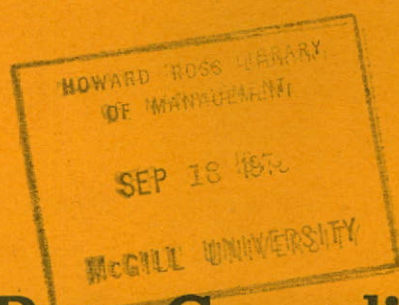


# PATO

## 1977 ANNUAL REPORT



**Pato Consolidated Gold Dredging Limited**



# **PATO CONSOLIDATED GOLD DREDGING LIMITED**

*(Incorporated under the laws of Bermuda)*

## **DIRECTORS**

Lewis B. Harder, *Chairman of the Board of the Corporation, Vice Chairman of the Board, Pacific Holding Corporation,*  
Los Angeles, California, U.S.A.

John W. Butterfield, *Partner,*  
*Rawlinson, Hunter, Butterfield & Co.,*  
*Chartered Accountants,*  
Hamilton, Bermuda

Geoffrey C. Colclough, *Secretary of the Corporation, Member of Appleby,*  
*Spurling & Kempe, Barristers,*  
Hamilton, Bermuda

John S. C. Goold, *President and Managing Director of the Corporation,*  
Hamilton, Bermuda

David H. Murdock, *Chairman of the Board, President, and Chief Executive Officer,*  
*Pacific Holding Corporation,*  
Los Angeles, California, U.S.A.

## **OFFICERS**

John S. C. Goold, *President and Managing Director*

Edward Moseley-Williams, *Vice President*

Patrick H. O'Neill, *Vice President*

Geoffrey C. Colclough, *Secretary*

## **AUDITORS**

Price Waterhouse & Co., *Chartered Accountants*

## **REGISTRARS AND TRANSFER AGENTS**

Bank of Bermuda  
Hamilton, Bermuda

Manufacturers Hanover Trust Company  
New York, New York, U.S.A.

## **BUSINESS DESCRIPTION**

Pato Consolidated Gold Dredging Limited was incorporated under the laws of British Columbia, Canada in 1934 to conduct gold dredging operations on the Nechi River in Colombia, South America. The Company sold the mining operations to Colombian investors in July 1974. In 1976 the Company transferred its domicile to Bermuda and was reincorporated there under The Companies Act of 1923. Pato continues its involvement in mining activities through its 16.5% interest in a Brazilian joint venture which mines and processes columbium at an open cut mine near Araxa, Brazil. Pato reviews mining properties and exploration ventures which become available. The Company also has substantial stock interests in other natural resource companies as well as unrelated industries and has recently acquired interests in certain resort hotel facilities.

## **CORPORATE OFFICE**

Washington Mall  
Church Street  
Hamilton 5, Bermuda

## **STOCK LISTING**

American Stock Exchange  
(Ticker symbol "PO")

## **STOCK PRICES**

	1977		1976	
	High	Low	High	Low
1st quarter	9 <sup>3</sup> / <sub>8</sub>	6 <sup>1</sup> / <sub>2</sub>	5 <sup>1</sup> / <sub>2</sub>	3 <sup>1</sup> / <sub>4</sub>
2nd quarter	9 <sup>1</sup> / <sub>4</sub>	7 <sup>7</sup> / <sub>8</sub>	5 <sup>3</sup> / <sub>8</sub>	4 <sup>3</sup> / <sub>8</sub>
3rd quarter	9 <sup>1</sup> / <sub>4</sub>	6 <sup>1</sup> / <sub>8</sub>	7 <sup>1</sup> / <sub>8</sub>	4 <sup>1</sup> / <sub>2</sub>
4th quarter	6 <sup>3</sup> / <sub>4</sub>	5 <sup>3</sup> / <sub>4</sub>	7 <sup>1</sup> / <sub>8</sub>	5 <sup>7</sup> / <sub>8</sub>



## DIRECTORS' REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors I am pleased to submit the forty-fourth Annual Report of the Company, together with the audited financial statements for the year ended December 31, 1977.

### INCOME

Income in 1977 from continuing operations was \$6,361,000 or \$1.82 per share compared to \$7,305,000 or \$2.09 per share in 1976. Income from discontinued operations was \$113,000 in 1977 compared to \$45,000 in 1976. Net income for 1977, including a gain of \$1,982,000 on the exchange of shares of Moly-corp, Inc. for shares of Union Oil Company of California, was \$6,474,000 or \$1.85 per share, compared to net income in 1976 of \$7,350,000 or \$2.10 per share.

The Company sold, in a private transaction on April 3, 1978, all of its 201,859 shares of Kaweck Berylco Industries, Inc. at \$29 per share. The sale resulted in a net gain of approximately \$2,900,000, equal to \$0.83 per share and will be reflected in income for the second quarter of 1978.

For information about the source of the Company's revenues, see the Financial Statements and the Summary of Operations in this Annual Report.

### DIVIDENDS

Two cash dividend payments of \$0.25 each per share were made on April 11 and October 11, 1977. Further dividends are payable as, when and if, declared by the Board of Directors.

### OPERATIONS

The Brazilian joint venture, Companhia Brasileira de Metalurgia e Mineracao (CBMM), in

which Pato has a 16.5% interest, reported lower sales and earnings due to lower demand in the steel industry, particularly pipelines, and to increased production by two competitors. CBMM produces and markets columbium concentrates and ferrocolumbium from a columbium ore deposit located near Araxa, State of Minas Gerais, Brazil. Columbium is used as an alloying agent to strengthen steels. Such steels are utilized in growing quantities in automotive, pipeline and structural applications. In automobiles these steels are used for weight reduction and safety. Columbium additions to steels for arctic-pipeline use promote increased strength and toughness at low temperatures. Demand for ferrocolumbium is cyclical and is affected by competition from vanadium for steel applications. Dividends, before withholding taxes, received in 1977 from CBMM totaled \$2,452,000, compared to \$2,663,000 in 1976.

Effective December 31, 1976, the Company decided to discontinue the operations of its wholly-owned subsidiary, Consolidated Purchasing and Designing, Incorporated (CP&D). Through CP&D Pato provided consulting, engineering, designing and purchasing services for dredging and mining operations. CP&D was sold in May 1977.

The Company recently acquired interests in hotels and resort facilities through Island Gem Enterprises, Ltd. N.V., a Netherlands Antilles corporation, in which it had a 7.6% interest at December 31, 1977. Additional purchases in 1978 increased the Company's interest to 16.3% with a total cost of \$823,467.

### EXPLORATION

CBMM continued its active exploration program in Brazil and obtained several mineral ex-

ploration rights as a result of this program: a columbium prospect in the State of Goias and three titanium prospects in the State of Minas Gerais. Primary emphasis is being given to the continued evaluation of one of the titanium properties, at which substantial mineralization has been established, but which requires further feasibility studies including metallurgical

test work and pilot plant testing to determine whether the material can be concentrated economically.

Pato wishes to expand its mining operations through other ventures and reviews properties and presentations of exploration ventures which become available.

On behalf of the Board,

John S. C. Goold  
*President and Managing Director*

Hamilton, Bermuda  
April 4, 1978

## **REPORT OF INDEPENDENT ACCOUNTANTS**

TO THE SHAREHOLDERS OF PATO CONSOLIDATED GOLD DREDGING LIMITED

We have examined the balance sheets of Pato Consolidated Gold Dredging Limited as of December 31, 1977 and 1976, and the related statements of income and retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Consolidated Purchasing and Designing, Incorporated, a wholly-owned subsidiary included in discontinued operations, which statements reflect a loss of \$138,000 in 1976. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for Consolidated Purchasing and Designing, Incorporated, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the financial statements present fairly the financial position of Pato Consolidated Gold Dredging Limited at December 31, 1977 and 1976, and the results of its operations and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America consistently applied.

Hamilton, Bermuda  
January 31, 1978

PRICE WATERHOUSE & CO.  
Chartered Accountants



PATO CONSOLIDATED GOLD DREDGING LIMITED  
**STATEMENTS OF INCOME AND RETAINED EARNINGS**

	For the Years Ended December 31	
	1977	1976
REVENUES		
Equity in net income of Brazilian joint venture (Note 4) . . .	\$ 4,003,230	\$ 5,210,530
Gain on sale and exchange of marketable securities (Note 3)	3,358,902	3,434,933
Interest income . . . . .	96,280	203,333
Dividends and other income . . . . .	534,648	301,283
	<u>7,993,060</u>	<u>9,150,079</u>
EXPENSES		
Administrative and general . . . . .	369,142	439,473
Interest . . . . .	165,816	77,066
Exploration . . . . .	1,077	119,266
	<u>536,035</u>	<u>635,805</u>
Income from continuing operations before income taxes . . .	7,457,025	8,514,274
Provision for income taxes (Note 6) . . . . .	1,095,598	1,209,570
Income from continuing operations . . . . .	<u>6,361,427</u>	<u>7,304,704</u>
(Loss) from discontinued operations, net of applicable income taxes (Note 2) . . . . .	—	(167,319)
Gain on sale or disposal of assets (Note 2) . . . . .	112,597	212,417
	<u>112,597</u>	<u>45,098</u>
Net income . . . . .	6,474,024	7,349,802
Retained earnings, beginning of year . . . . .	20,790,602	17,560,448
	<u>27,264,626</u>	<u>24,910,250</u>
Deduct: Dividends (\$0.50 per share in 1977 and \$1.18 in 1976)	1,751,185	4,119,648
Retained earnings, end of year . . . . .	<u>\$25,513,441</u>	<u>\$20,790,602</u>
Income per share:		
Income from continuing operations . . . . .	\$ 1.82	\$ 2.09
(Loss) from discontinued operations . . . . .	—	(0.05)
Gain on disposal of assets . . . . .	0.03	0.06
Net income . . . . .	<u>\$ 1.85</u>	<u>\$ 2.10</u>
Average number of shares outstanding . . . . .	<u>3,502,370</u>	<u>3,502,459</u>

PATO CONSOLIDATED GOLD DREDGING LIMITED

**BALANCE SHEETS**

**ASSETS**

	December 31	
	1977	1976
CURRENT ASSETS		
Cash .....	\$ 134,253	\$ 306,894
Investment in securities, at lower of cost or market (Notes 3 and 5) .....	816,582	—
Other receivables .....	57,915	40,741
Total current assets .....	1,008,750	347,635
INVESTMENT IN SECURITIES, at lower of cost or market (Notes 3 and 5) .....	24,894,361	19,041,085
INTEREST IN BRAZILIAN JOINT VENTURE (Note 4) .....	10,167,578	8,677,070
NET ASSETS OF DISCONTINUED OPERATIONS (Note 2) ..	—	301,865
OTHER ASSETS .....	449,085	8,310
	<u>\$36,519,774</u>	<u>\$28,375,965</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

CURRENT LIABILITIES		
Bank loan (Note 5) .....	\$ 5,300,000	\$ 1,900,000
Accounts payable .....	140,808	80,545
Total current liabilities .....	5,440,808	1,980,545
DEFERRED INCOME TAXES (Note 6) .....	365,390	343,864
	<u>5,806,198</u>	<u>2,324,409</u>
SHAREHOLDERS' EQUITY		
Share capital		
Authorized—5,000,000 shares of \$1 each ....	<u>\$5,000,000</u>	
Issued and fully paid—3,502,370 shares .....	3,502,370	3,502,370
Share premiums .....	2,764,655	2,764,655
Retained earnings .....	25,513,441	20,790,602
Shareholders' equity before valuation allowance .....	31,780,466	27,057,627
Net unrealized loss on noncurrent marketable equity securities (share of Brazilian joint venture unrealized loss) (Note 4) .....	(1,066,890)	(1,006,071)
Shareholders' equity .....	<u>30,713,576</u>	<u>26,051,556</u>
	<u>\$36,519,774</u>	<u>\$28,375,965</u>



PATO CONSOLIDATED GOLD DREDGING LIMITED  
**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	For the Years Ended December 31	
	1977	1976
FINANCIAL RESOURCES WERE PROVIDED BY:		
Income from continuing operations .....	\$ 6,361,427	\$ 7,304,704
Add (deduct) items included in income not affecting working capital:		
Equity in undistributed net income of Brazilian joint venture .....	(1,551,327)	(2,525,741)
Gain on sale of securities .....	(3,358,902)	(3,434,933)
Net increase in deferred taxes .....	21,526	6,739
Working capital provided by continuing operations .....	1,472,724	1,350,769
Working capital (decrease) resulting from dispositions of assets .....	405,478	(605,169)
Working capital (decrease) resulting from loss from discontinued operations .....	—	(115,739)
	405,478	(720,908)
Working capital provided by continuing and discontinued operations .....	1,878,202	629,861
Proceeds from sale of securities .....	4,435,342	10,424,520
Exchange of MolyCorp, Inc. shares .....	2,804,281	—
Reclassification of investment securities .....	816,582	—
Reduction of long-term notes receivable .....	—	3,493,566
Other—net .....	(31,790)	29,735
Total working capital provided .....	9,902,617	14,577,682
FINANCIAL RESOURCES WERE USED FOR:		
Dividends paid .....	1,751,185	4,119,648
Purchases of securities .....	8,146,299	12,820,741
Exchange of MolyCorp, Inc. shares .....	2,804,281	—
Reduction of other liabilities .....	—	1,141,886
Total working capital used .....	12,701,765	18,082,275
(Decrease) in working capital .....	\$ (2,799,148)	\$ (3,504,593)
CHANGES IN WORKING CAPITAL		
INCREASE (DECREASE) IN CURRENT ASSETS		
Cash .....	\$ (172,641)	\$ (77,607)
Short-term securities .....	—	(11,316,073)
Investment in securities .....	816,582	—
Current portion of notes receivable .....	—	(2,000,000)
Other receivables .....	17,174	(1,437,063)
Income taxes receivable .....	—	(281,621)
	661,115	(15,112,364)
(INCREASE) DECREASE IN CURRENT LIABILITIES		
Bank loan .....	(3,400,000)	10,400,000
Accounts payable .....	(60,263)	715,968
Accrued taxes .....	—	491,803
	(3,460,263)	11,607,771
(Decrease) in working capital .....	\$ (2,799,148)	\$ (3,504,593)



PATO CONSOLIDATED GOLD DREDGING LIMITED  
**NOTES TO FINANCIAL STATEMENTS**  
for the years ended December 31, 1977 and 1976

**NOTE 1 — SUMMARY OF  
SIGNIFICANT ACCOUNTING POLICIES**

Pato Consolidated Gold Dredging Limited is 64.4% owned by Pacific Holding Corporation.

During 1976 Pato Consolidated Gold Dredging Limited changed its domicile to Bermuda through the formation of a subsidiary to which it sold all of its assets in exchange for the subsidiary's shares.

The accompanying financial statements which have been prepared in conformity with accounting principles generally accepted in the United States of America are presented in United States dollars.

*Discontinued Operations*

Amounts applicable to discontinued operations are presented separately in the statement of income and at estimated realizable value in the December 31, 1976 balance sheet.

*Interest in Brazilian Joint Venture*

The Company, together with another United States corporation, exercises significant influence over the operations of its Brazilian joint venture, Companhia Brasileira de Metalurgia e Mineracao (CBMM), which is engaged in producing and marketing columbium concentrates and ferrocolumbium. Accordingly, the investment in CBMM is carried on the equity basis.

*Investment in Securities*

The Company's investments in securities are comprised of marketable equity securities and other securities. Current and noncurrent marketable equity securities are carried at the lower of aggregate average cost or aggregate market value. The amount by which the aggregate cost of noncurrent marketable equity securities exceeds the aggregate market value together with the Company's share of a similar provision recorded by its Brazilian joint venture is recorded

as a reduction of shareholders' equity. An excess of aggregate cost over aggregate market value of marketable securities expected to be disposed of within one year and classified as current assets would be charged to income. Other securities are carried at cost.

*Income Taxes*

The Company is not subject to income taxes in Bermuda. Deferred taxes are provided for withholding taxes expected to be payable upon anticipated remittances of the undistributed earnings of the Company's Brazilian joint venture. Taxes are also provided for withholding taxes on interest and dividend income from investments and U.S. income taxes are provided for the Company's wholly-owned subsidiary which was included in discontinued operations through the date of disposition.

**NOTE 2 — DISCONTINUED OPERATIONS**

In 1974 the Company sold its Colombian mining assets for \$16,000,000 at a gain of \$7,264,330 net of related income taxes. Of the total proceeds \$12,000,000 was payable in installments through 1979. During 1976 the remaining installments of \$5,493,566 were prepaid. In the fourth quarter of 1976 the Company recorded a credit of \$684,417 representing a reversal of prior tax accruals no longer needed, less the write-off of certain remaining assets of the Colombian branch in liquidation and considered unrecoverable.

Effective December 31, 1976 the Company decided to discontinue in 1977 operations of its wholly-owned subsidiary, Consolidated Purchasing and Designing, Incorporated (CP&D) a mining consulting and engineering company. CP&D was sold in May 1977. During 1977 funds were received pertaining to certain assets of CP&D previously written down. The recovery is presented as a gain on the disposal of assets of discontinued operations.



A summary of financial data related to discontinued operations is as follows:

	Colombian Branch	CP&D	Total
1977			
Net gain on sale of assets .....	\$ —	\$ 112,597	\$ 112,597
1976			
Revenues .....	\$ 39,750	\$ 327,367	\$ 367,117
(Loss) from operations, net of income tax benefit of \$62,000 .....	\$ (29,569)	\$ (137,750)	\$ (167,319)
Net gain (loss) on sale or disposal of assets:			
Adjustment of gain on sale originally recorded in 1974 .....	\$ 684,417	\$ —	\$ 684,417
Provision for (loss) on disposal of assets .....	—	(472,000)	(472,000)
	<u>\$ 684,417</u>	<u>\$ (472,000)</u>	<u>\$ 212,417</u>

### NOTE 3 — INVESTMENT IN SECURITIES

The noncurrent portfolio of securities held at December 31, 1977 and 1976 comprises the following:

	Companies	Number of Shares or Face Amount	Cost	Quoted Market Value
1977				
Marketable equity securities (carrying value-cost):				
Brandywine Sports Inc. ....	50,720	\$ 150,995	\$ 165,000	
Canadian International Power Co. Ltd. ....	23,100	27,389	26,000	
Canal Randolph Corp. ....	8,900	91,265	102,000	
General American Oil Company of Texas ....	66,126	1,522,947	2,091,000	
Inspiration Consolidated Copper Company ...	54,800	1,501,158	1,021,000	
Kennecott Copper Corporation .....	134,100	4,482,005	2,984,000	
Lomas & Nettleton Financial Corp. ....	18,800	192,356	183,000	
RLC Corp. ....	380,400	2,382,477	3,994,000	
Republic Corp. ....	26,300	285,445	286,000	
The Rouse Company .....	440,500	2,060,884	3,414,000	
Ticor .....	313,100	6,599,586	5,910,000	
Union Oil Company of California .....	50,301	2,804,281	2,660,000	
		22,100,788	22,836,000	
Other securities (carrying value-cost):				
Kawecki Berylco Industries, Inc. ....	194,559	2,793,573	3,429,000	
		<u>\$24,894,361</u>	<u>\$26,265,000</u>	
1976				
Marketable equity securities (carrying value-cost):				
Ex-Cell-O Corporation .....	35,400	\$ 1,090,853	\$ 912,000	
General American Oil Company of Texas ....	33,063	1,522,947	2,025,000	
Inspiration Consolidated Copper Company ....	43,800	1,245,648	1,161,000	
Kennecott Copper Corporation .....	134,100	4,482,005	3,721,000	
RLC Corp. ....	253,600	2,533,472	2,726,000	
The Rouse Company .....	440,500	2,060,884	2,092,000	
Wyman-Gordon Company .....	103,860	1,855,722	2,960,000	
Sitkin Smelting & Refining Co. ....	7,800	20,052	13,000	
		14,811,583	15,610,000	
Other securities (carrying value-cost):				
Molycorp, Inc. ....	48,600	821,840	1,895,000	
Kawecki Berylco Industries, Inc. ....	183,259	2,591,080	2,886,000	
RLC 6¼ % convertible debentures .....	\$1,266,000	816,582	956,000	
		<u>4,229,502</u>	<u>5,737,000</u>	
		<u>\$19,041,085</u>	<u>\$21,347,000</u>	



On July 29, 1977 the Company exchanged all shares of Molycorp, Inc. held for 50,301 common shares of Union Oil Company of California. The shares received have been valued at \$55.75 based on market quotations resulting in an unrealized gain of \$1,982,441.

At December 31, 1977 and 1976 the aggregate market value of the Company's portfolio exceeded cost; the valuation allowances charged to shareholders' equity represents the Company's share of the valuation reserve recorded by the Brazilian joint venture.

Subsequent to December 31, 1977 the Company's investment securities carried in current assets at \$816,582 were sold at a gain of \$512,718.

The gross unrealized gains were \$3,557,987 and \$1,830,669 and gross unrealized losses were \$2,822,775 and \$1,032,358 in the Company's noncurrent marketable equity securities at December 31, 1977 and 1976, respectively. At January 31, 1978 the market value of the marketable equity securities held at December 31, 1977 was \$21,611,000.

Securities carried at \$25,711,000 and \$1,207,000 have been pledged as collateral for the Company's bank loan at December 31, 1977 and December 31, 1976, respectively.

#### NOTE 4 — INTEREST IN BRAZILIAN JOINT VENTURE

The Company has a 16.5% interest in Companhia Brasileira de Metalurgia e Mineracao (CBMM). The amounts carried in the balance sheet at December 31, 1977 and 1976 include the cost of the investment plus equity in the undistributed earnings of the joint venture since acquisition, less equity in CBMM's unrealized loss on marketable equity securities. Dividends of \$2,451,903 and \$2,663,295 before withholding taxes were received in 1977 and 1976, respectively.

The Company's interest in CBMM is as follows:

	1977	1976
Equity in net assets ...	\$10,167,578	\$8,677,070
Equity in net income ...	\$ 4,003,230	\$5,210,530
Provision for withholding taxes .....	916,000	1,111,603
Net equity in CBMM's income .....	\$ 3,087,230	\$4,098,927

Condensed financial statement data for CBMM is as follows:

	1977	1976
Assets .....	\$68,567,000	\$58,301,850
Liabilities .....	6,947,000	5,713,550
Net assets .....	\$61,620,000	\$52,588,300
Net income .....	\$24,262,000	\$31,578,970

The net foreign currency translation loss included in CBMM's net income amounted to US\$6,043,000 in 1977 and US\$5,510,259 in 1976.

Withholding taxes expected to be payable on anticipated remittance of CBMM's undistributed earnings are included in deferred income taxes.

#### NOTE 5 — BANK DEBT

During 1977 maximum short-term borrowings were \$5,300,000. The daily average of such borrowings was \$2,179,000 at a weighted average interest rate of 7.6%. The interest rate on borrowings outstanding at December 31, 1977 was 8.25%.

During 1976 the maximum short-term borrowings were \$12,300,000. The daily average of such borrowings was \$1,093,000 at a weighted average interest rate of 7.0%.

Bank loans outstanding at December 31, 1977 are secured by all investment securities. There are no compensating balance agreements between the Company and the bank.

#### NOTE 6 — INCOME TAXES

The provision for income taxes on continuing operations in 1977 and 1976 comprises the following:

	1977	1976
Current provision for income taxes .....	\$1,074,072	\$1,202,831
Deferred provision for taxes .....	21,526	6,739
	\$1,095,598	\$1,209,570



NOTE 7 — QUARTERLY FINANCIAL INFORMATION — UNAUDITED

	(in Thousands)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1977				
Revenues .....	\$1,265	\$1,504	\$3,854	\$1,370
Expenses .....	93	157	113	173
Income from continuing operations before income taxes	1,172	1,347	3,741	1,197
Provision for income taxes .....	244	177	436	239
Income from continuing operations .....	928	1,170	3,305	958
Income from discontinued operations, net of applicable income taxes .....	—	101	—	12
Net income .....	<u>\$ 928</u>	<u>\$1,271</u>	<u>\$3,305</u>	<u>\$ 970</u>
Income per share .....	<u>\$0.27</u>	<u>\$0.36</u>	<u>\$0.94</u>	<u>\$0.28</u>
1976				
Revenues .....	\$1,268	\$4,503	\$1,753	\$1,626
Expenses .....	124	95	157	260
Income from continuing operations before income taxes	1,144	4,408	1,596	1,366
Provision for income taxes .....	317	357	337	198
Income from continuing operations .....	827	4,051	1,259	1,168
Income (loss) from discontinued operations, net of applicable income taxes .....	(21)	(30)	(46)	142
Net income .....	<u>\$ 806</u>	<u>\$4,021</u>	<u>\$1,213</u>	<u>\$1,310</u>
Income per share .....	<u>\$0.23</u>	<u>\$1.15</u>	<u>\$0.35</u>	<u>\$0.37</u>

NOTE 8 — EVENT (UNAUDITED) SUBSEQUENT TO DATE OF THE REPORT OF INDEPENDENT ACCOUNTANTS

On March 22, 1978 the Company announced that it had agreed to sell for cash all of its interest in Kawecki Berylco Industries, Inc. to Cabot Corporation at a price of \$29.00 per share. The transaction was consummated on April 3, 1978 and resulted in a net gain of approximately \$2,900,000, equal to \$0.83 per share.



## SUMMARY OF OPERATIONS *(Not covered by Auditor's report)*

	1977	1976	1975	1974	1973
REVENUES					
Equity in net income of Brazilian joint venture .	\$4,003,230	\$5,210,530	\$2,125,785	\$ 3,282,358	\$2,738,237
Gain (loss) on marketable securities, including reserve for possible loss of \$1,479,629 in 1974 (Note A) . . . . .	3,358,902	3,434,933	(983)	(1,301,596)	—
Interest income . . . . .	96,280	203,333	795,032	603,621	—
Foreign currency translation gain (loss) . . . . .	—	12,306	(33,676)	(70,394)	1,812
Dividends and other income . . . . .	534,648	288,977	490,800	250,526	274,148
	<u>7,993,060</u>	<u>9,150,079</u>	<u>3,376,958</u>	<u>2,764,515</u>	<u>3,014,197</u>
EXPENSES					
Administrative and general . . . . .	369,142	439,473	356,314	254,769	178,416
Interest . . . . .	165,816	77,066	61,963	125,462	132,220
Exploration . . . . .	1,077	119,266	103,708	215,810	103,233
	<u>536,035</u>	<u>635,805</u>	<u>521,985</u>	<u>596,041</u>	<u>413,869</u>
	7,457,025	8,514,274	2,854,973	2,168,474	2,600,328
Provision for income taxes .	<u>1,095,598</u>	<u>1,209,570</u>	<u>684,226</u>	<u>539,259</u>	<u>359,376</u>
Income from continuing operations . . . . .	6,361,427	7,304,704	2,170,747	1,629,215	2,240,952
Income (loss) from discontinued operations, net of applicable income taxes (Note B) . . . . .	—	(167,319)	17,568	1,168,445	1,543,542
Net gain on sale or disposal of assets, net of applicable income taxes (Note B) . . . . .	112,597	212,417	—	7,264,330	—
Net income . . . . .	<u>\$6,474,024</u>	<u>\$7,349,802</u>	<u>\$2,188,315</u>	<u>\$10,061,990</u>	<u>\$3,784,494</u>
Income per share:					
Income from continuing operations . . . . .	\$1.82	\$2.09	\$0.62	\$0.47	\$0.64
Net income . . . . .	\$1.85	\$2.10	\$0.62	\$2.87	\$1.08
Average number of shares outstanding . . . . .	3,502,370	3,502,459	3,502,500	3,502,500	3,502,500
Dividends per share . . . . .	\$0.50	\$1.18	\$0.45	\$0.51	\$0.20



## Notes to Summary of Operations *(Not covered by Auditor's report)*

- (A) On July 29, 1977 the Company exchanged all shares of Molycorp, Inc. held for 50,301 common shares of Union Oil Company of California. The shares received have been valued at \$55.75 based on market quotations resulting in an unrealized gain of \$1,982,441.
- (B) In 1974 the Company sold its Colombian mining assets for \$16,000,000 at a gain of \$7,264,330 net of related income taxes. Of the total proceeds \$12,000,000 was payable in installments through 1979. During 1976 the remaining installments of \$5,493,566 were prepaid. In the fourth quarter of 1976 the Company recorded a credit of \$684,417 representing a reversal of prior tax accruals no longer needed less the write-off of certain remaining assets of the Colombian branch in liquidation and considered unrecoverable.

Effective December 31, 1976 the Company decided to discontinue in 1977 operations of its wholly-owned subsidiary, Consolidated Purchasing and Designing, Incorporated (CP&D) a mining consulting and engineering company. CP&D was sold in May 1977. During 1977 funds were received pertaining to certain assets of CP&D previously written down. The recovery is presented as a gain on the disposal of assets of discontinued operations.

A summary of financial data related to discontinued operations is as follows:

	Colombian Branch	CP&D	Total
1977			
Net gain on sale of assets .....	\$ —	\$ 112,597	\$ 112,597
1976			
Revenues .....	\$ 39,750	\$ 327,367	\$ 367,117
(Loss) from operations, net of income tax benefit of \$62,000 .....	\$ (29,569)	\$ (137,750)	\$ (167,319)
Net gain (loss) on sale or disposal of assets:			
Adjustment of gain on sale originally recorded in 1974 .....	\$ 684,417	\$ —	\$ 684,417
Provision for (loss) on disposal of assets .....	—	(472,000)	(472,000)
	\$ 684,417	\$ (472,000)	\$ 212,417
1975			
Revenues .....	\$ 76,902	\$ 531,820	\$ 608,722
Income (loss) from operations net of income tax of \$70,000 .....	\$ (83,347)	\$ 100,915	\$ 17,568
1974			
Revenues .....	\$4,029,515	\$ 332,873	\$4,362,388
Income from operations, net of income taxes of \$782,000 .....	\$1,136,662	\$ 31,783	\$1,168,445
Gain on sale of Colombian assets, net of income taxes of \$915,000 .....	\$7,264,330	\$ —	\$7,264,330
1973			
Revenues .....	\$5,441,702	\$ —	\$5,441,702
Income from operations, net of income taxes of \$895,000 .....	\$1,543,542	\$ —	\$1,543,542



## Management Discussion and Analysis of Operations

### 1977-1976

The decline in earnings for 1977 resulted from (1) a decrease in equity in earnings of CBMM due to reduced volume in the steel industry, particularly pipelines, and to increased columbium production by two competitors, (2) lower interest income due to the fact that the balance of the long-term receivable from the sale of the Colombian operations was paid in full at the end of March 1976, (3) lower realized gains on sale of securities in 1977 which were, however, offset partially by a gain of \$1,982,000 on the exchange of shares of Molycorp, Inc. for shares of Union Oil Company of California as a result of the merger of Molycorp into Union Oil on July 29, 1977, and (4) an increase in interest expense reflecting the higher level of bank borrowings in 1977. The decline was partially reduced by (1) an increase in dividend income, (2) a decrease in administrative and general expenses from 1976 which included costs in connection with relocation to Bermuda, (3) a decline in exploration expenditures, and (4) a lower provision for income taxes in line with the decrease in the equity in earnings of CBMM. See Note 8 to Financial Statements for a gain realized in 1978.

### 1976-1975

The improvement in the earnings for 1976 was principally due to (1) increased equity in the earnings of CBMM reflecting increased demand for columbium and rising prices reversing the decline in the prior year, and (2) substantial capital gains on sales of marketable securities. This improvement was reduced by (1) lower interest income as notes receivable were prepaid in March 1976, (2) decreased dividend income, (3) increased administrative and general expenses including costs in connection with relocation to Bermuda, and (4) increase in taxes on equity in net income of CBMM.

### 1975-1974

The decline in earnings for 1975 results from (1) lower equity in earnings of CBMM in line with the general decline in economic activity, (2) the continuing inflationary increase in administrative and general expenses including legal expense related to the proposed relocation to Bermuda, (3) higher income taxes, and (4) substantially no income from discontinued operations. The decline was offset by (1) higher interest income, (2) higher dividends reflecting the increased holding of marketable securities, and (3) a decline in exploration expenditures.

### 1974-1973

The substantial improvement in earnings for 1974 was attributable to (1) increased equity in the earnings of CBMM reflecting the continuing increase in demand for columbium for the production of high-strength, low-alloy steels, (2) interest income on notes receivable relating to the sale of the Colombian mining assets, and (3) the non-recurring net gain realized on the sale of the Colombian mining assets. This increase was partially offset by (1) a reserve of \$1,480,000 for the impairment of the Company's investment in Chicago, Rock Island and Pacific Railroad Company, (2) rising administrative and general expenses due to inflation, (3) an increase in exploration expenses, (4) an increase in income taxes, and (5) lower income from discontinued mining operations in Colombia which were sold during 1974.







