

NOTES TO FINANCIAL STATEMENTS

Note 1—Principles of Consolidation and Shares Reserved: All subsidiary companies at December 31, 1968 are consolidated, including Abex Corporation and its subsidiaries and Waukesha Foundry Company acquired during 1968 in pooling of interests transactions. The accompanying statement of shareholders' equity shows the shares issued and other changes given effect to retroactively in the poolings. The statement of income includes the operations of the pooled companies during 1967 and 1968, principally in and representing a substantial portion of manufacturing operations. The statement of income for 1967 has also been restated to reclassify from other income the operating results of a manufacturing subsidiary purchased in 1965.

Financial statements of consolidated foreign subsidiaries of Abex Corporation, principally in Canada and West Europe, have been translated to their U. S. dollar equivalents at appropriate exchange rates. Net assets of these subsidiaries, including loans and advances by the parent, amount to \$41,578,099 at December 31, 1968 and their operations resulted in net losses of \$1,246,855 in 1968 and \$1,185,316 in 1967.

Reference is made to page 4 for information on the pending merger with Gulf, Mobile and Ohio Railroad Company. The trustee holdings in that company, representing approximately 17% of voting securities, are included in investments at cost of \$12,521,615. The unissued Series A, First Preferred Stock is reserved for issuance upon consummation of the merger and each share will be convertible at any time into three shares of common stock.

Unissued shares of stock are reserved for the employee stock option plans described on pages 38-39, as follows: 45,623 shares of Series 1, Second Preferred and 235,769 shares of Common. In addition, 4,885,597 shares of Common are reserved for conversion of the Series 1, Second Preferred and, when issued, Series A, First Preferred.

Note 2—Federal Income Taxes: The railroad subsidiaries are required to maintain their accounts in conformity with the rules and regulations of the Interstate Commerce Commission which do not provide for deferred income tax accounting. Although not recorded in the accounts of the railroad subsidiaries, appropriate deferred income tax provisions have been reflected in the consolidated financial statements. For the year 1968 the computation of the provision for deferred income tax was changed to the "comprehensive deferred credit" method required by Opinion No. 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants. This change, which includes the investment tax

credit, increased 1968 income by approximately \$4,700,000 (\$.75 per share) over what would have been reported under the deferred tax procedures used in prior years.

Investment tax credits applied under the "flow-through" method in reduction of provisions for Federal income taxes were \$4,478,000 (including \$1,108,000 applicable to the tax on the extraordinary credit) in 1968 and \$3,891,000 in 1967. At December 31, 1968, for financial statement purposes, investment tax credit carryovers of approximately \$11,700,000 are available to offset up to 50% of future years provisions for Federal income taxes. These carryovers expire \$1,200,000 in 1969, \$1,700,000 in 1970 and the balance in subsequent years; however, with the additional earnings generated by recent acquisitions management anticipates that the entire investment credit carryover will be used before expiration.

Note 3—Air Rights and Extraordinary Credits: Other income includes gains of \$3,946,000 in 1968 and \$2,985,000 in 1967 from sale of land, etc., in the Chicago air rights area.

Extraordinary credits in 1968 are gains of \$8,809,000 (\$7,494,000 after applicable deferred income taxes) realized upon disposition of transportation operating properties under threats of condemnation. Since the proceeds received are to be invested in replacement facilities, no Federal income taxes on the gains are payable currently.

Final determination and settlement of the additional freight revenue and interest receivable under the Transcontinental Divisions Case is now expected during 1969. As a result of a decision by the Supreme Court of the United States, the estimated amount receivable of \$5,752,000 was recorded in 1967 including as an extraordinary credit the portion allocated to prior years of \$3,446,000 (\$2,542,000 net of income tax). When final determination has been made of the amount receivable, the difference from the estimate, if material, will be recorded as a restatement of 1967 rather than an adjustment of current income.

Note 4—Earnings per Share: The before preferred conversion per share data are based on the average number of common shares outstanding during each year after giving retroactive effect to a 2 for 1 split in March 1967 and the common shares and the \$9,154,000 annual dividend requirements on preferred shares issued in pooling of interests in 1968.

After full preferred conversion per share data includes the common shares that would have been outstanding during each year if the Series 1, Second Preferred stock had been converted.