Options outstanding at September 30, 1973 expire on February 18, 1974.

In connection with the merger of Collins into the Company referred to in Note 5, each outstanding employee stock option to purchase Collins common stock under Collins stock option plan will be converted into an option to purchase shares of the Company's common stock. The number of shares subject to option will be equal to the product obtained by multiplying the number of shares of Collins common stock subject to option by a fraction the numerator of which shall be the fair market value of Collins common stock ($25 per share) and the denominator of which shall be the closing price of the Company's common stock on the New York Stock Exchange on the effective date of the merger. The exercise price per share of the Company's common stock shall be the price which bears the same ratio to the closing price of the Company's common stock as the exercise price per share of Collins common stock bears to $25. As of November 1, 1973, options for the purchase of 145,000 shares of Collins common stock were outstanding at option prices ranging from $14.125 to $24.875 a share.

12 United States and Foreign Income Taxes:

United States and foreign income taxes are summarized as follows:

	1973	1972
Current tax, before investment credits	$97,651,000	$77,554,000
Investment credits	(4,058,000)	(4,605,000)
Deferred tax—net	876,000	(1,342,000)
Total expense	$94,469,000	$71,607,000

Foreign taxes included in the total income tax provisions for 1973 and 1972 amounted to $15,339,000 and $10,516,000, respectively.

The consolidated effective tax rate varies from the current United States income tax rate of 48% mainly because of investment tax credits, lower tax rates applicable to certain foreign income and the treatment, as described below, of undistributed earnings of foreign subsidiaries and the Company's Domestic International Sales Corporation (DISC).

No provision has been made for United States income taxes on undistributed earnings of foreign subsidiaries and the Company's DISC which have been, or are intended to be, permanently reinvested for normal working capital requirements, capital expansion, and future acquisitions. Such undistributed earnings, exclusive of those amounts which if remitted in the near future would result in little or no tax by operation of applicable statutes currently in effect, aggregated approximately $38,000,000 at September 30, 1973. Provision for United States and foreign income taxes amounting to approximately $6,000,000 would have been made with respect to the $38,000,000 of undistributed earnings if such earnings had been remitted.

13 Extraordinary Credit:

The extraordinary credit for 1973 represents the net gain realized from the sale of the assets and business of the Company's Marine Division and Nartrans Corporation, a wholly-owned subsidiary. Sales and net income with respect to these businesses were not material.

The extraordinary credit for 1972 represents the net gain realized from the sale of a portion of the Company's common stock holdings of Envirotech Corporation and the Company's investment in NHK Spring Company, Ltd.

14 Foreign Operations:

Summarized financial information of foreign subsidiaries, exclusive of their investments in foreign affiliates, included in the consolidated financial statements is as follows (all in thousands of dollars):

	Total Assets		*Sales*		*Net Income (Loss)*	
	1973	*1972*	*1973*	*1972*	*1973*	*1972*
Canada	$ 85,511	$ 74,429	$170,780	$132,856	$ 8,653	$ 7,028
Europe	152,939	75,404	122,106	57,096	5,459	4,858
Other	40,413	19,417	20,249	3,197	660	(275)
Total	$278,863	$169,250	$313,135	$193,149	$14,772	$11,611
% to Consolidated Totals	13.8%	9.7%	9.8%	7.2%	11.3%	11.2%

The Company's aggregate investment in foreign affiliates amounted to $36,382,000 and $35,433,000 at September 30, 1973 and 1972, respectively. The Company's equity in the net earnings of such affiliates, after appropriate provision for United States income taxes, amounted to $7,668,000 and $3,496,000 for 1973 and 1972, respectfully.

In 1973 the Company changed its practice of translating foreign currency long-term debt obligations. Such obligations are now translated on the basis of current rather than historical exchange rates and related net gains or losses are amortized by the interest method over the remaining life of the debt. This change in practice, which was adopted to effect a better matching of costs with revenues and to reflect foreign currency obligations on a more conservative basis, increased long-term debt by $5,676,000, of which $1,089,000 has been amortized in 1973. Other translation adjustments included in consolidated net income for 1973 and 1972 were not material.

15 Earnings Per Common Share:

Primary earnings per common share are based on the weighted average number of common shares outstanding during each year (28,203,000 in 1973 and 28,585,000 in 1972). The computation takes into consideration preferred dividend requirements of $11,058,000 in 1973 and $11,351,000 in 1972, but does not include a negligible dilutive effect of stock options.

Fully diluted earnings per common share are based on the assumption that all convertible debentures and preferred stocks were converted at the beginning of the year and all dilutive stock options were exercised at the beginning of the year or date of grant, if later. The computation assumes the elimination of preferred dividends and convertible debenture interest expense (net of tax).

16 Commitments and Contingent Liabilities, Etc.:

Minimum future rental commitments (net of immaterial amounts of sublease rentals) under noncancellable leases relating principally to real properties for 1974 and thereafter are as follows: 1974, $11,386,000; 1975, $9,820,000; 1976, $8,739,000; 1977, $7,527,000; 1978, $6,916,000; 1979 through 1983, $29,277,000; 1984 through 1988, $26,205,000; 1989 through 1993, $14,854,000; after 1993, $7,823,000. Many of the leases contain renewal options and obligate the Company to pay property taxes and insurance premiums.

Total rental expense (net of immaterial amounts of sublease rentals) amounted to $40,401,000 and $38,595,000 for 1973 and 1972, respectively.

At September 30, 1973, the Company was contingently liable as guarantor with respect to indebtedness relating principally to unconsolidated subsidiaries in the approximate amount of $97,000,000.

The Federal Trade Commission issued a complaint dated May 10, 1971, alleging that the Company's acquisition in August 1968 of The Textile Machine Works (TMW) violated Section 7 of the Clayton Act. The Commission is seeking an order requiring, among other things, divestiture of TMW by the Company and prohibiting the Company for ten years from acquiring any interest in a concern engaged in the manufacture or sale of machines used to manufacture apparel and fabric for apparel anywhere in the United States. TMW's total sales for fiscal 1973 and 1972 were less than 2% of consolidated sales. The Company believes that the complaint is without merit and is defending its position in hearings before an Administrative Judge of the Commission.

There are various claims and suits pending against the Company which the Company believes either to be without merit or will not result in a substantial loss.

17 Proposed Merger:

The Company and Admiral Corporation have agreed in principle to the merger of Admiral Corporation into the Company. The proposed merger is subject to the negotiation of a definitive merger agreement and the approval by the directors of each company and the stockholders of Admiral Corporation. Under the terms of the proposed merger, the Company would exchange .56 of a share of its common stock for each outstanding share of Admiral Corporation common stock. Under such terms, the Company would issue approximately 3,300,000 shares of its common stock.

Opinion of Independent Certified Public Accountants

Haskins & Sells, Certified Public Accountants
One Wilshire Building, Los Angeles 90017

To the Directors and Shareowners of
Rockwell International Corporation:

We have examined the consolidated balance sheet of Rockwell International Corporation and consolidated subsidiaries as of September 30, 1973 and 1972 and the related statements of consolidated income, capital stock and additional capital, retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of Rockwell International Corporation and consolidated subsidiaries at September 30, 1973 and 1972 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

November 9, 1973

Six-Year Statistical Review

		Fiscal Years 1973
Results For the Year (A)	Sales	$3,179,049,000
	Income before United States and foreign income taxes, etc.	220,632,000
	United States and foreign income taxes	94,469,000
	Income before extraordinary credit	126,163,000
	Extraordinary credit	4,820,000
	Net income	130,983,000
	Earnings per share of common stock:	
	Primary (B):	
	Income before extraordinary credit	4.08
	Extraordinary credit	.17
	Net income	4.25
	Fully diluted (C):	
	Income before extraordinary credit	3.56
	Extraordinary credit	.13
	Net income	3.69
	Cash dividends	57,208,000
	Cash dividends per share of common stock (D)	1.65
	Retained net income for the year	73,775,000
	Payrolls and fringe benefits	1,418,715,000
	Expenditures for property (E)	153,871,000
	Depreciation and amortization of property	71,309,000
Year-End Position (A)	Current assets	$1,201,557,000
	Current liabilities	670,316,000
	Working capital	531,241,000
	Ratio of current assets to current liabilities	1.79
	Property—at cost	1,279,782,000
	Accumulated depreciation and amortization of property	706,529,000
	Net property	573,253,000
	Total assets	2,014,181,000
	Long-term debt	340,817,000
	Shareowners' equity	957,261,000
	Per share of common stock (F)	25.93
	Shares of capital stock outstanding:	
	Series A preferred	1,504,393
	Series B preferred	2,789,039
	Common	27,245,344
	Number of employees	100,341
	Floor area in use (square feet)	45,194,000
	Backlog (including unfunded orders)	$2,860,000,000

1972	1971	1970	1969	1968
$2,677,507,000	$2,491,014,000	$2,688,960,000	$2,944,024,000	$3,053,669,000
167,125,000	149,035,000	144,408,000	158,323,000	185,715,000
71,607,000	70,124,000	69,276,000	78,351,000	90,648,000
95,518,000	78,911,000	75,132,000	79,972,000	95,067,000
8,164,000	1,462,000	—	—	—
103,682,000	80,373,000	75,132,000	79,972,000	95,067,000
2.94	2.34	2.11	2.22	2.71
.29	.05	—	—	—
3.23	2.39	2.11	2.22	2.71
2.65	2.17	2.01	2.08	2.47
.22	.04	—	—	—
2.87	2.21	2.01	2.08	2.47
52,768,000	47,711,000	52,529,000	65,636,000	62,366,000
1.50	1.25	1.40	2.00	2.00
50,914,000	32,662,000	22,603,000	14,336,000	32,701,000
1,178,625,000	1,097,082,000	1,276,861,000	1,468,834 000	1,538,640,000
119,724,000	72,987,000	97,173,000	111,576,000	133,765,000
65,504,000	67,654,000	75,381,000	76,990,000	73,277,000
$1,026,817,000	$ 932,000,000	$1,069,151,000	$1,170,283,000	$1,181,583,000
461,810,000	386,765,000	503,360,000	540,915,000	471,832,000
565,007,000	545,235,000	565,791,000	629,368,000	709,751,000
2.22	2.41	2.12	2.16	2.50
1,197,041,000	1,120,614,000	1,104,119,000	1,062,838,000	986,293,000
684,320,000	650,873,000	627,302,000	589,660,000	541,444,000
512,721,000	469,741,000	476,817,000	473,178,000	444,849,000
1,740,459,000	1,607,888,000	1,728,529,000	1,808,817,000	1,725,046,000
313,507,000	298,624,000	349,534,000	373,692,000	351,091,000
929,613,000	892,532,000	859,226,000	879,152,000	868,894,000
23.40	21.67	20.51	19.42	18.92
1,504,393	1,504,361	1,504,368	1,443,119	1,475,639
2,999,391	3,245,399	3,285,206	3,932,854	4,044,321
28,685,457	28,850,189	28,796,434	30,550,679	30,430,107
92,192	84,766	94,385	117,860	134,380
43,118,000	42,313,000	44,105,000	44,450,000	46,037,000
$2,370,000,000	$2,570,000,000	$3,310,000,000	$3,110,000,000	$3,650,000,000

(A) Data give retroactive effect to companies acquired in transactions accounted for as poolings of interests and to the adoption in 1972 of the equity method of accounting for investments in common stock of affiliated companies owned 20% to 50% inclusive.

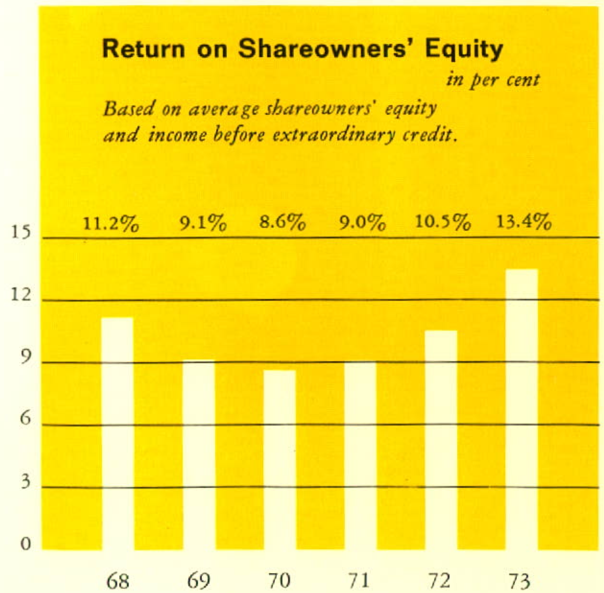
(B) Based on the weighted average number of common shares outstanding during the year and after recognition of applicable preferred dividend requirements.

(C) Based on the assumption that all convertible debentures and preferred stocks were converted at the beginning of the year and all dilutive employee stock options were exercised at the beginning of the year.

(D) Represents the historical cash dividends of Rockwell International Corporation.

(E) Includes property acquired through purchase of businesses.

(F) Based on the number of shares of common stock outstanding at the end of the year and after recognition of liquidation rights of preferred stock.



Transfer Agents, Registrars & Trustees

COMMON STOCK

Transfer Agents:

Mellon Bank, N.A.
2 Broadway, New York, New York 10004
Mellon Square, Pittsburgh, Pennsylvania 15230
First National Bank of Boston, Boston, Massachusetts 02102
Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois 60690
National Bank of Detroit, Detroit, Michigan 48232
Security Pacific National Bank, Los Angeles, California 90054
The Royal Trust Company, Toronto 1, Ontario

Registrars:

Mellon Bank, N.A.
2 Broadway, New York, New York 10004
Mellon Square, Pittsburgh, Pennsylvania 15230
The National Shawmut Bank of Boston, Boston, Massachusetts 02106
The First National Bank of Chicago, Chicago, Illinois 60690
Manufacturers National Bank of Detroit, Detroit, Michigan 48231
United California Bank, Los Angeles, California 90054
National Trust Company, Limited, Toronto 1, Ontario

Stock Exchange Listings:

(Symbol—ROK)
New York Stock Exchange
Boston Stock Exchange
Detroit Stock Exchange
Midwest Stock Exchange
Pacific Stock Exchange
PBW Stock Exchange
Switzerland:
Basel Stock Exchange
Geneva Stock Exchange
Lausanne Stock Exchange
Zurich Stock Exchange
The Toronto Stock Exchange

$4.75 CONVERTIBLE PREFERRED STOCK, SERIES A

Transfer Agents:

Mellon Bank, N.A.
2 Broadway, New York, New York 10004
Mellon Square, Pittsburgh, Pennsylvania 15230
First National Bank of Boston, Boston, Massachusetts 02102

Registrars:

Mellon Bank, N.A.
2 Broadway, New York, New York 10004
Mellon Square, Pittsburgh, Pennsylvania 15230
The National Shawmut Bank of Boston, Boston, Massachusetts 02106

Stock Exchange Listings:

(Symbol—ROK Pr)
New York Stock Exchange
Boston Stock Exchange

$1.35 CONVERTIBLE PREFERRED STOCK, SERIES B

Transfer Agents:

Mellon Bank, N.A.
2 Broadway, New York, New York 10004
Mellon Square, Pittsburgh, Pennsylvania 15230
The First National Bank of Chicago, Chicago, Illinois 60690

Registrars:

Mellon Bank, N.A.
2 Broadway, New York, New York 10004
Mellon Square, Pittsburgh, Pennsylvania 15230
Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois 60690

Stock Exchange Listing:

(Symbol—ROK Pr B)
New York Stock Exchange

4¼% CONVERTIBLE SUBORDINATED DEBENTURES

Trustee:

Mellon Bank, N.A.
Mellon Square, Pittsburgh, Pennsylvania 15230

*4⅞% CONVERTIBLE SUBORDINATED DEBENTURES

Trustee:

United States Trust Company of New York
45 Wall Street, New York, New York 10005

5¼% SINKING FUND DEBENTURES

Trustee:

Bankers Trust Company, P.O. Box 318, New York, New York 10015

7.30% NOTES
8.30% SINKING FUND DEBENTURES
8½% SINKING FUND DEBENTURES

Trustee:

The Chase Manhattan Bank (National Association)
1 Chase Manhattan Plaza, New York, New York 10015

Exchange Listing for Debentures and Notes:

New York Stock Exchange

*Effective November 14, 1973 Collins Radio Company was merged into Rockwell International, and Rockwell International assumed the obligation of these debentures.

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Design by George Tscherny, Inc.

Principal Foreign Subsidiaries and Affiliates

Australia	ROCKWELL-STANDARD OF AUSTRALIA LTD. *(Axles, brakes, transfer cases)*
	TELEFLEX- MORSE PTY. LTD. *(Cable control systems)*
Belgium	S. A. ROCKWELL BENELUX N.V. *(Gas metering and regulating stations)*
Brazil	*BRASEIXOS S.A. *(Axles, transfer cases)*
	*BRASPRENSAS S.A. *(Heavy metal stampings)*
	*HOWA DO BRASIL S.A. *(Looms)*
	ROCKWELL-FUMAGALLI S.A. *(Automotive and tractor wheels)*
Canada	ROCKWELL INTERNATIONAL OF CANADA LTD. *(Axles, brakes, suspension springs, torsion bars, bumpers, wheel covers, molded plastics, industrial gear products, printing presses and graphic arts equipment, aviation services, electronic calculators, iron castings, tools and dies.)*
	ROCKWELL MANUFACTURING OF CANADA LTD. *(Gas regulators; water, parking, and gas meters; plug valves, power tools, plumbing fittings)*
Chile	*COMPONENTES AUTOMOTRICES ROCKWELL-STANDARD Y CIA. LTDA. *(Leaf springs)*
France	MGD GRAPHIC SYSTEMS S.A. *(Sales of printing presses and graphic arts equipment)*
Germany, F.R.	H. T. GOLDE G.m.b.H. *(Automotive sun roofs and window regulators)*
	PRECISE G.m.b.H. *(Power tools)*
	ROCKWELL G.m.b.H. *(Gasoline engines)*
	J. B. ROMBACH *(Gas meters)*
	*TELEFLEX G.m.b.H. *(Cable control systems)*
Hong Kong	ROCKWELL VALVES INTERNATIONAL LTD. *(Valve sales)*
Ireland	DRAPER-ERIN LTD. *(Looms and accessories)*
Italy	VIRGINIO RIMOLDI & C. S.p.A. *(Industrial sewing machines)*
Japan	*IKEGAI-GOSS CO. LTD. *(Printing presses and graphic arts equipment)*
	*NHK-ROCKWELL CO. LTD. *(Axles)*
Mexico	AEROMETALES S.A. *(Aircraft parts)*
	*AERONAUTICA AGRICOLA MEXICANA S.A. *(Agricultural aircraft)*
	AUTONETICA S.A. *(Electronic components and calculators)*
	DRAPER DE MEXICO S.A. de C.V. *(Looms and accessories)*
	UNICOM FABRICA DE MEXICO S.A. *(Electronic calculators)*
Netherlands	INSTROMET B.V. *(Turbine-type gas meters)*
Netherlands Antilles (Curacao)	ELECTRONIC FABRIEK N.V. *(Electronic components)*
Portugal	*MOLIGAL LTDA. *(Automotive seating)*
South Africa	ROCKWELL-STANDARD OF SOUTH AFRICA LTD. *(Axles and brakes)*
Singapore	ROCKWELL SINGAPORE PRIVATE LTD. *(Industrial roller chain and cable control systems)*
Sweden	MGD GRAPHIC SYSTEMS SCANDINAVIA A.B. *(Sales of printing presses and graphic arts equipment)*
	TELEFLEX-SVENSKA A.B. *(Remote mechanical controls)*
United Kingdom	*BRAMBER ENGINEERING CO. LTD. *(Automotive leaf springs)*
	*LOCKER AIR-MAZE LTD. *(Air and oil filters)*
	MGD GRAPHIC SYSTEMS LTD. *(Printing presses and graphic arts equipment)*
	ROCKWELL FLOW CONTROLS LTD. *(Valve sales)*
	ROCKWELL-STANDARD LTD. *(Axles and brakes)*
	ROCKWELL-THOMPSON LTD. *(Axle housings and pressings)*
	*RUBERY OWEN-ROCKWELL LTD. *(Trailer axles and brakes)*
	SUMLOCK-ANITA LTD. *(Electronic calculators)*
	TELEFLEX-MORSE LTD. *(Cable control systems)*
Venezuela	*METALURGICA CARABOBO S.A. *(Automotive leaf and coil springs, and bumpers)*

*Indicates affiliate. Rockwell's ownership in affiliates is between 20 and 50 per cent. All companies listed above not preceded by an asterisk are subsidiaries, in which Rockwell's ownership is more than 50 per cent.

Rockwell International

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1700 East Imperial Highway, El Segundo, California 90245