

Rec.

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

WILLIAM B. WEINBERGER,)
)
Plaintiff,)
)
v.) Civil Action No. 5642
)
UOP, INC., THE SIGNAL)
COMPANIES, INC., SIGCO)
INCORPORATED, LEHMAN BROTHERS)
KUHN LOEB, INC. CHARLES S.)
ARLEDGE, BREWSTER L. ARMS,)
ANDREW J. CHITIEA, JAMES)
V. CRAWFORD, JAMES W.)
GLANVILLE, RICHARD A. LENON,)
JOHN O. LOGAN, FRANK J.)
PIZZITOLA, WILLIAM J. QUINN,)
FORREST N. SHUMWAY, ROBERT)
S. STEVENSON, MAYNARD P.)
VENEMA, WILLIAM E. WALKUP)
and HARRY H. WETZEL,)
)
Defendants.)

FILED
JUL 5 4 26 PM '79
REGISTERED CHANCERY
JOHN D. KELLY III

COMPLAINT
(CLASS ACTION AND DERIVATIVE ACTION)

General Allegations

1. Plaintiff is a stockholder of UPO, Inc. and has been at all times pertinent to this complaint.

2. UPO, Inc. ("UOP"), The Signal Companies, Inc. ("Signal") and Sigco Incorporated ("Sigco") are all corporations of the State of Delaware. Lehman Brothers Kuhn Loeb, Inc. ("Lehman Brothers") is a Maryland corporation qualified to do business in Delaware.

3. The plaintiff brings this action (1) in his own behalf, (2) as a class action for the benefit of all stockholders of UOP as of May 26, 1978, and (3) derivatively for

the benefit of UPO.

4. On May 26, 1978, James V. Crawford was President and chief executive officer of UOP; Charles S. Arledge, Brewster L. Arms, Andrew J. Chithea and John O. Logan were officers of UOP; James W. Glanville was a managing director and a member of the Board of Lehman Brothers; and Messrs. Arledge, Arms, Chithea, Walkup and Wetzell were employees and directors of Signal. All of the individual defendants were elected as directors of UOP at the stockholders meeting held on May 26, 1978 ("the management and Board").

5. On May 26, 1978, Signal owned about 50.5% of UOP's outstanding stock (excluding shares held in UOP's treasury). Signal had acquired a portion of its interest through a tender offer for shares of UOP in 1975 at \$21.00 per share.

6. Signal, management and the Board and Lehman Brothers (UOP's investment banker) all stood in a fiduciary relationship to the plaintiff and outside or minority shareholders ("outside shareholders"), which duty included, among other things, the duty of (1) affirmatively taking steps to prevent a merger without a bonafide purpose, (2) of opposing a merger whose purpose was to eliminate the outside shareholders, (3) of opposing a merger in which the outside stockholders could be cashed out at an unfair price, and (4) of refusing to enter into a plan, conspiracy or scheme with others to accomplish any of the above.

7. UOP's current performance and immediate and long range prospects were excellent as the management and Board

Signal and Lehman Brothers well knew.

8. On February 28, 1978, Crawford, a director of Signal and UOP's President and chief executive officer, agreed with officers of Signal on a plan for the merger into UOP of a wholly owned subsidiary of Signal, Sigco. Crawford agreed and it was publicly announced that the cash-out price for the outside shareholders would be \$21.00 per share.

9. The plan which Crawford and Signal had agreed to on February 28, 1978, was presented to the Board on March 6, 1978. An opinion on the fairness of the \$21.00 price was allegedly prepared and presented to the Board by UOP's investment banking firm, Lehman Brothers, by James W. Glanville, a managing director of Lehman Brothers and also a director of UOP. The plan was allegedly considered by the Board.

10. The directors of UOP, other than James V. Crawford, employed by Signal and directors of Signal (Shumway, Walkup, Chitica, Arledge and Wetzel) purported not to vote for the proposed plan of merger which would eliminate the outside stockholders but stated publicly at page 9 in the Proxy Statement (a copy of which is hereto attached as Exhibit "A"), that but for their employment by Signal, they would have voted to approve the merger and to recommend the merger to UOP's outside stockholders.

11. On or about May 5, 1978, a proxy statement was mailed to the outside stockholders stating, inter alia, in bold face type, that "Management recommends a vote in favor of approving the merger agreement".

12. On May 26, 1978, the annual meeting of stockholders was held and the plan of merger proposed and recommended to the stockholders was approved by more than two-thirds of the majority of shares other than those owned by Signal and subsequently steps have been taken to effectuate the plan of merger referred to.

Class Action Count

13. The plan of merger was illegal in that it did not have a bonafide business purpose: its purpose was to eliminate the equity interest of the outside shareholders.

14. The price of \$21.00 per share forced on the outside shareholders was grossly inadequate.

15. The amount was set by James V. Crawford, chief executive officer of UOP, but a director of Signal, in consultation with officers of Signal, without an independent opinion of the value of the shares of outside shareholders and without arm's length bargaining on their behalf. The cash-out price was never raised after it was first agreed upon.

16. The opinion obtained and submitted to the Board and presented to the outside stockholders of Lehman Brothers was an opinion obtained after the price was set by James V. Crawford, a director of Signal, and officers of Signal. The opinion was obtained not from an independent investment adviser acting in the interest of the outside stockholders but was from a member of a Board elected and dominated by the majority stockholder, Signal.

Derivative Count No. 1

17. The management and Board was dominated by Signal which owned 50.5% of the stock of UOP. The Board and management of UOP entered into a plan, conspiracy or scheme with Signal to the detriment of UOP and for the benefit of Signal to eliminate the equity interest of the outside stockholders by means of the merger and the cash-out of the stockholders. In furtherance of this plan, the management and Board and Signal purported to hire Lehman Brothers to give an opinion for \$150,000.00 that the price of \$21.00 was fair and equitable to the outside stockholders of UOP, knowing that James W. Glanville, a managing director of Lehman Brothers, was a director of UOP, having been elected by the votes of Signal.

Derivative Count No. 2

18. There was a plan, conspiracy or scheme between Signal, the management and Board and Lehman Brothers to the detriment of UOP and for the benefit of Signal. They conspired to deprive the outside stockholders of their interest in UPO by a merger which had no purpose other than to obtain the outside stockholders' equity interest. They knew (1) that the price contained in the merger of \$21.00 was not the result of an arm's length bargaining, (2) that the price was inadequate and (3) that there had been no proper independent evaluation of the \$21.00 cash-out price. They jointly made it appear to the outside stockholders that their interests had been properly evaluated by independent members of the management and the Board and an independent investment firm and that the merger proposal, including the price, was fair

and equitable to the outside shareholders after an independent evaluation by a disinterested Board and a disinterested investment house. On the contrary, however, there was no arm's length negotiation of price, no independent evaluation by an investment banking firm free of the domination of Signal and no independent consideration by management and members of the Board free of the domination of the majority stockholder. The plan, conspiracy and scheme included the retention of Lehman Brothers at a price of \$150,000.00 to render an opinion in furtherance of the plan that the price was fair.

19. Demand upon UOP's directors to bring an action would be of no avail:

(a) Since the action complained of is one which the individual defendants have done themselves;

(b) If the defendants were to take over the litigation, there would be an irreconcilable conflict of interest; and

(c) The acts complained of, being wrongs to UOP by the management and the Board, can not be approved or ratified by the directors.

20. The plaintiff and the class have no adequate remedy at law.

WHEREFORE, the plaintiff prays that the Court enter an order:

1. Certifying the plaintiff as the class representative.

2. Rendering judgment for the plaintiff and the class for the losses incurred by the class as a result of the acts of the defendants.

3. Assessing and awarding UOP damages for the losses caused and sued for derivatively.

4. Awarding the plaintiff the costs and expenses of this litigation, including reasonable attorneys' fees.

5. Granting such other and further relief as may be just.

PRICKETT, WARD, BURT & SANDERS

By 

WILLIAM PRICKETT
1310 King Street
Wilmington, Delaware 19899
Attorney for Plaintiff

Notice of
Annual Meeting of Stockholders
and Proxy Statement
1978

card.

uop Inc.

EXHIBIT "A"



Ten UOP Plaza - Des Plaines, Illinois 60016

Dear Stockholder:

I am pleased to forward the enclosed Notice of Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 26, 1978 to consider the merger of Sigco Incorporated, a wholly-owned subsidiary of The Signal Companies, Inc. ("Signal"), into UOP Inc. and thereby cause UOP Inc. to become a wholly-owned subsidiary of Signal. You are cordially invited to attend the meeting.

The merger is complex and therefore the enclosed materials are somewhat longer than usual and present for your careful reading a formidable document. The extensive information is required by the Securities and Exchange Commission as being relevant to the proposed action to be taken by the stockholders. Therefore, the Proxy Statement deserves your close attention—it involves important matters for your consideration.

The Board of Directors recommends your approval of these actions, which will merge Sigco Incorporated into UOP Inc., convert UOP's common stock into a right to receive \$21 per share and result in UOP's becoming a wholly-owned subsidiary of Sigco. The other matters covered in the Proxy Statement include the election of directors and advice with respect to the selection of independent auditors for 1978 by the Board of Directors upon the recommendation of its Audit Committee.

Please study the enclosed Proxy Statement carefully and then exercise your important right as a stockholder by filling out and returning the enclosed proxy card.

Sincerely,

A handwritten signature in cursive script that reads "James V. Crawford". The signature is fluid and elegant, with the first and last names being more prominent.

James V. Crawford, President
and Chief Executive Officer



UOP INC.

Ten UOP Plaza

Des Plaines, Illinois 60016

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 26, 1978

The Annual Meeting of the Stockholders of UOP Inc. will be held at World Headquarters, UOP Inc., Ten UOP Plaza, Mt. Prospect and Algonquin Roads, Des Plaines, Illinois, on Friday, May 26, 1978 at 10 o'clock in the forenoon (Central Daylight Saving Time) for the purpose of considering and acting upon the following:

1. A proposal to approve the Merger Agreement attached to the accompanying Proxy Statement as Appendix B, under the terms of which Sigco Incorporated, a wholly-owned subsidiary of The Signal Companies, Inc. ("Signal"), would be merged into UOP, UOP would become a wholly-owned subsidiary of Signal, each share of UOP Common Stock held by stockholders other than Signal would become a right to receive \$21 cash, subject to appraisal rights, and the Certificate of Incorporation of UOP would be amended to provide that its authorized shares would be 1,000 shares of Common Stock, par value \$2.00 per share, all as described in the accompanying Proxy Statement;
2. The election of 14 directors; and
3. Such other business as may properly come before the meeting.

In accordance with the By-Laws, the close of business on March 31, 1978 has been fixed as the record date for the determination of the stockholders entitled to notice of and to vote at the said meeting and at any adjournment thereof.

It is the sincere desire of management of the Company to have the maximum number of stockholders present in person or by proxy. To assure your representation at the meeting, please sign, date and return the enclosed proxy promptly. Your cooperation in returning your proxy promptly is essential and will be very much appreciated.

You may use the enclosed envelope to which no postage need be affixed if mailed in the United States. If you attend the meeting, you may revoke your proxy and vote in person, if you desire.

By Order of the Board of Directors

Dated: May 5, 1978

M. B. Peek, Secretary

The management will appreciate the voting of your shares at the meeting. Please date, sign and return the enclosed proxy promptly. If you attend the meeting, you may revoke your proxy and vote in person.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
Introduction	3	Petroleum and Petrochemical Services and Related Products	20
Summary	3	Process Licensing and Royalties	20
Terms and Effects of the Proposed Merger	3	Engineering, Guarantee and Service Agreements	20
Vote Required to Approve Merger—Voting Rights—Other Matters of Business	4	Process Catalysts	21
Proposed Purchases of UOP Common Stock by Signal	5	Construction	21
Business and Recent Financial History of UOP ..	5	Procon	21
Interests of Directors and Officers in the Outcome of the Merger	5	Air Correction Division	22
Market Price Information	6	Fabricated Metal Products	22
Appraisal Rights	6	Transportation Equipment Products	23
Federal Income Tax Consequences	6	Chemical and Plastics	23
Signal and Sigco	6	Other Products and Services	24
Business of Signal and Sigco	6	Research and Development—Patents	24
Source of Funds	7	Employees	25
Signal's Purposes—Proposed Purchases of UOP Common Stock by Signal	7	Employees Engaged in Each Line of Business as of December 31, 1977	25
The Proposed Merger	7	Termination Date of a Major Collective Bargaining Agreement	26
The Merger Agreements	7	Litigation	26
Effectiveness of the Merger	7	Properties of UOP	27
Conversion of Shares of Common Stock—Requirements of Delaware Law	7	World Headquarters	27
Surrender of Certificates and Payment	8	Petroleum and Petrochemical Services and Related Products	27
Status of Stock Options	8	Construction	27
Amendment of UOP Certificate of Incorporation ..	8	Fabricated Metals	27
Termination Rights and Conditions of Closing—Amendment of the Agreements	8	Transportation Equipment Products	28
Expenses of Merger	9	Chemicals and Plastics	28
Continuation of UOP	9	Other Products and Services	28
Stockholders' Approval	9	Land and Rights in Land	29
Management's Recommendations	9	UOP Realty	29
Opinion of Lehman Brothers Kuhn Loeb Incorporated	10	Agreement with Homestake Mining Company ..	29
Appraisal Rights	11	UOP Management	30
Federal Income Tax Consequences	12	Nominees for Election as Directors	31
Price Range of UOP's Common Stock	12	Resignations Upon Effectiveness of the Merger—Successive Directors	32
Per Share Information	13	Remuneration of Directors and Officers	33
Capitalization	14	Employment and Other Agreements	36
Consolidated Summary of Operations	15	UOP Employee Incentive Plan	37
Five Year Summary of Operations and Retained Earnings	15	UOP Management Bonus Plans	37
Other Financial Data	15	UOP Stock Option and Stock Incentive Plans	38
Management Analysis of Operations	16	Signal Stock Options and Restricted Stock and Unit Awards	40
Royalties	16	Selection of Auditors	41
Products	16	Proxy Solicitation—Other Matters	41
Construction Contracts	16	Auditor's Report	43
Engineering and Operating Services	16	Consolidated Financial Statements	44
General Expenses	17	Notes to Consolidated Financial Statements	49
Refinery Receivable Write-Off	17	Appendices	
Other Income, Net	17	Appendix A	A-1
Income Taxes and Extraordinary Items	17	Appendix B	B-1
Results for the Quarter Ended March 31, 1978 ...	17	Appendix C	C-1
Five Year Summary of UOP's Operations in Different Industries	19	Appendix D	D-1
		Appendix E	E-1

UOP Inc.
Ten UOP Plaza
Des Plaines, Illinois
Telephone (312) 391-2000

Proxy Statement

INTRODUCTION

This Proxy Statement is first being furnished to stockholders on or about May 5, 1978, in connection with the solicitation by management of UOP Inc. ("UOP" or the "Company"), a Delaware corporation, of proxies from the holders of Common Stock of UOP for use at the Annual Meeting (the "Meeting") of such holders to be held on May 26, 1978, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

This Proxy Statement describes, among other things, a proposed merger (the "Merger") into UOP of Sigco Incorporated ("Sigco"), a Delaware corporation and a wholly-owned subsidiary company of The Signal Companies, Inc. ("Signal"). Signal currently owns of record and beneficially 5,800,000 shares of UOP's Common Stock, which represents approximately 50.5% of UOP's outstanding Common Stock, excluding shares held in UOP's treasury.

SUMMARY

The following is a summary of certain information contained elsewhere in this Proxy Statement and is qualified in its entirety by the textual information and financial data set out elsewhere herein.

Terms and Effects of the Proposed Merger

If the Merger Agreement is approved by UOP's stockholders in the manner described below and the Merger becomes effective, each share of UOP Common Stock issued and outstanding immediately before the effectiveness of the Merger, except for shares held by Signal or by UOP in its treasury, will be converted into a right to receive \$21, which a stockholder will be entitled to receive unless he perfects appraisal rights. Upon the effectiveness of the Merger, UOP will become a wholly-owned subsidiary of Signal.

The investment banking firm of Lehman Brothers Kuhn Loeb Incorporated ("Lehman Brothers") furnished the Board of Directors of UOP at its March 6, 1978 meeting an opinion that the Merger, including the price of \$21 per share, is fair and equitable to the stockholders of UOP other than Signal. The procedures followed by Lehman Brothers in forming its opinion are set forth in its opinion, a copy of which is attached as Appendix D. It should be noted that Lehman Brothers did not make or obtain independent reports or verification but relied entirely on materials supplied by UOP and that Mr. James W. Glanville, a director of UOP and a member of its Audit Committee, as described in the opinion letter is familiar with the business and future prospects of UOP.

The Merger Agreement was approved at the March 6, 1978 meeting of UOP's Board of Directors by all directors other than Messrs. Forrest N. Shumway, William E. Walkup, Andrew J. Chithea, Charles S. Arledge and Harry H. Wetzel, directors of Signal and employees of Signal or of a Signal subsidiary other than UOP, each of whom stated at the meeting that due to his affiliation with Signal he would abstain from voting but had he voted, he would have voted in favor of the Merger.

The price of \$21 was determined after discussions between James V. Crawford, a director of Signal and President and Chief Executive Officer of UOP, and officers of Signal, which took place during meetings held on February 28, 1978 and in the course of several subsequent

telephone conversations. Mr. Crawford formally presented the merger proposal, including the \$21 price, to UOP's Board at its meeting on March 6, 1978. In considering the fairness to stockholders other than Signal of the proposed price, UOP's Board placed primary consideration on earnings of UOP for, and market prices of its Common Stock during, 1977 and so far in 1978 and on budgeted earnings for 1978 as reflected in the UOP operating budget for 1978. The \$21 price is equal to the price that Signal paid for 4,300,000 shares of UOP Common Stock acquired as the result of a tender offer, and 1,500,000 shares purchased directly from UOP, in April-May, 1975.

Upon the effectiveness of the Merger or sometime thereafter, Messrs. James W. Glanville, Richard A. Lenon, John O. Logan, Frank J. Pizzitola, William J. Quinn, Robert S. Stevenson and Maynard P. Venema, proposed by management to be elected directors at the Meeting, will resign their offices, five of which vacancies will be filled by the remaining directors with persons designated by Signal. It is also possible that Signal may replace UOP's present auditors.

UOP believes that the Merger will be beneficial because it should provide UOP with greater access to the financial resources of Signal and to the management and technical expertise which Signal and its wholly-owned subsidiaries have to offer than UOP has had as a partially-owned Signal subsidiary, should provide a greater possibility of joint cooperation between UOP on the one hand and Signal and its other subsidiaries on the other, and should provide a modest reduction in certain stockholder relations, insurance and other costs. Because of the fiduciary responsibilities which both Signal and UOP have had to their respective stockholders and to the public stockholders of UOP, great care has been required in determining areas of possible joint cooperation and the availability of proprietary and confidential, including technical, information and in considering and implementing transactions between UOP and Signal or other Signal subsidiaries. Additionally, Signal has been required to consider how its stockholders might view commitments of additional Signal funds to UOP or the backing by Signal of UOP commitments or obligations where the results of UOP operations inured only partially to benefit of Signal stockholders. If UOP were a wholly-owned subsidiary of Signal, less time and expense would be necessary in evaluating the fairness of proposed intercompany transactions, corporate opportunities and other such problems and would reduce the accountability to Signal stockholders Signal currently feels while evaluating UOP business proposals. For the purposes of Signal in effecting the Merger see "Signal and Sigco—Signal's Purposes".

Vote Required to Approve Merger—Voting Rights—Other Matters of Business

The affirmative vote of at least a majority of the outstanding shares of UOP Common Stock entitled to vote at the Meeting is required under Delaware law for the consummation of the Merger. However, the Merger Agreement provides that the affirmative vote of the holders of a majority of the shares other than those owned by Signal present and voting at the Meeting, and, additionally, no fewer than two-thirds of all outstanding shares entitled to vote on the matter, including shares owned by Signal, is required to consummate the Merger.

A proxy in the accompanying form, which if properly executed, duly returned to UOP and not revoked, will be voted in accordance with the instructions contained therein. If no instructions are given, proxies will be voted in favor of approval of the Merger Agreement and the amendment of UOP's Certificate of Incorporation, as contemplated by the Merger, in favor of the election of the fourteen nominees of management, and in accordance with the discretion of the proxy holder on such other business as may properly come before the Meeting. A person attending the meeting who votes on a particular matter will thereby have revoked his proxy as to that matter.

On March 31, 1978, the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting, the outstanding voting securities of UOP consisted of 11,488,302 shares of Common Stock, each share of which entitles the registered holder to one vote. As of the record date no person held of record or, to the knowledge of UOP, beneficially owned more than 5% of the outstanding shares of UOP Common Stock, except for Signal, which held 5,800,000 shares (approximately 50.5%) of record and beneficially, and Cede & Co., the nominee of Stock Clearing Corporation, the depository of New York Stock Exchange member firms and certain banks, which held 2,099,008 shares (approximately 18.3%) of record. No

Cede member held on the record date, to the knowledge of UOP, more than 5% of UOP's Common Stock through its Cede participation plus direct record holdings.

Proposed Purchases of UOP Common Stock by Signal

Signal has advised UOP that it may purchase additional shares of UOP Common Stock on the market or in private transactions prior to the effective date of the Merger.

Business and Recent Financial History of UOP

UOP is engaged in six major lines of business as follows:

1. **Petroleum and petrochemical services and related products**, including research and development relating to, and designing and licensing of, processes and related patents in the petroleum and petrochemical industries; manufacture and sale or lease of catalysts used in those processes; and furnishing engineering, refinery operation and management and other services to those industries.

2. **Construction**, including the design, engineering and construction of petroleum refineries and petrochemical, chemical, liquefied natural gas (LNG), synthetic natural gas (SNG) and solid waste recovery plants and related facilities and of electrostatic precipitators, sulfur dioxide removal systems, wet scrubbers, thermal and catalytic incinerators and centrifugal dust collectors for industrial and electric utility air pollution control installations.

3. **Fabricated metal products**, including the manufacture of copper, copper-alloy, aluminium, titanium and zirconium tubing; screens for water and industrial filtration and other processing applications; flexible metal hose; and expansion joints, ducting and bellows.

4. **Transportation equipment products**, including the manufacture of catalysts and devices for the reduction of toxic emissions from internal combustion engines; manufacture of aircraft galleys and seats and of suspension and fixed seating for road vehicles and construction and farm equipment; and the conversion of vehicles into custom vans.

5. **Chemicals and plastics**, including fabricating industrial plastic copper-clad and unclad laminates, rubber intermediates and other biochemicals and organics; developing reverse osmosis and ultra-filtration systems; and furnishing water management products and services.

6. **Other products and services**, including land development; manufacturing hardwood and softwood veneer and lumber products; licensing technology for the processing of laterite ores for recovery of nickel; and providing a process for the conversion of municipal sewage sludge into organic soil supplements.

See the text following "Five Year Summary of UOP's Operations in Different Industries" for a discussion of these lines of business.

For 1977 UOP had revenues, income before extraordinary items and net income of \$729,878,000, \$24,328,000 (\$2.12 per share) and \$31,438,000 (\$2.74 per share) respectively, as compared with \$667,041,000, \$16,622,000 (\$1.45 per share) and \$23,591,000 (\$2.06 per share) for 1976. Revenues, income before extraordinary items and net income for the first quarter of 1978 (unaudited) were \$222,524,000, \$9,753,000 (\$0.85 per share) and \$11,876,000 (\$1.03 per share) respectively, as compared with unaudited revenues, income before extraordinary items and net income of \$178,994,000, \$6,436,000 (\$0.56 per share) and \$7,996,000 (\$0.70 per share) for the same period of 1977. See "Five Year Summary of Operations and Retained Earnings", "Results for the Quarter Ended March 31, 1978", "Five Year Summary of UOP's Operations in Different Industries" and Exhibit E.

Interests of Directors and Officers in the Outcome of the Merger

Mr. Crawford owns beneficially 6,500 shares of UOP Common Stock for which he will receive \$136,500 upon the effectiveness of the Merger and holds options to acquire 20,000 additional shares for which he will receive \$185,940 directly or, if he elects to exercise, net of his exercise price. All officers and directors as a group who hold options to purchase UOP Common Stock, share units and stock appreciation rights will receive approximately \$450,000

directly or, if they elect to exercise, net of the respective exercise prices. All directors and officers as a group will receive approximately \$407,000 for the 19,400 shares of UOP Common Stock owned beneficially and of record by them as of March 15, 1978. See "The Proposed Merger—Status of Stock Options", "UOP Management" and "UOP Stock Option and Stock Incentive Plans". Mr. Crawford has a 5-year employment agreement with the Company through 1984 providing for an annual base salary of \$210,000 and for death and retirement benefits. For a description of the employment agreement between UOP and Mr. Crawford see "Employment and Other Agreements".

Mr. John O. Logan, Chairman of the UOP Board of Directors, and Mr. Maynard P. Venema, a member of the UOP Board, have deferred compensation rights under expired employment agreements that are calculated with reference to the price of UOP Common Stock. If the Merger is consummated, the basis for such calculations will be set at \$21. Mr. Logan has a consulting agreement with the Company expiring on June 30, 1978. See "Employment and Other Agreements" for additional information regarding these agreements and calculations.

Messrs. Shumway, Walkup, Chithea, Arledge and Wetzel, directors of UOP, are employees of Signal or a subsidiary company other than UOP. Those persons and Mr. Crawford are directors of Signal. Each of those individuals holds options to purchase shares of Signal Common Stock. See "Remuneration of Directors and Officers" and "Signal Stock Options and Restricted Stock and Unit Awards" for the aggregate direct remuneration accrued by Signal or a subsidiary of Signal for each of those individuals during 1977 and the status of currently outstanding options to purchase Signal's stock granted to those individuals.

Market Price Information

On February 28, 1978, the last trading day before the public announcement of negotiations regarding the proposed Merger, the high and low sale prices of UOP Common Stock reported on the Consolidated Tape, which includes trading in UOP shares on the New York and Midwest Stock Exchanges, were \$14.75 and \$14.50, respectively. On April 28, 1978, the closing price was \$20.625. See "Price Range of UOP's Common Stock".

Appraisal Rights

If the Merger is consummated, those stockholders who comply with the provisions of Delaware law relating to the perfection of appraisal rights will be entitled to receive the "fair value" of their shares in cash exclusive of any change in value arising from the consummation or public notice of the Merger. Note that a failure to follow precisely the procedures outlined with respect to appraisal may result in the loss of appraisal rights. See "Appraisal Rights" and Appendix A.

Federal Income Tax Consequences

UOP shareholders other than Signal would recognize gain or loss as a result of the conversion of their shares into cash upon the effectiveness of the Merger. Optionees and employees holding share unit or stock appreciation rights would recognize income subject to withholding as a result of the termination of stock option plans upon the Merger. See "Federal Income Tax Consequences" and "The Proposed Merger—Status of Stock Options".

SIGNAL AND SIGCO

Business of Signal and Sigco

Signal is a publicly-held corporation listed on the New York, Philadelphia and Pacific Stock Exchanges, which through its subsidiaries other than UOP is engaged in the design, engineering, manufacturing and sale of heavy-duty motor trucks and transportation equipment and related services (primarily aerospace). Other activities of such Signal subsidiaries include the manufacture of industrial products, land development, radio and television broadcasting, and investments. Signal, as the parent company, is primarily concerned with the coordination of operations, financial planning and controls, and overall policy for the various subsidiaries. On March 10, 1978, the record date for Signal's annual meeting, no stockholder of Signal beneficially owned more than 5 per cent of its voting securities except that the Bank of America N.T.&S.A., the trustee for Signal's Savings and Stock Purchase Plan, owned of record 3,704,849 shares, approximately 19.4%, of Signal Common Stock, which the trustee in its discretion has the right

to vote if participants in the plan do not provide written instructions. UOP is Signal's only publicly owned subsidiary.

Sigco was formed by Signal for the purpose of effecting the Merger and has engaged in no business. All of Sigco's 1,000 authorized and issued shares of capital stock are owned by Signal.

Source of Funds

Through Sigco, Signal will provide funds sufficient to consummate the Merger. If no further UOP options are exercised, the amount necessary, assuming no exercise of appraisal rights, would be approximately \$119,532,000. If all outstanding options for UOP Common Stock are exercised, the additional amount necessary, assuming no exercise of appraisal rights, would be approximately \$6,244,560. For the year ended December 31, 1977 Signal, on a consolidated basis, had revenues of \$3,003,551,000, which includes \$729,878,000 in revenues provided by UOP, and net income of \$101,507,000, which includes \$11,430,000, or approximately 50.5%, of income from continuing operations and before extraordinary items of UOP. At December 31, 1977 Signal reported consolidated cash and marketable securities of \$109,358,000, including \$72,978,000 held by UOP, and reported other current assets of \$1,266,368,000, including \$260,433,000 held by UOP. Signal has informed UOP that Signal intends to use available sources of funds, other than UOP's resources, to finance Signal's costs and expenses relating to the Merger, possibly including borrowings under existing lines of credit. Signal has reported that it has available to it from sources other than UOP unused lines of credit with a number of banks providing for borrowings up to \$250,000,000 at generally the prime interest rates at the lending banks.

Signal's Purposes—Proposed Purchases of UOP Common Stock by Signal

Signal has informed UOP that Signal decided to propose the Merger to UOP for several reasons. Among these reasons are: to increase its investment in UOP's high technology businesses, to increase Signal's earnings and return on sales (Signal now consolidates in its financial statements 100% of UOP's operations and balance sheet items but only its 50.5% share of UOP's earnings), to improve investors' understanding of Signal, to eliminate potential conflicts of interest, to provide for a freer flow of resources and technology among UOP, Signal and Signal's wholly-owned subsidiaries and to benefit from certain tax, accounting and other economies that wholly-owned operations can provide.

Signal has advised UOP that it may purchase additional shares of UOP Common Stock on the market or in private transactions prior to the effective date of the Merger.

THE PROPOSED MERGER

The Merger Agreements

Reference is made to the copies of the Merger Agreement and the Agreement Regarding Merger ("Agreement"), attached as Appendices B and C, for a complete statement of their respective terms and conditions. The statements contained herein with respect to these agreements are qualified in their entirety by the foregoing reference.

Effectiveness of the Merger

The Merger Agreement provides that the Merger will become effective upon the filing of the Merger Agreement with the Secretary of State of Delaware, which is anticipated to take place immediately upon a favorable vote of the stockholders as required by the Merger Agreement.

Conversion of Shares of Common Stock—Requirements of Delaware Law

The Merger Agreement provides that immediately upon the effectiveness of the Merger each share of Common Stock of UOP (other than shares held by Signal or in UOP's treasury) outstanding immediately before the effectiveness of the Merger will be converted into a right to receive \$21; each share of Sigco capital stock outstanding immediately before the effectiveness of the Merger will be converted into one share of the new UOP \$2 par value Common Stock; and the outstanding shares of Common Stock held by Signal and the shares of UOP Common

Stock held in its treasury will be cancelled. Upon the effectiveness of the Merger, UOP will become a wholly-owned subsidiary of Signal.

Under applicable Delaware law, the Merger must not only comply with the requirements of the Delaware General Corporation Law regarding, among other things, the vote necessary to approve the Merger Agreement, the mechanics of the Merger and the procedures involved in appraisal rights, but also should conform to principles of law developed by the courts, particularly that it must be effected for a bona fide purpose and not solely for the purpose of eliminating the minority stockholders and must otherwise be fair to them.

Surrender of Certificates and Payment

According to the Merger Agreement, after the Merger is effective, each holder of an outstanding certificate or certificates other than a holder who has perfected his appraisal right should forward such certificate or certificates to Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, New York 10015, which, upon receipt, will pay an amount equal to the number of shares which the certificate or certificates had represented prior to the Merger's effectiveness multiplied by \$21. No payment will be made until the certificate or certificates have been so delivered. As soon as possible after the effectiveness of the Merger, stockholders will be contacted further regarding the procedures to follow in exchanging their certificates for cash. Stockholders should not send in their certificates until they are contacted.

Status of Stock Options

Under UOP's 1967 Qualified Stock Option Plan and 1974 Stock Incentive Plan, options to purchase UOP Common Stock, share units and stock appreciation rights involving an aggregate potential issuance of 294,150 shares of Common Stock were outstanding at March 15, 1978. For more information concerning the options, share units and stock appreciation rights see "UOP Stock Option and Stock Incentive Plans" and Note 8, "Notes to Consolidated Financial Statements".

Under the Merger Agreement any option outstanding at the effectiveness of the Merger will, upon payment of the exercise price and satisfaction of any other condition, be converted into and exchanged for a right to receive \$21. However, at its meeting on April 14, 1978, UOP's Board of Directors terminated the plans, effective as of the effectiveness of the Merger, having first determined that termination did not adversely affect the rights of any optionee, as is required under the plans before they can be terminated. Those optionees, and holders of rights, if any, who have not exercised their options before the effectiveness of the Merger will receive from the Company, under the terms of the termination resolutions, as promptly as is practicable after the effective date, cash in the amount equal to the difference between \$21 and their respective grant prices aggregating \$1,980,499.

Amendment of the UOP Certificate of Incorporation

At the effectiveness of the Merger the UOP Certificate of Incorporation will be amended to provide for only one class of capital stock, Common Stock, par value \$2.00, of which 1,000 shares will be authorized, all of which will be issued to Signal, in connection with the conversion of Sigco stock described above.

Termination Rights and Conditions of Closing—Amendment of the Agreements

The Agreement provides, among other things, that it and the Merger Agreement may be terminated at any time prior to the date of the effectiveness of the Merger, notwithstanding the fact that stockholders of either or both UOP and Sigco may have previously approved the Merger, (1) by the actions of their respective boards of directors and of Signal's Board, (2) if the representations and warranties given by either of them or by Signal are incorrect, (3) if there has been a material adverse change in the business, properties, prospects, financial condition or results of operations of UOP or (4) if litigation respecting the Merger is pending or threatened. Those circumstances, except for the provision regarding board action, are also conditions to closing the Merger, any and all of which may be waived.

The Merger Agreement provides that it can be amended or supplemented, except that if the stockholders of either UOP or Sigco have approved the Merger Agreement, it cannot be amended or supplemented as to the price per share to be paid for UOP Common Stock without

the vote of stockholders that was originally required to approve it. The Agreement provides that the Merger Agreement can be amended, modified or supplemented, provided that after the vote of UOP stockholders such action cannot, in the judgment of the UOP Board, be materially adverse to such stockholders.

Expenses of Merger

The Merger Agreement provides that Sigco and UOP will each bear its respective costs and expenses, including without limitation fees and expenses of financial consultants, accountants and counsel. Each party to the Agreement has warranted that there has been no broker or finder.

Continuation of UOP

Signal has informed UOP that Signal has no present intention of making any material changes in the business, assets or properties of UOP, except to the extent that the proposed resignations of directors and filling of the vacancies caused thereby as referred to in the "Summary" and "Nominees for Election as Directors" might be such a change and that Signal might replace Arthur Andersen & Co., UOP's current auditors, with Haskins & Sells, who currently serve as independent accountants for all Signal wholly-owned operations.

Stockholders' Approval

The affirmative vote of the holders of at least a majority of the outstanding shares of UOP Common Stock entitled to vote at the Annual Meeting is required under Section 251 of the Delaware General Corporation Law for the consummation of the Merger. However, the Merger Agreement provides that the affirmative vote of the holders of a majority of the shares other than those owned by Signal present and voting at the Meeting and, additionally, no fewer than two-thirds of all outstanding shares entitled to vote on the matter, including shares owned by Signal, is required to consummate the Merger. On March 31, 1978, the record date for the determination of holders entitled to notices of and to vote at the Annual Meeting, there were 11,488,302 shares of Common Stock outstanding, of which 5,800,000 shares were held of record and beneficially by Signal and 2,099,008 shares were held of record by Cede & Company, the depository of New York Stock Exchange member firms and certain banks referred to in the "Summary" above. Each share of Common Stock is entitled to one vote.

Management's Recommendation

The Merger Agreement was approved at the March 6, 1978 meeting of UOP's Board of Directors by all directors other than Messrs. Shumway, Walkup, Chitlea, Arledge and Wetzel, directors of Signal and employees of Signal or of a subsidiary of Signal other than UOP, each of whom stated at the meeting that due to his affiliation with Signal he would abstain from voting but had he voted, he would have voted to approve the Merger Agreement and to recommend the Merger to UOP's stockholders.

The price of \$21 per share was determined after discussions between James V. Crawford, a director of Signal and UOP's President and Chief Executive Officer, and officers of Signal, which took place during meetings held on February 28, 1978 and in the course of several subsequent telephone conversations. Mr. Crawford formally presented the merger proposal to UOP's Board at its meeting on March 6, 1978. In considering the fairness to stockholders other than Signal of the proposed price, UOP's Board placed primary consideration on earnings of UOP for, and market prices of its Common Stock during, 1977 and so far in 1978 and on budgeted earnings for 1978 as reflected in the UOP operating budget for 1978. The Board of Directors of UOP believes that the price of \$21 per share is fair to stockholders other than Signal because it is (1) approximately 12% higher than the highest reported sales price per share over the past four years, \$18.75, (2) over seven times 1977 net income per share, \$2.74 (including an extraordinary item of \$0.62 per share), and over seven times the net income per share budgeted for 1978, \$2.86 (including an extraordinary item of \$0.24 per share), and (3) in excess of the December 31, 1977 and unaudited March 31, 1978 book values per share, \$19.86 and \$20.67, respectively. The Board of Directors has also considered the Lehman Brothers' opinion set forth below.

UOP approved its annual operating budget for 1978 in December 1977. The UOP operating budget is not a projection of earnings but is rather a goal and a yardstick for measuring performance and is intended to be a prudent and conservative guide to business decisions. The following table compares UOP's budgeted income and actual income (loss) for the five years 1973 through 1977 (000's omitted):

	<u>Budgeted Net Income</u>	<u>Actual Net Income</u>	<u>Difference</u>
1973	\$18,242	\$ 20,906	\$ 2,664
1974	\$23,669	\$ 27,752	\$ 4,083
1975	\$26,407	\$(34,868)	\$(61,275)
1976	\$18,631	\$ 23,591	\$ 4,960
1977	\$32,700	\$ 31,438	\$ (1,262)

See "Management Analysis of Operations" for a discussion of, among other things, the loss for 1975.

The Board of Directors believes that the business of UOP will benefit from the Merger because it should provide UOP with greater access to the financial resources of Signal and to the management and technical expertise which Signal and its wholly-owned subsidiaries have to offer than UOP has had as a partially-owned Signal subsidiary, should provide a greater possibility of joint cooperation between UOP on the one hand and Signal and its other subsidiaries on the other, and should provide a modest reduction in certain stockholder relations, insurance and other costs. Because of the fiduciary responsibilities which both Signal and UOP have had to their respective stockholders and to the public stockholders of UOP, great care has been required in determining areas of possible joint cooperation and the availability of proprietary and confidential, including technical, information and in considering and implementing transactions between UOP and Signal or other Signal subsidiaries. Additionally, Signal has been required to consider how its stockholders might view commitments of additional Signal funds to UOP or the backing by Signal of UOP commitments or obligations where the results of UOP operations inured only partially to benefit of Signal stockholders. If UOP were a wholly-owned subsidiary of Signal, less time and expense would be necessary in evaluating the fairness of proposed intercompany transactions, corporate opportunities and other such problems and would reduce the accountability to Signal stockholders. Signal currently feels while evaluating UOP business proposals.

Management recommends a vote in favor of approving the Merger Agreement.

OPINION OF LEHMAN BROTHERS KUHN LOEB INCORPORATED

The Board of Directors of UOP received at its meeting on March 6, 1978, an opinion of the investment banking firm of Lehman Brothers Kuhn Loeb Incorporated ("Lehman Brothers") that the proposed Merger is fair and equitable to stockholders of UOP other than Signal. A copy of this opinion is attached as Appendix D to this Proxy Statement. UOP will pay Lehman Brothers a fee of \$150,000 in connection with the rendering of this opinion. It has also indemnified Lehman Brothers against certain damages and expenses which could arise, but not for misfeasance or negligence of Lehman Brothers.

Mr. James W. Glanville, a director of UOP and a member of its Audit Committee and a nominee for director at the Meeting, is a Managing Director and Member of the Board of Lehman Brothers Kuhn Loeb Incorporated.

During the past five years Lehman Brothers has performed various financial services for UOP, including long-term, project and equipment financing, and services rendered for UOP in connection with Signal's tender offer to UOP stockholders in 1975. The aggregate of all payments by UOP to Lehman Brothers over this period, excluding the fee referred to above in connection with Lehman Brothers opinion of March 6, 1978, is \$744,000.

Signal has advised UOP that Lehman Brothers has not served as a managing underwriter in any public or private transaction for, or served as a financial advisor to, or provided other financial services for, Signal or any subsidiary of Signal other than UOP during the past five years, except that until November 1973 it served as investment advisor and broker for certain funds in Signal's Savings and Stock Purchase Plan.

Lehman Brothers owned of record, as of March 15, 1978, 5,956 shares of UOP Common Stock and 2,077 shares of Signal Common Stock. Lehman Brothers has advised the Company that all of those shares were held for the account of its customers.

APPRAISAL RIGHTS

Pursuant to Section 262 of the Delaware General Corporation Law, any holder of record of the Common Stock who fully complies with all of the provisions of Section 262 shall be entitled to have his shares of UOP Common Stock appraised by the Delaware Court of Chancery and to demand and receive payment of an amount equal to the "fair value" of all (but not less than all) of his shares of UOP Common Stock if the proposed Merger is consummated. For all purposes of Section 262, the fair value of the Common Stock shall be determined exclusive of any element of value arising from the accomplishment or expectation of the Merger.

Any stockholder of UOP desiring to receive payment for the "fair value" of his Common Stock in accordance with Section 262 (1) shall mail or deliver to the Secretary, UOP Inc., Ten UOP Plaza, Des Plaines, Illinois 60016, prior to the Meeting, or at the Meeting but before the vote is taken, a written demand for appraisal of his shares and (2) shall not vote in favor of the Merger Agreement.

A written demand for appraisal must reasonably inform UOP of the identity of the stockholder and that the stockholder intends thereby to demand payment of the fair value of his shares if the Merger Agreement is approved. A written demand for appraisal must be in addition to and separate from any proxy or vote against the Merger Agreement and a vote against the Merger Agreement shall not constitute the separate written notice referred to in condition (1) above. The demand should be executed by or for the stockholder of record, fully and correctly, as such stockholder's name appears on the stock certificates. If the stock is owned of record in a fiduciary capacity, such as by a trustee, guardian, or custodian, or more than one person, as in a joint tenancy or tenancy in common, such demand should be executed by or for all joint owners. An authorized agent including one of two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in exercising the demand, he or she is acting as agent for the record owners.

A record owner, such as a broker, who holds Common Stock as a nominee for others may exercise his or her right of appraisal with respect to the shares held for all or less than all beneficial owners. In such case, the written demand should set forth the number of shares covered by it. Where no number of shares is expressly mentioned, the demand will be presumed to cover all shares standing in the name of such record owner.

Within ten days after the effective date of the Merger, UOP will mail by registered mail to each stockholder who shall have complied with conditions (1) and (2) above, written notice of the effective date of the Merger, addressed to the stockholder at such address as he has furnished UOP in writing, or, if none, at the stockholder's address as it appears on UOP's records.

Within 120 days after the effective date of the Merger, UOP or any stockholder who has complied with conditions (1) and (2) above, in order to preserve appraisal rights, must file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the Common Stock of the dissenting stockholders. UOP has not determined whether, or if so when, it will file such a petition. Inasmuch as UOP has no obligation to file such a petition, any stockholder who desires such a petition to be filed is advised to file it on a timely basis. The failure to file such a petition by UOP or any stockholder demanding an appraisal could nullify all written demands for appraisal.

Notwithstanding the foregoing, at any time within 60 days after the effective date of the Merger, any stockholder shall have the right to withdraw his demand for the fair value of his shares and to accept the terms of the Merger Agreement.

After a hearing on a petition demanding an appraisal, the Court of Chancery shall determine the stockholders who have complied with and become entitled to an appraisal under Section 262. The Court of Chancery shall then appraise the shares and shall direct the pay-

ment of the fair value of the shares, together with interest, if any, to the stockholders entitled thereto. The costs of the appraisal proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances.

The foregoing does not purport to be a complete statement of the provisions of Section 262 of the Delaware General Corporation Law and is qualified in its entirety by reference to said Section, which is reproduced in full in Appendix A to this Proxy Statement. Stockholders wishing to appraise their shares are cautioned that failure to follow appraisal procedures precisely may result in the loss of appraisal rights.

FEDERAL INCOME TAX CONSEQUENCES

Rogers & Wells, New York, New York, counsel to UOP, have advised UOP as follows:

If the Merger is consummated, each holder of shares of UOP Common Stock other than Signal will recognize gain or loss for federal income tax purposes to the extent of the difference between such holder's cost or other basis for such shares and the amount such holder will receive therefor in the Merger.

If and to the extent the shares of UOP Common Stock constitute a capital asset in the hands of such holder, such gain or loss will be a long-term or short-term capital gain or loss, depending on whether such holder's holding period is in excess of twelve months. The effectiveness of the Merger constitutes the end of the holding period.

For federal income tax purposes, an amount equal to one-half of the net long-term capital gain for the holder's current taxable year will constitute an item of tax preference, which may subject the stockholder to the minimum tax on items of tax preference, and the stockholder's amount of income eligible for the fifty percent maximum rate on personal service income will be reduced dollar for dollar by the full amount of such item of tax preference for the holder's current taxable year.

Upon the Merger's becoming effective, direct cash payments received from the Company by employees holding options to purchase UOP Common Stock or holding rights in share units or stock appreciation rights in respect of such options or rights will be considered personal service income and subject to withholding. Depending on each employee's tax situation, there may be additional tax due in excess of the amount withheld.

Stockholders, optionees and holders of rights are advised to consult their own tax advisors in order to make a personal appraisal of the federal income tax consequences and as to any state or local tax consequences.

PRICE RANGE OF UOP'S COMMON STOCK

The following table shows for the periods indicated the reported range of per share high and low sales prices of UOP Common Stock as reported in the Wall Street Journal for trades on the New York Stock Exchange prior to January 26, 1976. After that date, quotations cover trades on the New York and the Midwest Stock Exchanges.

<u>Calendar Period</u>	<u>High</u>	<u>Low</u>	<u>Calendar Period</u>	<u>High</u>	<u>Low</u>
1973	25 $\frac{1}{8}$	12 $\frac{1}{2}$	1976		
			First Quarter	13 $\frac{3}{8}$	10
1974	18 $\frac{3}{4}$	9 $\frac{3}{4}$	Second Quarter	13 $\frac{3}{8}$	10 $\frac{3}{8}$
			Third Quarter	15 $\frac{3}{8}$	11 $\frac{3}{8}$
			Fourth Quarter	15 $\frac{3}{4}$	12 $\frac{1}{2}$
1975			1977		
First Quarter	15	11 $\frac{1}{4}$	First Quarter	17 $\frac{3}{4}$	14
Second Quarter	18	12 $\frac{1}{2}$	Second Quarter	18 $\frac{5}{8}$	13 $\frac{3}{8}$
Third Quarter	16 $\frac{1}{4}$	12 $\frac{1}{2}$	Third Quarter	17 $\frac{3}{4}$	14 $\frac{1}{2}$
Fourth Quarter	12 $\frac{7}{8}$	9 $\frac{1}{2}$	Fourth Quarter	15 $\frac{7}{8}$	13 $\frac{1}{2}$
			1978		
			First Quarter	20 $\frac{1}{4}$	14
			Second Quarter to April 28	20 $\frac{3}{4}$	20 $\frac{1}{4}$

The \$18 high figure for the second quarter of 1975 occurred during a tender offer by Signal which commenced April 1, 1975 and ended May 2, 1975 and resulted in Signal's acquisition of 4,300,000 shares at \$21 per share. Signal purchased an additional 1,500,000 shares from UOP on May 13, 1975 at the same price.

On February 28, 1978, the last day of reported trading prior to the public announcement that UOP and Signal were conducting negotiations for the acquisition for cash by Signal of the 49.5% of UOP which it does not presently own, the high and low reported sale prices on the New York Stock Exchange were \$14.75 and \$14.50, respectively. On April 28, 1978, the closing price was \$20.625.

UOP Common Stock is also listed on the London Stock Exchange.

PER SHARE INFORMATION

The following table sets forth, at the dates and for the periods indicated, per share information with respect to book value, income (loss) before extraordinary items, net income (loss) and dividends paid on UOP's Common Stock:

<i>At or for the Calendar Year Ended December 31,</i>	<i>Book Value Per Share</i>	<i>Income (Loss) Before Extraordinary Items Per Share</i>	<i>Net Income (Loss) Per Share</i>	<i>Dividends Paid Per Share</i>
1973	\$17.35	\$1.81	\$2.09	25.0¢
1974	19.43	2.78	2.78	70.0¢
1975	15.91	(3.19)	(3.19)	67.5¢
1976	17.74	1.45	2.06	22.5¢
1977	19.86	2.12	2.74	62.5¢
<i>At or for the Quarter Ended March 31,</i>				
1978*	20.69	0.85	1.03	20.0¢**

*Book value and income per share are based on unaudited operating results for the quarter ended March 31, 1978. See "Results for the Quarter Ended March 31, 1978".

**See following text for restriction on further dividends.

Replacement cost information is set forth in Note 17, "Notes to Consolidated Financial Statements".

In February 1978, the Board of Directors increased the quarterly dividend from 17.5¢ to 20¢ per share. At December 31, 1977, the amount available for dividends under the most restrictive covenants of UOP's loan agreements was \$67,581,000. However, Section 4.05 of the Agreement provides that except for the first quarter dividend of 20¢ per share, which was paid on March 31, 1978, no further dividend or other distribution or payment shall be declared, paid or made by UOP on its Common Stock. See Note 5, "Notes to Consolidated Financial Statements" for further information with respect to restrictions on the payment of dividends.

CAPITALIZATION

The capitalization of UOP and its subsidiaries at December 31, 1977 was as follows:

Current maturities of long-term debt and lease obligations	<u>\$ 6,427,000</u>
Long-term debt and lease obligations (excluding current maturities)	
6½% sinking fund debentures, payable in annual installments of \$1,250,000 and maturing on May 1, 1993	\$ 16,541,000
57½% insurance company note, payable in semiannual installments of \$1,000,000 and maturing June 1, 1988	23,000,000
Foreign bank loan	2,300,000
Mortgage payable, maturing January 1, 2000, payable in monthly installments of interest only to 1980 and principal and interest of \$78,534 to maturity with interest at 10¼% collateralized by property at World Headquarters in Des Plaines, Illinois	8,000,000
9% industrial revenue bond due March 1, 1991	2,000,000
Note payable, maturing January 1, 1981, payable in semiannual installments with interest at 8½% collateralized by sludge treatment plant and related facilities located in the Washington, D.C. area	1,250,000
Other (including mortgage loans) at interest rates of 6% to 11% due in varying amounts	759,000
Lease obligations	
Equipment lease maturing June 30, 1986 payable in quarterly installments of \$174,218 including interest at 10.98%	3,530,000
Industrial revenue bonds—	
6½% bond due April 1, 1984	550,000
6½% bond due September 1, 1993	3,300,000
6¾% bond due February 1, 1994	2,000,000
8½% bond due February 1, 1994	1,250,000
9% bond due April 1, 1994	3,837,000
Equipment lease maturing May 1, 1999 payable in quarterly installments of \$545,000 including interest at 9%	11,647,000
Other	4,835,000
Total long-term debt and lease obligations	<u>\$ 84,799,000</u>
Shareholders' equity	
Preferred stock, no par value; authorized 1,500,000 shares; none issued ...	\$ —
Common stock, par value \$1.00 per share; authorized 15,000,000 shares; issued 11,637,429 shares at December 31, 1977	11,637,000
Capital surplus	131,843,000
Retained earnings	87,081,000
Less—treasury stock, at cost; 158,215 shares at December 31, 1977	(2,647,000)
Total shareholders' equity	<u>\$227,914,000</u>
Total long-term debt and shareholders' equity	<u>\$312,713,000</u>

For additional information regarding UOP's credit and borrowing arrangements, reference is made to Note 5, "Notes to Consolidated Financial Statements". For information regarding commitments under leases, reference is made to Note 10, "Notes to Consolidated Financial Statements".

CONSOLIDATED SUMMARY OF OPERATIONS

The consolidated Summary of Operations for the five years ended December 31, 1977 is unaudited but includes all adjustments which UOP considers necessary for a fair presentation of the results of operations for the periods indicated. This Summary should be read in conjunction with the related financial statements and notes thereto included elsewhere in this Proxy Statement.

FIVE-YEAR SUMMARY OF OPERATIONS AND RETAINED EARNINGS (Unaudited)

	<i>Thousands of Dollars</i> <i>Years Ended December 31</i>				
	1973	1974	1975	1976	1977
Revenues:					
Royalties	\$ 25,278	\$ 33,673	\$ 35,496	\$ 28,660	\$ 39,038
Products	383,774	448,157	413,639	503,484	554,796
Completed construction contracts	176,902	278,114	142,228	116,230	98,811
Engineering and operating services	14,865	21,059	23,683	28,667	37,233
Total revenues	600,819	781,003	615,046	677,041	729,878
Cost of sales and construction contracts	488,735	647,054	485,929	528,217	563,627
Gross profit	112,084	133,949	129,117	148,824	166,251
Selling and administrative expenses	(67,737)	(80,256)	(85,246)	(86,854)	(96,903)
Research and development expenses	(19,826)	(21,032)	(27,487)	(26,202)	(28,592)
Interest expense	(7,203)	(8,621)	(11,289)	(9,698)	(8,422)
Writeoff of refinery company receivable (Note 3)	—	—	(34,391)	—	—
Other income, net	7,795	11,344	3,566	3,097	9,423
Income (loss) from continuing operations before income taxes and extraordinary items	25,113	35,384	(25,730)	29,167	41,757
Provision for income taxes (Note 7)	9,525	10,781	5,630	13,726	17,429
Income (loss) from continuing operations before extraordinary items	15,588	24,603	(31,360)	15,441	24,328
Income (loss) from operations of the discontinued Fragrances Group (less applicable income taxes of \$1,503, \$2,410, \$796 credit and \$617) (Note 16)	2,540	3,149	(3,508)	1,181	—
Income (loss) before extraordinary items	18,128	27,752	(34,868)	16,622	24,328
Extraordinary items (Note 7)	2,778	—	—	6,969	7,110
Net income (loss)	20,906	27,752	(34,868)	23,591	31,438
Retained earnings, beginning of year	44,911	63,322	84,088	41,809	62,817
Dividends paid	(2,495)	(6,986)	(7,411)	(2,583)	(7,174)
Retained earnings, end of year	\$ 63,322	\$ 84,088	\$ 41,809	\$ 62,817	\$ 87,081
Earnings per common share:					
Continuing operations	\$1.56	\$2.46	\$(2.87)	\$1.35	\$2.12
Discontinued operations .....	.25	.32	(.32)	.10	—
Extraordinary items .....	.28	—	—	.61	.62
Net income (loss)	\$2.09	\$2.78	\$(3.19)	\$2.06	\$2.74
Average shares outstanding (in thousands)	9,980	9,980	10,918	11,480	11,477
Dividends paid per share	\$.25	\$.70	\$.675	\$.225	\$.625

OTHER FINANCIAL DATA (Unaudited)

Total assets	\$380,803	\$457,840	\$455,544	\$465,070	\$508,263
Working capital	\$ 90,250	\$114,087	\$ 91,849	\$137,585	\$162,829
Plant and equipment, net	\$113,769	\$139,205	\$152,931	\$144,626	\$145,406
Capital expenditures	\$ 19,721	\$ 40,601	\$ 29,577	\$ 13,386	\$ 16,292
Depreciation and depletion provided	\$ 10,810	\$ 11,274	\$ 14,115	\$ 13,818	\$ 14,166
Long-term debt	\$ 68,162	\$ 92,904	\$ 89,545	\$ 89,382	\$ 84,799
Shareholders' equity—amount	\$173,173	\$193,939	\$182,689	\$203,702	\$227,914
Shareholders' equity—per common share	\$ 17.35	\$ 19.43	\$ 15.91	\$ 17.74	\$ 19.86
Number of common shares outstanding (in thousands)	9,980	9,980	11,480	11,480	11,479
Number of shareholder accounts	24,497	25,721	23,825	21,709	19,349
Number of employees	12,162	11,281	11,038	10,767	11,603

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

MANAGEMENT ANALYSIS OF OPERATIONS

These comments are provided to explain significant changes in line items included in the Summary of Operations and to provide information that will enable an understanding of the final results. The accounting policies of the Company, which are significant in evaluating the results of operations, are contained in "Notes to Consolidated Financial Statements".

Royalties

Royalties are payments for the use of technology covered by UOP patents. License agreements provide that the licensee pay royalties in a lump sum, in installments or annual running payments, or a combination thereof. Royalty revenue was as follows (in thousands):

	<u>Running</u>	<u>Fully Paid</u>	<u>Total</u>
1975	\$ 9,678	\$25,818	\$35,496
1976	10,318	18,342	28,660
1977	10,348	28,690	39,038

Fully paid royalties declined 29% in 1976 as compared to 1975 due to the worldwide deferral of capital projects brought about by the Arab oil embargo and the resultant pricing upheaval. These royalties increased 56% in 1977, as compared to 1976, as these deferred capital projects came on stream.

Products

Product sales for 1977 were 10% greater than in 1976. The change in product sales is as follows:

	<u>% Change 1976 Over 1975</u>	<u>% Change 1977 Over 1976</u>
Petroleum related products	12%	(6) %
Construction related products	61	(22)
Fabricated metal products	4	15
Transportation equipment	38	22
Chemicals and plastics	33	21
Other products	20	12

Petroleum related product sales in 1976 included several large orders for molecular sieves causing an increase in 1976 as compared to 1975. Sales of construction related products, provided by UOP's Air Correction Division, which were at record levels in 1976, declined 22% in 1977 from 1976 levels. Increased demand for Wolverine tube was responsible for the 15% increase in fabricated metal products. The transportation equipment sales increase of 38% in 1976 largely resulted from auto emission control device sales. During that year a new pellet catalyst plant went on stream. The 22% increase in 1977 is attributable to increased sales of van and off-the-road seating of the Bostrom Division. The most significant division in the chemicals and plastics line is the Norplex Division, which accounts for 61% of the revenue of the group and whose sales increased 20% from 1976 to 1977 due to increased worldwide demand. Other products include sales of Forest Products, where growth slowed in 1977 due to lower demand. The gross profit on sales of other products was 20% in 1975, 21% in 1976 and 18% in 1977. Part of this decline is due to increased costs of developing units in the fields of solid waste and mineral recovery where there are no revenues.

Construction Contracts

Although revenues from completed construction contracts declined in 1977 as compared to 1976 and 1975, the gross profit from completed contracts increased substantially due principally to contracts which are cost reimbursable versus fixed price contracts. In 1977 completed cost reimbursable contracts represented 78% of revenues, as compared to 24% in 1976 and 13% in 1975.

Engineering and Operating Services

Revenue from engineering and operating service contracts increased 30% in 1977 over 1976 and 21% in 1976 as compared to 1975. This increase is due principally to new project management contracts entered into by the Process Division.

General Expenses

Selling and administrative expenses increased \$10 million dollars in 1977 as compared to 1976. \$6 million of this increase was in selling expenses. Research and development expenses increased \$2 million in order to support the growing needs of the Company.

Refinery Receivable Write-Off

The 1975 loss is due to the write-off of a refinery company receivable as more fully explained in Note 3, "Notes to Consolidated Financial Statements".

Other Income, Net

Other income, net is summarized as follows (in thousands):

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Interest Income	\$2,765	\$3,342	\$5,045
Income from non-consolidated subsidiaries	577	331	1,906
Foreign currency exchange gains (losses)	(541)	(703)	566
Sales of property, net	(696)	(848)	616
Miscellaneous	<u>1,461</u>	<u>975</u>	<u>1,290</u>
	<u>\$3,566</u>	<u>\$3,097</u>	<u>\$9,423</u>

The interest income increase from \$2,765,000 in 1975 to \$5,045,000 in 1977 is attributable to the Company's cash balance which increased from \$23,279,000 to \$72,978,000 at the end of 1975 and 1977, respectively, a large part of which was invested in short-term money instruments. Changes in income from non-consolidated partially owned subsidiaries is due to normal operating variances of these companies. The Company's ownership in these non-consolidated subsidiaries is more fully described in Note 9, "Notes to Consolidated Financial Statements". Foreign currency exchange gains (losses) arose from differences in exchange rates of the foreign currency against the U.S. dollar. They represent unrealized gains and losses since the amounts arise only from the periodic translations of financial statements expressed in foreign currencies to U.S. dollars. During the three years foreign currency gains or (losses) were (000's omitted):

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Canada	\$ 115	\$ (62)	\$(598)
France	(76)	(195)	484
Germany	(190)	47	8
South America	(124)	(19)	(26)
United Kingdom	(217)	(529)	780
Other	<u>(49)</u>	<u>55</u>	<u>(82)</u>
	<u>\$(541)</u>	<u>\$(703)</u>	<u>\$ 566</u>

Sales of property in each of the years consists of gains from the disposal of surplus property of the Company offset in 1975 by the loss on the disposition of a plant in West Germany and in 1976 by the write-off of Canadian timber limits due to a fire. Miscellaneous income consists of small items from throughout the Company which cannot be reclassified elsewhere.

Income Taxes and Extraordinary Items

The provision for income taxes as well as the extraordinary item for 1976 and 1977 relating to income taxes, is more fully explained in Note 7, "Notes to Consolidated Financial Statements". In 1973, the extraordinary gain resulted from the sale of an investment.

RESULTS FOR THE QUARTER ENDED MARCH 31, 1978

Consolidated revenues, income before extraordinary items and net income of the Company for the three months ended March 31, 1978 (unaudited), were \$222,524,000, \$9,753,000 (\$0.85 per share) and \$11,876,000 (\$1.03 per share), respectively, compared to unaudited consolidated

revenues, earnings before extraordinary items and net income of \$178,994,000, \$6,436,000 (\$0.56 per share) and \$7,996,000 (\$0.70 per share), respectively for the three months ended March 31, 1977. Average outstanding shares were 11,483,000 for the three months ended March 31, 1978 and 11,481,000 for the three months ended March 31, 1977. Although the results of operations for relevant periods are unaudited, they include all adjustments which the Company considers necessary for a fair presentation of such results of operations.

Approximately 50% of net income for the first quarter of 1978 can be attributed to the completion of a refinery construction project on which the members of a joint venture, which included a Procon subsidiary as a 50% limited partner, served as the general contractor and on which UOP was a subcontractor. Other substantial contributors to the first quarter income were the Company's Wolverine, Johnson and Norplex Divisions.

Attached hereto as Appendix E is a copy of UOP's Form 10-Q Quarterly Report, which contains additional information regarding performance for the first quarter of 1978, as compared with the first and last quarters of 1977, including a management analysis of the consolidated statement of income.

FIVE-YEAR SUMMARY OF UOP'S OPERATIONS IN DIFFERENT INDUSTRIES

<i>Thousands of Dollars</i> <i>Years Ended December 31</i>					
	1973	1974	1975	1976	1977
Revenues(1)					
Petroleum & petrochemical(2)					
Royalties	\$ 25,278	\$ 33,673	\$ 35,496	\$ 28,660	\$ 39,038
Products	41,185	38,997	42,284	47,306	44,453
Engineering and operating services	14,865	21,059	23,683	28,667	37,233
Total	81,328	93,729	101,463	104,633	120,724
Construction(3)	188,460	300,051	186,474	187,418	154,562
Fabricated Metal Products					
Metal Tubing	166,324	183,377	124,917	141,375	162,171
Other Metal Products	31,895	43,844	58,847	50,337	38,162
Total	198,219	227,221	183,764	191,712	220,333
Transportation Equipment Products					
Vehicle Seats	50,414	55,514	56,581	73,254	90,227
Pollution Control Devices	271	7,051	11,619	21,205	25,078
Total	50,685	62,565	68,200	94,459	115,305
Chemical and plastics	56,940	77,378	64,979	86,574	105,186
Other products	25,187	20,059	10,166	12,245	13,768
Total	\$600,819	\$781,003	\$615,046	\$677,041	\$729,878
Income (Loss) From Continuing Operations Before Income Taxes and Extraordinary Items(1)					
Petroleum & petrochemical	\$ 13,688	\$ 18,949	\$ 18,280	\$ 20,895	\$ 22,730
Construction	2,646	(488)	(3,597)	2,293	1,259
Fabricated metal products	16,825	20,578	17,835	12,158	16,301
Transportation equipment	(1,469)	1,461	3,332	17,799	13,215
Chemical and plastics	6,984	10,224	(1,172)	2,288	8,476
Other products	3,776	3,478	(4,941)	(3,647)	(4,565)
Total	42,450	54,204	29,737	51,786	57,416
General corporate expenses	(15,692)	(16,694)	(14,083)	(15,784)	(12,618)
Corporate interest expense—net	(2,955)	(4,572)	(7,570)	(7,166)	(4,949)
Income from partially owned subsidiaries	1,310	2,446	577	331	1,906
Writeoff of receivables	—	—	(34,391)	—	—
Total	\$ 25,113	\$ 35,384	\$(25,730)	\$ 29,167	\$ 41,757
Total Assets(1)					
Petroleum and petrochemical	\$ 59,298	\$ 73,669	\$ 93,339	\$ 93,682	\$ 97,020
Construction	72,407	82,567	71,850	68,247	85,519
Fabricated metal products	85,010	96,634	89,685	91,517	100,183
Transportation equipment	33,926	50,865	52,994	55,048	66,845
Chemical and plastics	26,492	41,123	46,023	46,845	52,759
Other products	18,416	17,865	21,527	22,024	21,235
Total identifiable assets	295,549	362,723	375,418	377,363	423,561
Investment in non-consolidated subsidiaries	11,522	10,872	10,076	10,090	11,234
Corporate assets and research facilities	45,304	47,409	42,366	77,617	73,468
Assets of discontinued Fragrances Group	28,428	36,836	27,684	—	—
Total assets	\$380,803	\$457,840	\$455,544	\$465,070	\$508,263

- (1) See Note 13, "Notes to Consolidated Financial Statements" for information regarding revenues, income before income taxes and assets on a geographical basis.
- (2) Revenues from catalyst leases and sales, included in the "Products" line of revenues, and from royalties, engineering and operating services in the Five-Year Summary of Operations and Retained Earnings are included in this line.
- (3) Revenues of the Air Correction division, included in the "Products" line of revenues in the Five-Year Summary of Operations and Retained Earnings, are included in this line since the division (under construction contracts with customers) engineers, designs and constructs the facility in which air correction devices are installed.

PETROLEUM AND PETROCHEMICAL SERVICES AND RELATED PRODUCTS

The UOP Process Division, headquartered in Des Plaines, Illinois is engaged in research and development relating to, and designing and licensing of, its processes; manufacture and sale or lease of catalysts used in those processes; and furnishing engineering, refinery management and operating services to the petroleum and petrochemical industries. It competes with enterprises, including major private and foreign government-sponsored oil and chemical companies and research organizations, which supply these services for their own operations. In some cases these companies and research organizations license their technology to third parties. The division's catalyst business faces competition from major chemical and rare metals companies. Some of the division's competitors also are customers of UOP.

For a description of the Company's research and development activities related to this line of business see "Research and Development—Patents".

Process Licensing and Royalties

More than 3,300 "process units" located in over 80 nations use one or more of the more than 40 processes which the division licenses. Approximately 150 units using UOP processes have been designed each year during the past five years. Of the more than 40 processes offered by this division, the following five account for at least 65 per cent of the royalties received in each of 1976 and 1977:

UOP Platforming—Upgrades low-octane gasoline to much higher octane.

UOP Fluid Catalytic Cracking—Breaks down certain crude petroleum components into gasoline or distillate.

UOP Parex—Produces pure paraxylene, the key chemical for manufacturing polyester materials, such as film, fiber and yarn.

UOP Merox—A process method of removing or neutralizing malodorous sulfur compounds in distillates and other fuels.

UOP 'HF' Alkylation—A process used to form alkylates, a component of high-octane motor fuels.

Engineering, Guarantee and Service Agreements

The division usually enters into engineering and guarantee agreements in connection with its process licenses. Such engineering agreements require the division to furnish designs and specifications used in mechanical design and construction of the process units. Additionally, if UOP provides or approves the catalysts used in the process unit, it will enter into a guarantee agreement covering the performance of the unit and the catalysts with respect to quality and quantity of product and life of the catalysts.

Performance tests under the guarantee agreements usually are completed within a period of two years after the unit commences operation. The tests usually are conducted by the division's engineers and technicians. Under the performance guarantees, UOP has an obligation to make changes and modifications to the extent required for the unit to meet its guarantees within a stated period of time. If, after such period of time has elapsed, the unit has not met guarantees, UOP's liability is limited to a portion of the total royalty received in connection with the installation and operation of the unit. From time to time, UOP has incurred liabilities under these guarantees, the cost of which the Company has treated as current expense. One guarantee of a hydrocracking process unit, however, has given rise to litigation. See Note 2, "Notes to Consolidated Financial Statements".

The Process Division also enters into service agreements with its licensees. These involve consultation and analysis of the licensee's problems in connection with process equipment and process unit operations, including the finishing or additional processing of products. These agreements also make the Company's laboratory personnel and facilities available to process licensees.

An increasingly valuable service through UOP Management Services, Inc., a wholly-owned subsidiary, provides management and supervisory personnel to petroleum refinery customers of the Process Division.

Process Catalysts

The division manufactures various catalysts at its plants in McCook, Illinois and Shreveport, Louisiana. UOP catalysts are also produced and sold to UOP licensees by Universal-Matthey Products Limited in England and France, Universal-Matthey Products (Deutschland) G.m.b.H. in West Germany, and by Nikki-Universal Co., Ltd. in Japan, each of which is a 50 per cent owned nonconsolidated subsidiary company.

Catalysts are inert materials that, when present in a chemical process, aid in the chemical reaction without themselves entering into the reaction. While all catalysts are offered for sale by UOP, since 1969 the Platforming catalysts have been available also for lease. The catalysts manufactured by the division are utilized in various catalytic refining processes by the petroleum and petrochemical industries. The "Platforming", "Polymerization" and "Lomax" catalysts are trademark names and have accounted for between one-half and two-thirds of revenues related to catalyst sales and leases for the years 1973 through 1977.

The division under a long-term contract purchases platinum from one principal supplier for resale to the division's customers. Platinum contained in spent Platforming catalysts is usually recovered for those customers by the division at its Shreveport, Louisiana facilities. Other raw materials are readily available. The division is not dependent on any one customer.

CONSTRUCTION

Procon

The construction business of Procon International, Inc., headquartered in Des Plaines, Illinois, and its wholly-owned subsidiary companies (Procon Group) is world-wide with approximately 7 and 15 per cent of its revenues in 1976 and 1977, respectively, coming from foreign sources. Foreign sources also provided 53 and 46 per cent, respectively, of new business for the Procon Group in 1976 and 1977. See Notes 1(d), 4 and 15 to "Notes to Consolidated Financial Statements" for a description of construction contract accounting policies. See also "Management Analysis of Operations—Construction Contracts". The Procon Group has engineering offices in Des Plaines, Los Angeles, Houston, London and Paris.

Procon's backlog at December 31, 1976 and 1977 and new business obtained during the years ended on those dates were as follows:

Procon Backlog and New Business

December 31	Outstanding Contracts(1) (In Thousands)					
	Fixed Price	Cost Reimbursable	Total	Work to be Completed(2)	New Business in Backlog	New Business for the Year
1976	\$ 88,000	\$223,000	\$312,000	\$195,000	\$185,000	\$226,000
1977	\$160,000	\$214,000	\$374,000	\$225,000	\$146,000	\$161,000

(1) Includes estimates at year-end on contracts for which the total price has not yet been determined, prices set forth in letters of intent, costs paid or to be paid by customers directly to Procon's subcontractors under contracts which are Procon's responsibility, and Procon's proportionate share of net income from long-term construction contracts in joint ventures.

(2) "Work to be Completed" has been determined as outstanding contracts less cost of work incurred by year-end.

Procon Incorporated, Procon (Great Britain) Limited and UOP are involved in litigation relating to two refinery projects which were designed by the Company and constructed by Procon. See "Litigation" and Notes 2 and 3, "Notes to Consolidated Financial Statements".

The Company and Procon Incorporated have proposals outstanding involving the design, construction and operation of solid waste processing facilities which are designed to recover the heat energy content of municipal waste as well as other recoverable items. The Company will utilize the technology of the "Martin System" of Josef Martin Feuerungsbau G.m.b.H. of Munich, West Germany in refuse incineration plants. Exclusive domestic and certain foreign rights to this system were acquired by the Company in 1976.

Air Correction Division

This division designs, engineers and installs flue gas desulfurization systems and electrostatic precipitators for particulate removal for electric utility companies and related generating stations. It supplied, through its English and West German operations, dry gas scrubbers for projects in the Soviet Union involving a natural gas pipeline, separators in ammonia plants and thermal incinerators to clean up plant exhaust gases. See "Management Analysis of Operations—Products" for a discussion of sales fluctuations for this division.

The division guarantees the performance of its air pollution control equipment when installed according to its plans and specifications. Guarantee performance tests are conducted by division personnel and are usually completed within one year after operation of the equipment commences. Under performance guarantees, UOP has an obligation to make such changes and modifications to the equipment as required to meet the guarantees. If, after performance tests have been conducted, the equipment has not met guarantees, UOP's total liability, including the cost of making changes and modifications, is limited to the contract price of the installed equipment. UOP has incurred liabilities under these guarantees, the cost of which the Company has treated as current expense. Raw materials required are basically structural steel and construction materials and are readily available. The division does not depend on any one customer. Its facilities are adequate and are presently operating at full capacity.

FABRICATED METAL PRODUCTS

Each of these divisions starts its manufacturing process primarily with non-ferrous metals and steel, shapes these metals, and fabricates them into tubes, hose or screens, which are used primarily in the plumbing, heating, air-conditioning or construction industries and other businesses where liquids or gases are transported, heated or chilled or used in heating or cooling. The screens may also have other applications. All three units employ Company salesmen who market these products to industrial users and to manufacturers, or wholesalers, who deal in water-related and other products.

Wolverine Division produces seamless copper and copper-alloy tubing in the United States and Canada and other seamless non-ferrous tubing, including that made of aluminum, zirconium and titanium, in the United States. Its products are used in plumbing, heating, refrigeration and air conditioning equipment for domestic and industrial facilities and in nuclear power, desalination and chemical processing. The Wolverine operations' copper requirements are obtained from domestic and foreign producers under short-term contracts, copper merchants and the scrap market. The division is not dependent upon any single source of supply for its raw materials which consist primarily of non-ferrous metals. It is not dependent on any one customer. The facilities are adequate for current demands and on a combined basis of product manufacture, the facilities are operating at approximately 80% of capacity.

Johnson Division and its related foreign subsidiary companies design and manufacture precision profile wire screens for ground water and industrial applications including those used in the petroleum refining and petrochemical industries. The division is not dependent upon any single source of supply for its raw materials which are primarily stainless steel rods. It is not dependent upon any one customer. The division's facilities are adequate and are operating at approximately 75% of capacity.

Flexonics Division and its related Canadian subsidiary company manufacture and sell flexible metal hose, expansion joints, ducting and bellows. The division is not dependent upon any single source of supply for its raw materials which consists primarily of strip stainless steel, copper and brass. It is not dependent upon any one customer. Its facilities are adequate and operating at approximately 75% of capacity.

TRANSPORTATION EQUIPMENT PRODUCTS

This line includes divisions engaged in manufacturing equipment for transportation and certain other vehicles. The Bostrom Division manufactures seats for trucks, tractors, mass transit systems and the Aerospace Division manufactures seats for airplanes and boats, while the Automotive Products Division manufactures pollution control devices used primarily on automobiles. All three divisions sell to manufacturers of trucks, autos, airplanes and other vehicles.

The Bostrom Division and its related English, Belgian and Australian subsidiary companies produce specialized suspension seating for on-the-road trucks and off-the-road vehicles. Bostrom also produces fixed seating for tractors, pick-up trucks, campers, mass transit systems, automobiles (Jeep) and snowmobiles, and in the United States provides custom van conversion for Chrysler and General Motors' dealers. In 1977, Bostrom seats sold to Mack Trucks, Inc., a wholly-owned subsidiary of Signal, constituted 7.6 per cent of Bostrom's revenues for the year. The division is not dependent upon any single source of supply for its raw materials which consist of sheet steel and plastics for cushions and covers. It is not dependent upon any single customer. Its facilities are adequate and are being utilized at approximately 85% of capacity.

The Automotive Products Division manufactures and sells internal combustion engine exhaust pollution control devices and catalysts. It is the principal supplier of these catalysts to Chrysler Corporation (which originally was the division's sole customer, but currently accounts for one-third of its sales under long-term contracts) and a supplier of a portion of Ford Motor Company's requirements. It is also a major supplier of catalysts to Fiat S.p.A., Nissan Motor Company, Ltd., Porsche A.G., and Toyo Kogyo Co., Ltd. The division also supplies UOP designed exhaust converter devices to Porsche A.G. and Fiat S.p.A. In most cases, catalyst materials are supplied by the customer. Other materials consist of ceramic substrates which are readily available. The division's facilities are modern and adequate. It is currently operating at approximately 80% of capacity.

The Aerospace Division manufactures seats and galleys for the aircraft and airline industries. During the past several years lack of demand has curtailed this division's activities; however, beginning in 1976 and continuing in 1977 orders for seating from several major airlines have increased. The division is not dependent upon any single source of supply for its raw materials which consist of sheet aluminum, steel and plastic. It is not dependent upon any one customer. Its facilities have recently been improved and are operating at approximately 80% of capacity.

CHEMICAL AND PLASTICS

This line of business is conducted by four divisions of UOP, which manufacture or produce chemical or plastic end products or chemical or plastic intermediates which may be further manufactured into other products. The manufacturing process is chemical in nature and/or involves the forming of chemical-based intermediates into other products. Marketing efforts to sell the products produced by this group of UOP divisions are directed to a broad range of customers.

The most significant division in this line is Norplex, which manufactures and sells copper-clad plastic laminates primarily for use in printed circuitry and unclad plastic laminates for electrical circuit mountings, insulators, thermal and display applications in the electronic, electrical and mechanical industries. Its Norplex Europa division of UOP Inc. G.m.b.H. in West Germany manufactures and sells copper-clad laminates and fabricated parts in Europe. The division recently opened a sales office in Hong Kong. The division's facilities have recently been modernized and are being utilized at approximately 85% of capacity.

The Chemical Division manufactures products which include organic chemicals for the rubber, food, pharmaceuticals and plastics industries. The facility at East Rutherford, New Jersey is not modern and is operating at 100% of capacity.

The Fluid Systems Division designs and manufactures reverse osmosis and ultrafiltration systems and modules for many types of industrial, commercial and municipal water purification projects around the world. The facility is marginally adequate. Research, engineering and administrative areas are utilized at approximately 80% of capacity.

The Water Services Division produces and sells water treatment products for the chemical, construction, industrial maintenance, petroleum and utility industries. The division's facilities are adequate and are being utilized at approximately 75% of capacity.

The Chemical and Plastics units are not dependent upon any single source of supply for raw materials which consist of a variety of basic inorganic chemicals, resins, copper sheet, paper and cloth. None of the units are dependent upon any one customer.

OTHER PRODUCTS AND SERVICES

The products of the Forest Products Division in Canada include hardwood and softwood veneers for the furniture industry and pulpwood.

The Mineral Sciences Division markets UOP's process for the recovery of nickel from laterite ores. Its technical development facility, including a pilot demonstration unit for the nickel recovery process, is located near Tucson, Arizona. The division's facilities are adequate for the foreseeable future.

Organic Recycling, Inc., markets "Organo-System", a process for converting sewage sludge into organic intermediates or a final product for use as slow release plant foods.

Raw materials for these units are readily available. None of the units are dependent upon any one customer. The pilot plant at Washington, D.C. is processing test quantities of municipal sludge from the District of Columbia sewage treatment plant. It is operating at approximately 20% of capacity.

RESEARCH AND DEVELOPMENT—PATENTS

UOP places strong emphasis on research and development in all areas of its business. For research and development expenses for the years 1973-1977, please refer to "Consolidated Summary of Operations".

During 1977, UOP was granted 213 United States patents and 603 foreign patents. During 1976, 219 United States and 582 foreign patents were granted. UOP presently has more than 3,045 United States and 6,032 foreign patents from more than 100 countries for its various proprietary processes and products. The average life of these patents is approximately eight years. Most of UOP's patents are used in connection with the licensing of processes to the petroleum and petrochemical industries. Others relate to the products, including catalysts, which are manufactured and supplied by UOP to the petroleum and petrochemical industries. The remainder relate primarily to apparatus, chemicals and processes which may be useful in the petroleum or chemical industries or to seats for vehicles, devices for control of motor vehicle exhaust emissions, industrial air correction equipment, ultrafiltration and reverse osmosis systems.

At the Corporate Research Center, UOP maintains a staff of approximately 130 graduate scientists and engineers and 210 technical support personnel. These people are engaged in research and development to support existing business areas and developing technologies as new business opportunities. A large part of the effort is in the area of petroleum refining and petrochemicals. Since this industry is almost completely catalysis oriented, there is extensive work in this area. Much of the work in the petrochemical area centers around separations of various intermediates for subsequent use in plastics and fibers. More recently the separation work has been extended to the food industry, specifically for the separation of higher sweetening power fructose from sugars. In addition, a substantial amount of work is being done in the enzyme area. Considerable effort is devoted to mineral recovery processes and environmental pollution control from both mobile and stationary sources. Work also is being performed under government contracts in the fuel cell area and in characterization of products derived from coal liquefaction.

EMPLOYEES

Employees Engaged in Each Line of Business As of December 31, 1977

	<u>Domestic</u>		<u>Foreign</u>	
	<u>Non-Union</u>	<u>Union (1)</u>	<u>Non-Union</u>	<u>Union (1)</u>
Petroleum, Petrochemical Services and Related Products . .	1,343	189	133	—
Construction	1,119	132	364	141
Fabricated Metals	2,008	415	380	118
Transportation Equipment Products	1,090	1,058	167	375
Chemicals and Plastics	644	340	6	216
Other Products and Services	108	—	94	547
Corporate Research	343	—	—	—
Corporate Headquarters	273	—	—	—

(1) Approximately 34 per cent of UOP's employees are represented by unions of which seven are in the United States and four in Canada.

Termination Date of a Major Collective Bargaining Agreement(1)

<u>Plant Location</u>	<u>Name of Union</u>	<u>Termination Date</u>
LaCrosse, Wisconsin	International Union, United Automobile and Agricultural Implement Workers of America	April 13, 1979

(1) Major collective bargaining agreements are those involving more than 200 employees.

LITIGATION

Material pending legal proceedings, other than ordinary routine litigation, incidental to the business of the Company and its subsidiaries are as follows:

(a) Aminoil (U.S.A.) is presently the real party in interest in two lawsuits brought in 1970 against the Company and Procon Incorporated (a wholly-owned subsidiary company) in the District Court of Harris County, Texas. The plaintiff claims actual damages of approximately \$22,000,000 and punitive damages of \$25,000,000 (as contained in a petition filed in November, 1977 amending a petition filed in 1970) with respect to the performance of a refinery process unit designed by the Company and constructed by Procon Incorporated. The amended petition claims that the defendants fraudulently induced the plaintiff to install the unit, fraudulently misrepresented the performance of the unit and the cost of construction and operating the unit and that the unit was negligently designed and constructed. The Company denies any misrepresentation relating to the unit, and the Company and Procon contend that they performed in accordance with the terms of their contracts with the plaintiff and that the claims are barred by the statute of limitations, waiver, estoppel and improper operation and maintenance of the unit by the plaintiff. Trial is expected in the Fall of 1978.

(b) In February 1976, Shaheen Natural Resources Company, Newfoundland Refining Company, Limited, Provincial Building Company, Limited and Provincial Refining Company, Limited filed a lawsuit against the Company, Procon Incorporated and Procon (Great Britain) Limited, UOP subsidiary companies, in the Supreme Court of New York. The plaintiffs allege delays in constructing the refinery at Come-by-Chance, Newfoundland, breaches of the construction contract and misrepresentation. They have claimed damages against the defendants in the amount of \$189,000,000. The Clarkson Company Limited, as Trustee in Bankruptcy of the refinery, and Peat Marwick Limited, as Receiver and Manager under a first mortgage on the refinery, were added as additional plaintiffs in this suit by the New York Court in February 1977. Third Party complaints seeking indemnity or contribution have been filed by the Company and its Procon subsidiaries against the vendors of the hydrogen plant reformer furnaces for the refinery.

(c) Procon (Great Britain) Limited has filed suit in the High Court of Justice, London, England against Provincial Building Company, Limited, and Provincial Refining Company,

Limited for £1,380,000 and (Canadian) \$9,212,000 for work and services performed in connection with the construction of the Come-By-Chance refinery. Liability is denied by the defendants and a counterclaim is asserted against Procon (Great Britain) for \$18,000,000 for alleged equipment failure and \$97,218,000 for lost profits and other damages. The counterclaim alleges delay, negligence and fundamental breach of contract. In a companion case, UOP has sued Provincial Building Company, Limited and Provincial Refining Company, Limited for \$6,260,000 which was the amount paid by UOP as a guarantor of the second Euro-dollar loan for the construction of the refinery. Liability is denied by the defendants. A counterclaim, for which no specific amount has been given, has been filed against UOP alleging negligence in the design of certain units of the refinery and relating to performance guarantees given on certain units in the refinery, which was constructed by Procon (Great Britain) Limited. The counterclaim alleges that if there were any defects in the construction of the refinery for which Procon (Great Britain) is not liable, then UOP is liable for any such deficiencies. UOP denies that it owed any duty other than as expressly set out in the guarantee agreements for the various units and that all units for which guarantees were given have either met their guarantees in performance or are deemed to have met them pursuant to the terms of the agreements.

(d) In May 1976, a purported class action was instituted by Michael and Deborah Tanzer against the Company, all of its present directors and certain of its past directors and Arthur Andersen & Co., its auditors, alleging damages sustained by purchasers of UOP common stock during the period of February 25, 1975 to February 23, 1976. The complaint was filed in the Federal District Court for the Northern District of Illinois. The plaintiffs allege, among other things, failure to disclose potential losses and contingent liabilities in connection with the construction of a refinery at Come-By-Chance, Newfoundland. The complaint also seeks an accounting for profits made by defendants, punitive damages, interest, costs and expenses, including reasonable attorney's and accountant's fees, and such other and further relief as to the court may seem just and proper. The defendants deny the allegations of the complaint and assert that the action cannot be maintained as a class action and that the defendants at all times acted in good faith and in the best interests of the Company and its stockholders.

(e) In January 1976, Ajax International Corporation filed suit against the Company in the United States District Court at San Diego, California alleging violation of antitrust laws, breach of contract, negligent performance of contract, interference with contractual relations and intentional interference with prospective economical advantages. The plaintiff also alleges certain exclusive rights to distribute modules and systems and that UOP is, through various means, attempting to monopolize its products and drive the plaintiff out of business. The plaintiff claims actual damages in the amount of \$10,100,000, punitive damages in the amount of \$50,000,000 and seeks a permanent injunction against certain of the Company's business practices.

On the basis of the information presently available to them, management and the Vice President—General Counsel for the Company are of the opinion that the suits and counterclaims against the Company set forth above can be successfully defended and in any event the ultimate liability, if any, resulting therefrom will not materially adversely affect the Company's financial position on a consolidated basis.

(f) In August 1974, a lawsuit was instituted against Combustion Engineering, Inc., Bechtel Corporation, Bechtel Company, Ingersoll-Rand Company and the Company alleging damages against the defendants jointly and severally in excess of \$300,000,000 together with interest and costs. The legal action was instituted in a Federal District Court in Michigan by Consumers Power Company, a public utility. This action allegedly arose in connection with the design, construction and supply of a nuclear fueled, steam generated electric plant for the plaintiff at its Palisades plant in Michigan. The Company's Wolverine Tube Division supplied admiralty condenser tubes in the first half of 1968 pursuant to an agreement entered into in the first half of 1967 at a price of approximately \$778,000 for installation in the main condenser of the above plant. The complaint alleged breach

of express and implied warranties by the Company and negligence and gross negligence in the design, manufacture and repair of said tubing.

The suit was settled out of court with Consumers Power Company in October 1976. Pursuant to the terms of the Settlement Agreement, Consumers Power Company agreed to defend UOP and hold it harmless in any third party action. The settlement was for \$2,500,000, most of which was paid by the Company's liability insurer. Consumers Power Company obtained the dismissal of UOP from the legal action. Ingersoll-Rand also settled with Consumers Power Company. In 1977, Bechtel and Combustion Engineering, the remaining defendants in the case, filed third party complaints against UOP and Ingersoll-Rand. Thereafter, Bechtel and Combustion Engineering also settled with Consumers Power and dismissed the third party actions against UOP and Ingersoll-Rand thereby terminating this litigation.

PROPERTIES OF UOP

World Headquarters

UOP's World Headquarters and its research facilities are located in modern buildings at Des Plaines, Illinois, a suburb of Chicago. These buildings contain approximately 335,000 square feet of covered floor space. The Des Plaines site also includes a pilot plant building, automotive laboratory, garage and maintenance shops. The site is comprised of approximately 73 acres of landscaped and otherwise improved land.

UOP's principal properties, according to its lines of business set forth above, are described below.

Petroleum and Petrochemical Services and Related Products

The Process Division's administrative headquarters are located at Des Plaines, Illinois; its research and development facilities at Riverside, Illinois; and its catalyst manufacturing facilities at McCook, Illinois and Shreveport, Louisiana. These facilities consist of approximately 500,000 square feet of covered floor space and 725 acres of land owned by the Company. The division also leases approximately 26,000 square feet of covered floor space for offices at Tulsa, Oklahoma; Houston, Texas; Los Angeles, California; London, England; Lugano, Switzerland; Tehran, Iran; Madrid, Spain; Brussels, Belgium; and Bogota, Colombia.

Construction

Procon International Inc. has its world headquarters at Des Plaines, Illinois. Its administrative headquarters and those of its subsidiary Procon Incorporated, at Des Plaines, Illinois, and offices at Los Angeles, Houston, London and Paris involve approximately 235,000 square feet of covered floor space. Of these facilities, approximately 40,000 square feet are owned by Procon Incorporated, 58,000 square feet owned by the Company and the balance is leased from third parties.

Air Correction Division has facilities for fabricating industrial air pollution control systems and manufacturing catalysts at Darien and Norwalk, Connecticut; Bloomer, Wisconsin; and Frankfurt, West Germany. These facilities involve approximately 26 acres of land and approximately 150,000 square feet of covered floor space. An additional approximately 31,000 square feet of covered floor space is leased from third parties.

Fabricated Metals

Flexonics Division and related UOP subsidiaries have manufacturing facilities for flexible metal hose and expansion joints at Bartlett, Illinois and Brampton, Ontario. These facilities consist of approximately 394,000 square feet of covered floor space and 54 acres of land owned by the Company.

Johnson Division and related UOP subsidiaries have water well and industrial screen fabricating facilities at New Brighton and St. Paul, Minnesota; Thorofare, New Jersey; Kirrawee, Australia; Dublin, Ireland; Buenos Aires, Argentina; Sao Paulo, Brazil; and Naintre, France. These facilities consist of approximately 41 acres of land and approximately 360,000 square feet of covered floor space of which approximately 47,000 square feet of covered floor space is leased from a third party.

Wolverine Division has non-ferrous tube fabricating facilities at Decatur, Alabama; Dearborn Heights, Michigan; Shawnee, Oklahoma; Ardmore, Tennessee; and London, Ontario consisting of approximately 1,100,000 square feet of covered floor space and approximately 250 acres of land. The Company owns all of these facilities, except 250,000 square feet of covered floor space and 51 acres of land, which are owned by an industrial authority and leased to the Company; and 28.5 acres of land and approximately 186,000 square feet of covered floor space leased from another third party.

Transportation Equipment Products

Automotive Products Division leases at Tulsa-Port of Catoosa, Oklahoma, under a long-term lease, approximately 60 acres of land on which the catalyst manufacturing facilities are located, comprising approximately 160,000 square feet of covered floor space.

Aerospace Division has aircraft seating and galley fabricating facilities at Bantam, Connecticut; Jacksonville, Florida; and Paramount, California. These facilities involve approximately 43 acres of land of which 35 acres are owned by the Company and approximately 317,000 square feet of covered floor space of which approximately 40,000 square feet is leased from a third party.

Bostrom Division and related UOP subsidiaries have motor vehicle seat manufacturing facilities at Milwaukee and Cudahy, Wisconsin; Piedmont, Alabama; Northampton, England; and Nivelles, Belgium involving approximately 938,000 square feet of covered floor space and 83 acres of land of which approximately 75 acres of land and 725,000 square feet of covered floor space are leased. Bostrom's new plant, opened in 1977 at Festus, Missouri, involves approximately 4 acres of land and approximately 27,000 square feet of covered floor space. Said plant is leased from a third party and is utilized for conversions of Dodge Sportsman and Plymouth Voyager vans to UOP Versavans.

Chemicals and Plastics

Norpalex and a related subsidiary have copper-clad and unclad plastic laminating facilities at Franklin, Indiana; LaCrosse and Black River Falls, Wisconsin; and Egerpohl, West Germany, involving approximately 74 acres of land and approximately 420,000 square feet of covered floor space owned by the Company. The division's newest facility located at Postville, Iowa, involving approximately 80,000 square feet of covered floor space and 20 acres of land, is owned by an industrial authority and leased to the Company.

The Fluid Systems Division has administrative, research and management facilities at San Diego, California involving approximately 56,500 square feet of covered floor space located on four acres of land which is leased from a third party.

Chemical Division has aroma and industrial chemical manufacturing facilities at East Rutherford, New Jersey involving approximately 74 acres of land and 177,000 square feet of covered floor space owned by the Company. The Company also acquired an additional 49 acres of land and approximately 132,000 square feet of covered floor space at another location.

Water Services Division has manufacturing facilities at Burbank, California, comprising approximately one acre of land and approximately 22,000 square feet of covered floor space owned by the Company.

Other Products and Services

Forest Products Division of a related Canadian subsidiary of UOP has veneer mills and lumber processing facilities at Rutherglen, Ontario and Tee Lake, Quebec. These facilities involve approximately 105 acres of land and approximately 265,000 square feet of covered floor space owned by the Company and its subsidiary company. An additional 482 acres of forest land is leased from the Province of Quebec. See also "Land and Rights in Land".

Mineral Sciences Division, with administrative offices at Des Plaines, Illinois and its Technical Development Center near Tucson, Arizona, utilizes 64 acres of land and approximately 6,800 square feet of covered floor space owned by the Company.

Organic Recycling, Inc., a wholly-owned subsidiary of the Company, with administrative offices, pilot plant and process development facilities at West Chester, Pennsylvania, has facilities for conversion of sewage sludge to organic plant food at Washington, D.C. involving 11 acres of land and approximately 14,000 square feet of covered floor space. The land and 6,000 square feet of floor space are leased from third parties.

Land and Rights in Land

UOP owns approximately 220,000 acres of land in Houghton, Keweenaw and Ontonagon Counties in the Upper Peninsula of Michigan. Approximately 204,000 acres of this area are forested with hardwood and softwood timber and pulpwood. UOP owns an additional hardwood and pulpwood forest of approximately 70,000 acres in Wisconsin. These forests have been leased to Louisiana-Pacific Corporation for a term of 15 years for timber cutting and removal in connection with the divestment of the Goodman operations in 1974. UOP also has timber cutting rights on approximately 1,600,000 acres of forest lands in Quebec and Ontario held under license. Each year species are allocated and the timber is cut and removed. The forested land is utilized by the Company's Forest Products Division.

The 220,000 acres of land in the Upper Peninsula of Michigan are located in a copper district where the Company's former Calumet Division operated mines which were closed in 1969, after a prolonged labor strike. The Company has no present plans to reopen the mines. However, exploration activities to determine whether copper again can be economically extracted from these lands have been conducted by Homestake Mining Company. See "Agreement with Homestake Mining Company". Mineral rights to approximately 34,373 of the 220,000 acres of land were leased to an unaffiliated company in 1962. That company simultaneously leased to UOP mineral rights to approximately 41,616 acres owned or held by that company. Some of the rights leased to UOP are subject to the Homestake Agreement. The cross-leased lands are presently non-producing and in the event commercial mining is ever resumed, neither UOP nor the unaffiliated company will be obligated to pay each other any royalties.

UOP Realty

UOP Realty Development Company, a wholly-owned subsidiary, was organized in October, 1971, to implement UOP's plan to sell or develop real property not being utilized in current operations and to serve as a focal point for the development of UOP's real estate holdings in the Upper Peninsula of Michigan and in Decatur, Alabama. The real estate at Decatur, Alabama, known as Pointe Mallard Estates, is becoming a planned residential community of 860 dwelling units, being developed by unaffiliated companies, comprised of single-family residences, townhouses, patio homes and apartments.

As a result of a commissioned study, UOP is encouraging, in cooperation with local planning and advisory groups, the development of a historic, tourist and service center in the Upper Peninsula of Michigan known as Coppertown, U.S.A.

Agreement with Homestake Mining Company

In July 1972, UOP entered into an agreement with Homestake Mining Company, which contemplated the exploration, development and mining of the Company's mineral properties in the Upper Peninsula of Michigan. Under the agreement, Homestake is granted an option to lease approximately 58,250 acres of mineral rights from UOP and the unaffiliated company described in "Land and Rights in Land" for a period of 60 years, or as long thereafter as minerals can be mined economically. The option was granted by the Company at no cost to Homestake, but it could not be exercised unless Homestake fulfilled certain conditions, including the expenditure of at least \$1,000,000 and up to \$3,000,000 to explore and develop the mineral potential of these properties, which conditions Homestake has fulfilled. The option period extends over 7 years and 2 months and may be extended up to 11 years from the original date if delay results from force majeure causes. Homestake may terminate the agreement during various phases of the option period. Homestake elected to lease and mine certain of UOP's mineral properties in late 1975 and shared mining revenues with UOP by payment of royalties through the third quarter of 1976. A severe drop in copper prices and the current worldwide oversupply of copper has, however, caused Homestake to shut down this mining operation.

UOP MANAGEMENT

The directors and executive officers of UOP, the shares of Common Stock which may be deemed to be owned beneficially by them at March 15, 1978, and the principal affiliations of the non-officer directors, are as follows:

<u>Name</u>	<u>Principal Occupation</u>	<u>Shares Owned</u>
Charles S. Arledge*	Vice President of Signal	(1)
Andrew J. Chitiea*	Senior Vice President of Signal	(2)
George L. Clements*	Retired Chairman of the Board, Jewel Companies, Inc. (diversified retailing)	600
James V. Crawford*	President and Chief Executive Officer of the Company	6,500(3)
James W. Glanville*	Managing Director and Member of the Board of Lehman Brothers Kuhn Loeb Incorporated (investment banking)	200
Richard A. Lenon*	Chairman of the Board, President and Chief Executive Officer, International Minerals and Chemical Corporation (agriculture, industrial materials and chemicals)	325
John O. Logan*	Chairman of the Board of Directors of the Company	7,200(4)
Frank J. Pizzitola*	General Partner, Lazard Freres & Co. (investment banking)	500
William J. Quinn*	Chairman and Chief Executive Officer, Chicago, Milwaukee, St. Paul and Pacific Railroad Company	200
Forrest N. Shumway*	President and Chief Executive Officer of Signal	(5)
Robert S. Stevenson*	Former Chairman, Allis Chalmers Corporation (diversified manufacturing)	450
Maynard P. Venema*	Former Chairman of the Board of the Company	8,754
William E. Walkup*	Chairman of the Board of Directors and Executive Vice President of Signal	(6)
Harry H. Wetzel*	President and Chief Executive Officer of The Garrett Corporation (aerospace and transportation), a wholly-owned subsidiary of Signal	(7)
Robert M. Baratta	Executive Vice President of the Company	—
James W. Dunham	Group Vice President	—
John F. Flagg	Vice President—Director of Research	257
Vladimir Haensel	Vice President—Science and Technology	138
Thomas A. Howell	Vice President of the Company; President, Procon International Inc.	—
Merl B. Peek	Secretary	—
John F. Pittas	Vice President of the Company; President, UOP Process Division	—
Carl H. Schumann	Vice President—Finance and Treasurer	135
Allison K. Simons	Group Vice President	200
Cecil H. Suter	Vice President of the Company; President, UOP Product Groups	450
John G. Woods	Vice President—General Counsel	—

*Present directors of UOP.

(1) Mr. Arledge beneficially owned, directly or indirectly, 5,189 shares of Common Stock of Signal as of March 15, 1978.

(2) Mr. Chitiea beneficially owned, directly or indirectly, 10,372 shares of Common Stock of Signal as of March 15, 1978. Mr. Chitiea is sole trustee of trusts for his children which hold 6,000 shares of Signal Common Stock.

- (3) Mr. Crawford beneficially owned, directly or indirectly, 16,407 shares of Common Stock of Signal as of March 15, 1978. Such number of shares includes 11,260 shares held by the James V. Crawford Family Trust of which Mr. Crawford is a beneficiary.
- (4) Does not include shares owned by Mrs. Logan in which Mr. Logan expressly disclaims any beneficial interest. Mr. Logan beneficially owned, directly or indirectly, as of March 15, 1978, 563 shares of Signal Common Stock.
- (5) Mr. Shumway owned beneficially, directly or indirectly, 55,297 shares of Common Stock of Signal as of March 15, 1978. The above number of shares of Common Stock includes 2,682 shares held by Mr. Shumway as custodian for his minor son, 2,682 shares held by a daughter and 2,682 shares held by Mrs. Shumway. Mr. Shumway disclaims any beneficial interest in the shares held by his daughter and by Mrs. Shumway.
- (6) Mr. Walkup owned beneficially, directly or indirectly, 17,347 shares of Common Stock of Signal as of March 15, 1978.
- (7) Mr. Wetzel owned beneficially, directly or indirectly, 92,705 shares of Common Stock of Signal as of March 15, 1978. Such number of shares includes 43,918 shares held by the Harry H. Wetzel Jr. Trust and 28,606 shares held by the Harry H. Wetzel Jr. Family Trust. Mr. Wetzel is a beneficiary of both trusts. The total number of shares also includes 10,010 shares held in the Savings and Stock Purchase Plan of Signal.

NOMINEES FOR ELECTION AS DIRECTORS

Pursuant to the By-Laws, fourteen directors, constituting the entire Board of Directors, are to be elected at the Annual Meeting, each to hold office as provided in the By-Laws until the next annual meeting or until their respective successors have been elected and qualified. Of the nominees for director as set forth below, Messrs. Charles S. Arledge, Brewster L. Arms, Andrew J. Chithea, Forrest N. Shumway, William E. Walkup and Harry H. Wetzel are employees of Signal or a subsidiary company other than UOP and are directors of Signal. Mr. James V. Crawford, President and Chief Executive Officer of UOP, is presently a director of Signal and he is standing for re-election at the Signal annual meeting of stockholders, which will be held on April 25, 1978. It is intended that the candidates will be nominated for the office of director and that the shares represented by the enclosed proxy, if signed and returned to the Company and not marked to the contrary, will be voted for the election of the nominees as directors. While it is not anticipated that any of the nominees will be unable to serve as director, if any should be unable to serve, proxies will be voted in favor of such person or persons in lieu thereof as the Board of Directors shall determine. The information set forth below concerning the nominees was obtained partly from the Company records and partly from the candidates for the office of director. No nominees hold any shares of Signal Common Stock other than reflected in the preceding notes to "UOP Management".

<u>Name</u>	<u>Principal Occupation or Employment</u>	<u>Period of Service as Director</u>	<u>Shares of Common Stock Owned Beneficially on March 15, 1978</u>
Charles S. Arledge	Vice President of Signal	1975 to date	See Note (1) above
Brewster L. Arms (1)	Vice President and General Counsel of Signal	Nominee for first time	— (1)
Andrew J. Chithea(2)	Senior Vice President of Signal	1975 to date	See Note (2) above
James V. Crawford(2)	President and Chief Executive Officer	1975 to date	6,500 See Note (3) above
James W. Glanville(2)	Managing Director and Member of the Board of Lehman Brothers Kuhn Loeb Incorporated (investment banking)	1971 to date	200

<u>Name</u>	<u>Principal Occupation or Employment</u>	<u>Period of Service as Director</u>	<u>Shares of Common Stock Owned Beneficially on March 15, 1978</u>
Richard A. Lenon (2)	Chairman of the Board, President and Chief Executive Officer, International Minerals and Chemical Corporation (agriculture, industrial materials and chemicals)	1973 to date	325
John O. Logan	Chairman of the Board of Directors	1966 to date	7,200 See Note (4) above
Frank J. Pizzitola	General Partner, Lazard Freres & Co. (investment banking)	1975 to date	500
William J. Quinn (2)	Chairman and Chief Executive Officer, Chicago, Milwaukee, St. Paul and Pacific Railroad Company (railroad transportation)	1967 to date	200
Forrest N. Shumway	President and Chief Executive Officer of Signal	1975 to date	See Note (5) above
Robert S. Stevenson	Former Chairman, Allis Chalmers Corporation (diversified manufacturing)	1963 to date	450
Maynard P. Venema	Former Chairman of the Board of Directors of the Company	1955 to date (3)	8,754
William E. Walkup	Chairman of the Board of Directors and Executive Vice President of Signal	1975 to date	See Note (6) above
Harry H. Wetzel	President and Chief Executive Officer, The Garrett Corporation (aerospace and transportation), a wholly owned subsidiary of Signal	1975 to date	See Note (7) above

(1) Mr. Arms, a graduate of Stanford University and Stanford Law School, is a member of the American Bar Association, State Bar of California and the Los Angeles County Bar Association. He was Secretary and Attorney for Bankline Oil Company from 1952 to 1959, when that company merged into Signal. He became Secretary of Signal in 1963 and Vice President and General Counsel in 1970. He is also a Vice President of Mack Trucks, Inc. Mr. Arms owned beneficially, directly or indirectly, 5,263 shares of Common Stock of Signal as of March 15, 1978. Such number of shares include 405 shares held by him as custodian for his three minor children and 261 shares held in the Savings and Stock Purchase Plan of Signal.

(2) Members of the Audit Committee of which Mr. Lenon is Chairman.

(3) Includes period of service as director of predecessor company.

Resignations Upon Effectiveness of the Merger—Successor Directors

Messrs. James W. Glanville, Richard A. Lenon, John O. Logan, Frank J. Pizzitola, William J. Quinn and Maynard P. Venema, proposed by management to be elected directors at the meeting, have indicated that after the Merger becomes effective they will resign. Signal has informed UOP that nominees for the vacancies created by these resignations, which under the Company's By-Laws can be filled by the remaining directors, will be as follows:

Robert M. Baratta, a graduate of Georgetown University and Georgetown Law School, Washington, D.C., joined UOP's Legal Department in 1957. He has served UOP in various capacities since then, including General Manager, UOP Processes International, Inc. (Lon-

don); Staff Vice President; and Vice President, Administration; and his present position is Executive Vice President.

Thomas A. Howell, a graduate of the University of Tulsa, Tulsa, Oklahoma, joined Procon Incorporated as Executive Vice President in 1977 after a career of 27 years in petroleum engineering with C. F. Braun & Co., J. F. Pritchard & Co. and Fluor Utah, Inc. He was appointed President and Chief Executive Officer, Procon International Inc. and a Vice President of the Company in late 1977.

John F. Pittas, a graduate of the University of Notre Dame and Georgetown Law School, joined UOP's Legal Department in 1960, after serving in the Division of Corporation Finance, Securities and Exchange Commission. He has served UOP in various capacities, including Assistant to the President, Vice President—Administration and Executive Vice President, all in the UOP Process Division. He was appointed President, UOP Process Division, and a Vice President of the Company in January, 1976.

Carl H. Schumann, a graduate of Oklahoma State University, joined UOP in 1968 as Assistant Controller after 14 years of service with Arthur Andersen & Co. He was appointed Controller in 1969 and Vice President—Finance in 1975 and in 1976 he was appointed to the additional office of Treasurer.

Cecil H. Suter, a graduate of the University of Minnesota, joined UOP in 1968 with the merger of Calumet & Hecla, Inc. into UOP, after serving in mine engineering and mine superintendent positions in Brazil and the United States. He has served UOP as Vice President and General Manager, Calumet Division; Vice President—General Manager, Flexonics Division; Group Vice President; and Vice President—Manufacturing and Vice President. He was appointed President, UOP Product Groups in July 1975.

REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid by the Company for 1977 to each director, to each of the three highest paid officers whose aggregate direct remuneration exceeded \$40,000 and to all directors and officers as a group and the amounts set aside or accrued for such persons pursuant to the existing contributory Pension Plan for 1977 and the estimated annual benefits upon retirement are as follows:

<u>Name of Individual or Identity of Group</u>	<u>Capacities in Which Remuneration Received</u>	<u>Aggregate Direct Remunera- tion(1)</u>	<u>Amounts Set Aside or Accrued Under Pension Plan</u>		<u>Estimated Annual Benefits Upon Retire- ment(2)</u>
			<u>Company Contribution</u>	<u>Individual Contribution</u>	
James V. Crawford	President and Chief Executive Officer of the Company	\$ 251,613	\$12,268	\$ 4,196	\$25,559
John O. Logan	Chairman of the Board of Directors of the Company	128,019	—	—	—
Cecil H. Suter	Vice President of the Company and President, UOP Product Groups	127,038	6,730	2,227	37,658
All Directors and Officers as a Group (27 persons)		1,503,166	67,204	21,940	—

- (1) The amounts shown as Aggregate Direct Remuneration include base salaries and bonus amounts only. However, the amount for Mr. Crawford, includes \$2,089 for financial advisory services provided by Signal and \$600 as reimbursement for mandatory contributions to UOP's Pension Plan as provided in his employment agreement in addition to his base salary; and the amount for Mr. Logan, whose aggregate direct remuneration amount includes \$25,000 received as a consultant to the Company and \$4,500 received for services performed as a director of the Company in addition to his base salary. Nonsalaried

directors of UOP receive an annual retainer amount of \$6,000 plus \$500 for each meeting attended of the Board of Directors or a committee of the Board of Directors. However, if a committee meeting immediately precedes or follows a Board of Directors meeting, no fee is paid for committee attendance. Representatives of Signal do not receive the annual retainer amount of \$6,000. However, they do receive \$500 for each meeting attended which amount they in turn deliver to Signal. Aggregate Direct Remuneration does not include the value of club memberships which the Company provided to Messrs. Crawford and Logan in 1977 in amounts of \$877 and \$48, respectively.

- (2) The estimated annual benefits are the amounts provided by employer and employee contributions under the existing pension plan and are based upon the assumed continuance of the plan to retirement at age 65 without change of compensation. The \$25,559 amount for Mr. Crawford is the amount due him under the UOP Pension Plan and is in addition to the estimated annual benefits due him upon retirement as provided in his employment agreement. See "Employment and Other Agreements". Mr. Logan ceased to be eligible to accrue further benefits under the pension plan upon his retirement from the Company on June 30, 1977. Since retirement, his previously accrued benefits are being paid to him pursuant to the provisions of the plan. In 1977, he received \$11,003 as benefits under said plan.

As is indicated above, Messrs. Shumway, Walkup, Arledge, Arms, Chithea, Wetzel and Crawford are directors and, except in the case of Mr. Crawford, employees of Signal or a subsidiary other than UOP. The following table, prepared from information provided by Signal, sets forth the remuneration for 1977 of those persons:

<u>Name of Individual or Identity of Group and Capacities in Which Remuneration Was Received</u>	<u>Aggregate Direct Remuneration</u>		<u>Estimated Annual Benefits on Retirement(5)</u>	<u>Savings and Stock Purchase Plan Contributions During 1977</u>
	<u>Salaries, Fees and Other Remuneration</u>	<u>Incentive Compensation Awards</u>		
Forrest N. Shumway(1) (2) President and Chief Executive Officer of Signal	\$225,601	\$150,000	\$147,900	\$15,769
William E. Walkup(1) Chairman of the Board and Executive Vice President of Signal	195,004	125,000	146,500	13,256
Charles S. Arledge(1) Vice President of Signal	73,080	30,000	40,100	5,019
Brewster L. Arms(1) Vice President and General Counsel of Signal	96,319	55,000	62,300	6,634
Andrew J. Chithea(1) Senior Vice President of Signal	137,767	85,000	47,600	8,470
James V. Crawford(1) (3) President and Chief Executive Officer of UOP Inc.	176,613	75,000(3)	107,100	9,019(3)
Harry H. Wetzel(4) President and Chief Executive Officer of The Garrett Corporation	169,821	125,000	96,600	11,826

- (1) Signal has separate employment contracts with Messrs. Shumway, Walkup, Arledge, Arms and Chithea. Each contract is for a period of five years, ending December 1982, and provides for an annual salary of not less than that being paid to the individual when the contract was entered. The annual salaries of Messrs. Shumway, Walkup, Arledge, Arms and Chithea are presently \$270,000, \$235,000, \$82,500, \$110,000 and \$170,000, respectively. Signal has separate survivor income continuation agreements with Messrs. Shumway, Walkup, Arledge, Arms and Chithea. Each agreement provides a pre-retirement death benefit payable to the individual's designated beneficiary in an amount approximately

three times annual salary, payable in ten equal annual installments. Following retirement, the death benefit is reduced to an amount equal to one-third of the pre-retirement death benefit. At the option of the individual, he may elect, at age 65, to surrender the post-retirement death benefit and receive, in lieu thereof, ten annual payments in an amount equal to one-fourth of the pre-retirement death benefit amount. Signal owns and is beneficiary of insurance policies on the lives of these individuals in the estimated amount necessary to fund its obligations under these agreements. If the assumptions as to mortality experience, policy dividends, and other factors are realized, Signal will recover an amount equal to all of its payments under the agreements and its premium payments on the insurance policies, plus interest for amounts advanced.

In 1960 Signal adopted a Savings and Stock Purchase Plan for the benefit of eligible employees. In 1976 Signal adopted under the Tax Reduction Act of 1975 a Tax Reduction Act Employee Stock Ownership Plan (the "Plan") for the benefit of eligible employees. Mr. Crawford is not a participant in this Plan. The Plan's Trust Fund is maintained by a nominee of the Bank of America, N.T. & S.A., the trustee for the Plan, for the purpose of purchasing shares of Signal Common Stock for the benefit of the eligible employees. The maximum allocation to any individual participant's account in 1977 for 1976 participation in the Plan was 3 shares of Signal Common Stock. The shares purchased under the Plan are owned beneficially by the employees of Signal and its subsidiaries who participate in the Plan and each participant has the right to direct the trustee as to the manner in which the shares credited to his or her account shall be voted.

- (2) Under a deferred compensation contract entered in September 1964, Signal agreed to pay Mr. Shumway in quarterly installments without interest, over a period of ten years immediately following termination of his employment, an amount equal to the dividends paid in cash from time to time on 10,000 shares, subject to adjustment for changes in capitalization, of Signal Common Stock, plus the increase (if any) in market value of such quantity of stock from the date of the contract. Under this contract a total of \$48,055 has been accrued during the last five fiscal years since January 1, 1973 to Mr. Shumway's credit, \$13,111 of which total was accrued during 1977. Due to certain contingencies in the contract, it is impracticable to estimate the annual benefits following termination of his employment.
- (3) UOP has an employment contract with Mr. Crawford for a period of 5 years, ending December 1982, at an annual salary of \$210,000. See "Employment and Other Agreements". He was employed by The Garrett Corporation ("Garrett"), a wholly-owned subsidiary of Signal, prior to his employment by UOP in 1975. While employed by Garrett, he participated in its deferred compensation plan for the benefit of officers and key personnel. An annual deferred compensation award under the plan in the amount of \$23,400 and an additional annual deferred compensation award of \$12,600 made by Garrett in 1975 are payable to him for 10 years following his final retirement from Signal or an affiliated company of Signal. Mr. Crawford's incentive compensation award was paid by UOP. See "Management Bonus Plan". The amount shown for Mr. Crawford as Savings and Stock Purchase Plan contributions during 1977 reflects UOP's contribution, excluding forfeitures, for that year to its Employee Incentive Plan.
- (4) Garrett has an employment contract with Mr. Wetzel for a period of five years, ending December 1982, providing for an annual salary of not less than that being paid to him when the contract was entered. His annual salary presently is \$225,000. Mr. Wetzel participates in the aforementioned Garrett deferred compensation plan. Annual benefits in the estimated amount of \$49,500 are payable to him for ten years following his retirement. Mr. Wetzel also participates in a Severance Plan for employees of Garrett. Under this plan an amount equal to 2% of his annual compensation as an employee is contributed into his severance fund, which is payable to him upon termination of his employment. However, if his termination of employment occurs through retirement, such amount is included in the retirement benefits payable to him or, if taken in a lump sum, the retirement benefits are proportionately reduced.

- (5) The estimated annual benefits upon retirement are computed on an actuarial basis and assume continued employment to normal retirement (age 65) at current salary with retirement pursuant to the applicable plan or plans which provide for payment of one-half of the benefit to the employee's surviving spouse. If the plan formula generates an annual benefit in excess of that which may be paid from the plan's trust funds, the difference will be paid by Signal. Amounts shown as estimated annual benefits on retirement do not include any of the amounts shown in the footnotes to this table. The \$107,100 amount for Mr. Crawford is his estimated annual retirement benefit under his employment agreement of which amount Garrett is obligated for \$35,758. See "Employment and Other Agreements".

EMPLOYMENT AND OTHER AGREEMENTS

The Company has an employment agreement with Mr. Crawford, age 58, at an annual salary of \$210,000 for a term of 5 years ending December 31, 1982. Such agreement provides that it is contemplated Mr. Crawford will be appointed by the Board of Directors to the position of Chief Executive Officer during the term of the agreement. It also provides that should Mr. Crawford retire at any age between 62 and 65, he will receive a "supplemental amount" from the UOP pension plan and the Company equal to the difference between 51 per cent of his "average annual salary" and \$35,758 per year. His "average annual salary" will be calculated from the highest salaried 5 calendar years of his employment with the Company, or if less than 5 years, from his years of employment with the Company plus enough years from his previous employment with Garrett to total 5 years. In the event of Mr. Crawford's death during the term of his employment agreement, his beneficiary or his estate will be paid 50 per cent of the amount of his annual salary at the date of his death for the remainder of the term of the agreement. After the agreement expires, 50 per cent of the "supplemental amount" will be paid to his wife annually during her lifetime, if she survives. Assuming Mr. Crawford completed at least 5 years of employment with the Company at an annual average salary of \$210,000, his estimated total annual benefits from the Company upon retirement under his employment agreement will be \$71,342 (\$107,100 less \$35,758).

The Company had an employment agreement with Mr. Logan for a term of five and one-half years which ended on June 30, 1977. Such agreement provided for the employment of Mr. Logan as Chairman of the Board of Directors at an annual salary of not less than \$172,500. Pursuant to the employment agreement, the Company entered into a consulting agreement at an annual rate of \$50,000 with Mr. Logan for a term of one year ending June 30, 1978, under which he has agreed to make himself available at UOP's request for a maximum of 100 days during the year. Upon UOP's request and with his consent, he will perform services on additional days at a rate of \$500 per day. During the term of the agreement, he has agreed not to engaged in any other employment or activity of a competitor of UOP except non-competitive fields approved in advance by UOP.

While an executive officer during 1966 through 1977, Mr. Logan had a deferred compensation agreement with UOP which provided for aggregate annual payments of \$10,000. On the last day of each calendar quarter, one-fourth of the annual award in his account was converted into units by dividing the award amount by the market value of one share of UOP Common Stock on the last day of that quarter. Dividend awards are calculated by multiplying the number of units in Mr. Logan's account on the date the dividend is paid by the amount of the dividend per share and dividing the result by the market value of one share of UOP Common Stock on the dividend payment date to determine the number of dividend units to be added to the cumulative total of units in his account. After his retirement, Mr. Logan receives annually cash equal to one-tenth of the units credited to his account multiplied by the market price of UOP Common Stock on the date of retirement and the nine successive anniversaries thereafter. If the Merger is consummated, the nine remaining annual payments will be based on the merger price of \$21 per share rather than the market value of UOP common stock. At present, Mr. Logan has 4,834.1616 units credited to his account. Had Mr. Logan's annual payment in 1978 been computed at the rate of \$21, he would have received less than \$2,000 in addition to the amount he was in fact paid.

Mr. Venema had a similar deferred compensation agreement with UOP while an executive officer during 1961 through 1974. He has received three annual payments since his retirement from the Company in September 1975. The seven remaining annual payments will be based on the merger price of \$21 per share rather than the market value of UOP common stock. At present, Mr. Venema has 7,468.6852 units credited to his account. Had Mr. Venema's annual payment in 1978 been computed at the rate of \$21, he would have received an additional amount of approximately \$6,500.

UOP EMPLOYEE INCENTIVE PLAN

In 1952 the Company established an Employee Incentive Plan Trust for employees, as defined in the Plan, who have completed one year of continuous employment. The plan is qualified under Section 401(a) of the Internal Revenue Code of 1954, as amended. Under the plan, each employee of the Company and certain subsidiary companies may contribute up to five per cent of his or her monthly compensation, which will share in the Company contribution to the plan. In addition, each employee making the maximum five per cent contribution is eligible to contribute an additional five per cent which will not share in the Company contribution to the plan. Officers may participate in the plan but directors who are not officers or employees of the Company are not eligible.

The Company contributes five per cent of the first \$5,000,000 of consolidated pre-tax net earnings, as defined, plus seven and one-half per cent of such earnings over \$5,000,000. The Company's contribution to the plan is divided so that one-half is apportioned on the basis of employee contributions (contributory) and one-half apportioned on the basis of basic compensation of the participants (non-contributory). The Company contributions to the plan do not become fully vested until an employee has participated in the plan for a period of five years, except in the event of death, total disability or retirement. Upon the happening of any such event, Company contributions become fully vested.

The following table shows the amounts set aside for 1977 under the contributory part of the plan for the directors and officers named in the remuneration table and all directors and officers as a group:

<u>Name</u>	<u>Amount</u>
James V. Crawford	\$ 5,454
John O. Logan	2,686
Cecil H. Suter	2,989
All Directors and Officers as a Group (15 persons)	29,860

The aggregate amounts set aside or accrued from the inception of the plan in 1952 through December 31, 1977 under the non-contributory part of the plan for the directors and officers named in the remuneration table and all directors and officers as a group were as follows:

<u>Name</u>	<u>Amount</u>
James V. Crawford	\$ 4,155
John O. Logan	25,302
Cecil H. Suter	7,211
All Directors and Officers as a Group (15 persons)	191,518

See Note 6, "Notes to Consolidated Financial Statements" for additional information.

UOP MANAGEMENT BONUS PLANS

The Company maintains a stockholder-approved Management Bonus Plan for operating and staff executives of the Company and its wholly-owned subsidiary companies. The plan is administered by the Compensation Committee consisting of five non-employee members of the

Board of Directors who are not eligible to participate in the plan. Some employees who are eligible to participate in this plan may also participate in other Company bonus plans. The plan provides for establishing a bonus pool in an amount not to exceed six per cent of annual income before taxes, extraordinary items and certain other charges in excess of seven per cent of the average shareholders' equity during each bonus year.

According to the plan, the Board of Directors will establish yearly financial and non-financial goals for the Company, after receiving the recommendation of the President and the Chairman. The Compensation Committee then selects the participants in the plan and projects their normal bonuses as being from ten to fifty per cent of their salaries and comparable to that offered by competitors for like positions. Depending upon achievement of the established goals and the participant's contribution to that achievement, bonus amounts may be increased up to 150 per cent or decreased by as much as 100 per cent. The Committee has discretion to defer payment of bonus awards under the plan to the extent of providing for not more than ten annual installments commencing not later than as soon as practicable after employment is terminated.

The Board of Directors may modify, suspend or terminate the plan. However, no amendment will be made which will reduce the percentage of shareholders' equity as defined or increase the percentage of income, as defined, used in computing the bonus pool each year, unless approved by the holders of a majority of the outstanding shares of the Company. In the event the bonus pool is not completely utilized in any one year, the unused portion is returned to the general funds of the Company.

The Company has in effect also the UOP Master Plan for Profit Center Management Incentive Compensation. This plan is designed to provide an individual manager with additional compensation which will vary with profits, return on investment or the achievement of other relative business goals with emphasis on the profit center where he works. Although there is great flexibility in determining the incentive fund for each profit center and the amount of award to each individual, each plan provides that these matters are to be reviewed by the Company officer responsible for the profit center operations, the Controller and the Director of Personnel to ensure compliance with the master plan and must be approved by the President and Chief Executive Officer before they become effective. Payments may be made in cash, in shares of UOP common stock, or both, as soon after the close of the fiscal year as possible, unless the manager elects, subject to Company approval, some other form or time of payment.

Bonuses paid to the directors and officers named in the remuneration table and to all directors and officers as a group for 1977 pursuant to the foregoing plans were as follows:

<u>Name</u>	<u>Amount</u>
James V. Crawford	\$ 75,000
John O. Logan	None
Cecil H. Suter	31,500
All Directors and Officers as a Group (15 persons)	311,700

See Note 6, "Notes to Consolidated Financial Statements" for additional information on Management Bonus Plans.

UOP STOCK OPTION AND STOCK INCENTIVE PLANS

The following table shows as to the directors and officers named in the remuneration table and as to all directors and officers as a group (i) options to purchase Common Stock granted since December 31, 1976; (ii) the number of shares acquired through the exercise of options during such period; (iii) the number of shares subject to unexercised options held as of December 31, 1977; (iv) the number of Stock Appreciation Rights granted since December 31, 1976; and (v) the number of Share Units awarded since the latter date:

<u>Common Shares*</u>	<u>James V. Crawford</u>	<u>John O. Logan</u>	<u>Cecil H. Suter</u>	<u>All Directors and Officers as a Group</u>
Granted—January 1, 1977 to January 1, 1978				
Number of shares	5,000	None	2,800	21,750
Average option price per share	\$15.3125	None	\$15.3125	\$15.3125

<u>Common Shares*</u>	<u>James V. Crawford</u>	<u>John O. Logan</u>	<u>Cecil H. Suter</u>	<u>All Directors and Officers as a Group</u>
Exercised—January 1, 1977 to January 1, 1978				
Number of shares	None	None	None	None
Aggregate option price of options exercised	—	—	—	—
Aggregate market value of shares on date options exercised	—	—	—	—
Sales—January 1, 1977 to January 1, 1978				
Number of shares	None	None	None	None
Unexercised at January 1, 1978				
Number of shares	20,000	—	5,900	56,850
Average per share option price	\$11.703	—	\$15.792	\$14.178
Stock Appreciation Rights** Granted— January 1, 1977 to January 1, 1978	None	None	None	None
Number of rights unexercised as of December 31, 1977	—	—	2,500	7,350
Initial market value of rights	—	—	\$14.6875	\$14.6875
Share Units awarded—January 1, 1977 to December 31, 1977	None	None	None	None
Number of units outstanding as of December 31, 1977	—	—	—	2,000
Initial market value of units	—	—	—	\$14.6875

*In each instance, the per share option price was equal to the market price of the Company's shares of Common Stock on the date the option was granted.

**Stock Appreciation Rights are granted under the section of the 1974 Plan which relates to nonqualified stock options.

As of April 14, no options had been granted in 1978.

Options granted under the 1967 Qualified Stock Option Plan, which were exercisable in full after one year but not later than five years from the date of grant, were granted to officers and key employees of the Company and its subsidiaries to purchase shares of the Company's Common Stock at not less than fair market value on said date of grant. The 1967 plan terminated by its own terms on February 28, 1977 and therefore no more options may be granted under that plan. However, qualified options, which are presently exercisable, covering 262,225 shares of UOP Common Stock had been granted prior to the plan's termination. The last of these options will lapse on February 18, 1982.

The 1974 Stock Incentive Plan ("1974 Plan") provides for the granting from time to time to selected officers and key employees of the Company and its subsidiaries qualified or non-qualified options to purchase a maximum of 350,000 shares of Common Stock of the Company at not less than fair market value on the date of grant. At the present time, the shares remaining available for grants under the 1974 Plan total 282,050.

Each option is exercisable in part or in full at the end of one year from the date of grant. All outstanding options are currently exercisable. Qualified options lapse at the end of five years and nonqualified options lapse at the end of ten years after they are granted. Stock Appreciation Rights may be granted in connection with nonqualified stock options. If the non-qualified option agreement provides for Stock Appreciation Rights, the Company will, in lieu of delivering any or all shares of Common Stock as to which the option has been exercised, pay the optionee any combination of cash and Common Stock having an aggregate value equal to the amount by which the fair market value on the date of exercise of said Common Stock the optionee has elected to purchase exceeds the purchase price that would otherwise be payable by the optionee to acquire such shares. Common Stock for which cash payments have been received shall not be subject again to option by the Board of Directors.

Awards under the 1974 Plan may also be made of Share Units, each unit being equivalent to one share of Common Stock. A separate account is maintained for each grantee with respect to each award of Share Units. Dividends paid by the Company, in other than Common Stock, are credited to the account of the grantee as Dividend Units which are the equivalent of that number of shares of Common Stock obtained by dividing the value of the dividend payable in respect of the units in such account by the market value of a share of Common Stock. One-fifth of the Share Units credited to a grantee's account become vested on the first anniversary date of the award of Share Units and an additional one-fifth vest on each such anniversary date for the next succeeding four years. On each vesting date, the Dividend Units at the time credited to such account, to the extent previously vested, also become vested in increasing percentages.

The amount to be paid to a grantee of Share Units is determined on the fifth anniversary of the date on which the award of Share Units in his account is made and consists of the sum of (i) the excess, if any, of the total market value of that number of shares of Common Stock equivalent to the number of Share Units in such account over the initial value of such units on the date of the award and (ii) the total market value of the number of shares of Common Stock equivalent to the number of Dividend Units in such account. Payment may be made in cash, shares of Common Stock or a combination thereof as determined by the Board of Directors.

See Note 8, "Notes to Consolidated Financial Statements" for additional information.

Under the terms of the Merger Agreement options and rights to receive UOP Common Stock outstanding at the effectiveness of the Merger become rights to receive, upon payment of the exercise price and satisfaction of any other condition, \$21. The Board of Directors has, however, terminated the plans under circumstances that entitle holders of options, if any, that have not been exercised by the time of the effectiveness of the Merger to receive in cash the difference between their respective grant prices and \$21. See "The Proposed Merger—Status of Stock Options".

SIGNAL STOCK OPTIONS AND RESTRICTED STOCK AND UNIT AWARDS

Signal has two stock option and award plans applicable to shares of its Common Stock. Under both plans the option price must be at least 100% of the fair market value of Signal Common Stock on the date the option is granted. Generally, restricted stock and unit awards may not vest more rapidly than 20% on the first anniversary date of the award and 20% on each succeeding anniversary date. The following information, provided by Signal, sets forth the status of options, or restricted stock or unit awards, granted to, exercised by or held by Messrs. Shumway, Walkup, Arledge, Arms, Chithea, Wetzel and Crawford:

On December 5, 1977 Mr. Shumway was granted an option to purchase 25,000 shares of Signal Common Stock at a price per share of \$32.88, and Mr. Chithea was awarded 3,166 shares of Signal Common Stock, which shares are subject to reacquisition rights.

As of April 14, Signal had not granted any stock options, restricted stock or unit awards to any of its directors or officers in 1978.

	Options Exercised During January 1, 1977				Unexercised Options As of December 31, 1977		Restricted Unit Awards Received During 1977(1)	
	Date of Exercise During 1977	Shares	Aggregate Purchase Price	Aggregate Market Price	Shares	Average Option Price Per Share	Date of Grant	Awards
Forrest N. Shumway	11/21	4,370	\$84,516	\$133,285	29,243	\$30.83	12/5	4,000
William E. Walkup	5/ 6	4,370	84,516	129,461	4,243	18.74	12/5	4,000
Charles S. Arledge	5/26	1,092	21,119	33,033	1,060	18.74	12/5	1,500
Brewster L. Arms	5/25	2,185	42,258	65,004	2,121	18.74	12/5	2,000
Andrew J. Chithea	6/ 8	3,278	63,397	102,437	3,182	18.74	12/5	3,000
Harry H. Wetzel	5/25	3,278	63,397	97,520	3,182	18.74	12/5	3,000
James V. Crawford	6/13	2,185	42,258	71,286	2,121	18.74	—	—

- (1) The number of restricted unit awards granted to an employee are credited to his account. Amounts equal to cash dividends paid by Signal are also credited to his account. After such awards and dividend amounts become fully vested, the employee is entitled to one share of Signal Common Stock for each award and cash equal to vested dividends in his account. However, in its discretion, Signal may make payment of the fully vested amount in its Common Stock, cash or a combination. Restricted Unit Awards become vested not more rapidly than 20 per cent per year.

SELECTION OF AUDITORS

The Board of Directors, upon recommendation of the Audit Committee, has selected Arthur Andersen & Co. ("Arthur Andersen") as independent public accountants to audit the accounts and records of the Company for 1978 and to perform other accounting services. However, if the Merger is consummated, it is possible that thereafter Arthur Andersen may not so serve. Signal selected Haskins & Sells as its independent accountants for 1978 and may wish that firm to become auditors of UOP following the Merger. The firm of Arthur Andersen, an international firm, has audited the books and records of the Company since 1945. The Board of Directors and management consider this firm well qualified. A member of Arthur Andersen will be present at the meeting, will have the opportunity to make a statement if he so desires, and will be available to answer questions concerning the accounts of the Company.

PROXY SOLICITATION—OTHER MATTERS

The cost of preparing, assembling and mailing the proxy material will be borne by the Company. In addition to solicitation by mail, solicitations will also be made by employees of the Company not specifically engaged for that purpose, in person, by telephone or telegraph. The Company has also retained Georgeson & Co. to assist in the solicitation of proxies by the methods above referred to at an estimated expense of \$6,000. Arrangements will be made with brokerage houses, custodians, nominees and fiduciaries to send proxy material to their principals and the Company will reimburse them for their expense in so doing. A copy of the Company's Form 10-K Report may be obtained without charge from the Secretary, Ten UOP Plaza, Des Plaines, IL 60010.

The management is not aware of any other matters, other than those described hereinbefore, that will be presented at the meeting. However, if any other matters properly come before the meeting, or any adjournments thereof, the persons named in the enclosed form of proxy, or their substitutes, will vote shares represented by the proxy in accordance with their best judgment.

By Order of the Board of Directors,

M. B. PEEK, *Secretary*

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Auditors' Report

ARTHUR ANDERSEN & CO.

Chicago, Illinois

To the Shareholders and the
Board of Directors of
UOP Inc.:

We have examined the consolidated balance sheet of UOP INC. (a Delaware corporation and a 50.5% owned subsidiary of The Signal Companies, Inc.) AND SUBSIDIARIES as of December 31, 1976 and 1977, and the consolidated statements of income, retained earnings, capital surplus 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.

As discussed further in Note 3, the Company and its Procon subsidiaries are involved in litigation in connection with a refinery project. On the basis of information presently available, management and the vice president-general counsel for the Company are of the opinion that the litigation can be successfully defended and in any event the ultimate liability, if any, resulting therefrom will not materially adversely affect the Company's financial position on a consolidated basis. However, the ultimate outcome is uncertain at this time.

In our opinion, subject to the effect on the financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of UOP Inc. and Subsidiaries as of December 31, 1976 and 1977, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for leases as required by Statement of Financial Accounting Standards No. 13 and explained in Note 10.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 6, 1978 (except with respect
to the matter discussed in Note 18
as to which the date is March 6, 1978).

Consolidated Balance Sheet

	Thousands of Dollars December 31	
	1976 (Restated Note 10)	1977
Assets		
CURRENT ASSETS:		
Cash	\$ 28,299	\$ 35,415
Marketable securities, at cost which approximates market	25,653	37,563
Receivables (principally trade accounts), less reserves of \$2,351 in 1976 and \$4,967 in 1977 (Note 4)	134,899	138,917
Costs of uncompleted contracts in excess of related billings (Note 4)	321	346
Inventories (\$28,919 in 1976 and \$32,055 in 1977 valued at last-in, first-out cost) (Notes 1 and 11)	80,963	101,324
Prepaid expenses	4,681	7,103
Prepaid and refundable income taxes (Note 7)	11,371	12,743
Total current assets	<u>\$286,187</u>	<u>\$333,411</u>
 PLANT AND EQUIPMENT, at cost (Notes 5, 10 and 11):		
Land and timber	\$ 11,487	\$ 11,157
Buildings	90,175	91,829
Machinery and equipment	159,553	170,975
Construction in progress	9,826	8,621
	<u>\$271,041</u>	<u>\$282,582</u>
Less—accumulated depreciation	<u>126,415</u>	<u>137,176</u>
	<u>\$144,626</u>	<u>\$145,406</u>
 OTHER ASSETS:		
Investments in nonconsolidated partially owned subsidiaries, at underlying book value (Note 9)	\$ 10,090	\$ 11,234
Goodwill, at cost less amortization (Note 11)	2,250	1,807
Patents, at cost less amortization (Note 11)	2,671	2,285
Deferred charges, etc. (Note 11)	7,440	4,909
Noncurrent receivables	11,806	9,211
	<u>\$ 34,257</u>	<u>\$ 29,446</u>
	<u>\$465,070</u>	<u>\$508,263</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

Liabilities

CURRENT LIABILITIES:

	Thousands of Dollars December 31	
	1976 (Restated Note 10)	1977
Bank loans (Note 5)	\$ 2,380	\$ 1,571
Current maturities of long-term debt (Note 5)	4,878	6,427
Accounts payable	55,281	58,047
Accrued liabilities (Notes 3 and 11)	54,760	63,758
Billings on uncompleted contracts in excess of related costs (Note 4)	21,634	35,116
Income taxes (Note 7)	9,669	5,663
Total current liabilities	<u>\$148,602</u>	<u>\$170,582</u>

LONG-TERM DEBT AND LEASE OBLIGATIONS, less current maturities shown above (Notes 5 and 10)

	<u>\$ 89,382</u>	<u>\$ 84,799</u>
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DEFERRED INCOME AND LIABILITIES:

Contracts payable	\$ 6,102	\$ 6,668
Deferred income	10,243	9,049
Deferred income taxes (Note 7)	7,039	9,251
	<u>\$ 23,384</u>	<u>\$ 24,968</u>

COMMITMENTS AND CONTINGENT LIABILITIES (Notes 2 and 10)

STOCKHOLDERS' EQUITY (Notes 5 and 8):

Preferred stock, no par value; authorized 1,500,000 shares; none issued	\$ —	\$ —
Common stock, par value \$1.00 per share; authorized 15,000,000 shares; issued 11,631,379 shares at December 31, 1976 and 11,637,429 at December 31, 1977	11,631	11,637
Capital surplus	131,754	131,843
Retained earnings	62,817	87,081
	<u>\$206,202</u>	<u>\$230,561</u>
Less—treasury stock, at cost; 150,870 shares at December 31, 1976 and 158,215 shares at December 31, 1977	2,500	2,647
	<u>\$203,702</u>	<u>\$227,914</u>
	<u>\$465,070</u>	<u>\$508,263</u>

Consolidated Statement of Income

	Thousands of Dollars December 31	
	1976	1977
INCOME		
Royalties	\$ 28,660	\$ 39,038
Products:		
Sales	503,484	554,796
Cost of sales	399,445	454,381
Gross profit—products	104,039	100,415
Completed construction contracts:		
Revenues	116,230	98,811
Cost of construction	107,961	85,643
Gross profit—construction	8,269	13,168
Engineering and operating services:		
Sales	28,667	37,233
Cost of sales	20,811	23,603
Gross profit—services	7,856	13,630
INCOME BEFORE GENERAL EXPENSES	148,824	166,251
General expenses:		
Selling and administrative	86,854	96,903
Research and development	26,202	28,592
Total general expenses	113,056	125,495
OPERATING INCOME	35,768	40,756
Other income (expense):		
Income from nonconsolidated partially owned subsidiaries (Note 9)	331	1,906
Interest income	3,342	5,045
Interest expense	(9,698)	(8,422)
Other, net	(576)	2,472
Total	(6,601)	1,001
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRA- ORDINARY ITEM	29,167	41,757
Provision for income taxes (Note 7)	13,726	17,429
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM	15,441	24,328
Income from the discontinued Fragrances Group (less applicable income tax expense of \$617) (Note 16)	1,181	—
INCOME BEFORE EXTRAORDINARY ITEM	16,622	24,328
Extraordinary item (Note 7)	6,969	7,110
NET INCOME	\$ 23,591	\$ 31,438
Average shares outstanding during the period	11,480,000	11,477,000
INCOME PER COMMON SHARE (based on average shares outstanding):		
Continuing operations	\$1.35	\$2.12
Discontinued operations .....	.10	—
Extraordinary item .....	.61	.62
Net income	\$2.06	\$2.74
DIVIDENDS PAID:		
Amount	\$2,583	\$7,174
Per share	\$.225	\$.625

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statements of Retained Earnings and Capital Surplus

	Thousands of Dollars December 31	
	1976	1977
Retained Earnings		
BALANCE AT BEGINNING OF YEAR	\$ 41,809	\$ 62,817
ADD (DEDUCT):		
Net income	23,591	31,438
Cash dividends paid on common stock, \$.225 per share in 1976 and \$.625 in 1977	(2,583)	(7,174)
BALANCE AT END OF YEAR (Note 5)	<u>\$ 62,817</u>	<u>\$ 87,081</u>
 Capital Surplus		
BALANCE AT BEGINNING OF YEAR	\$131,749	\$131,754
ADD:		
Excess of selling price over par value of common stock sold (Note 8)	5	67
Other	—	22
BALANCE AT END OF YEAR	<u>\$131,754</u>	<u>\$131,843</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

	Thousands of Dollars December 31	
	1978 (Restated Note 10)	1977
Source of Funds		
Income for the year before extraordinary item	\$16,622	\$24,328
Expenses (income) not affecting working capital		
Depreciation, depletion and amortization	15,493	15,032
Undistributed earnings of nonconsolidated partially owned subsidiaries	(14)	100
Deferral of income taxes due to timing differences	—	2,212
Working capital generated from operations	\$32,101	\$41,672
Extraordinary item (Note 7)	6,969	7,110
Restoration of deferred income taxes	5,059	—
Proceeds from sale of the Fragrances Group, less working capital sold (Note 16)	11,963	—
Decrease in noncurrent receivables	2,984	2,595
Proceeds from long-term debt (Note 5)	6,452	3,913
Disposition of plant and equipment	2,810	1,226
Other	366	3,312
Total	<u>\$68,704</u>	<u>\$59,828</u>

Application of Funds

Increase in working capital	\$45,736	\$25,244
Additions to plant and equipment	13,386	16,292
Dividends paid	2,583	7,174
Payment of long-term debt	6,514	8,496
Other	485	2,622
Total	<u>\$68,704</u>	<u>\$59,828</u>

Analysis of Increase (Decrease) in Working Capital

Cash and marketable securities	\$30,173	\$19,026
Receivables	2,471	4,018
Costs of uncompleted contracts in excess of related billings	(2,995)	25
Inventories	(8,415)	20,361
Prepaid expenses	(415)	2,422
Prepaid and refundable income taxes	8,809	1,372
Bank loans and current maturities of long-term debt	51,292	(740)
Accounts payable and accrued liabilities	(10,822)	(11,764)
Billings on uncompleted contracts in excess of related costs	(15,512)	(13,482)
Income taxes	(8,850)	4,006
Total	<u>\$45,736</u>	<u>\$25,244</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

December 31, 1976 and 1977

Note 1. Accounting Policies:

a. Principles of Consolidation. The accompanying financial statements include the company and all majority-owned domestic and foreign subsidiaries. Investments in nonconsolidated partially-owned subsidiaries, where the company has the ability to exercise significant influence, are recorded at cost plus the company's share of undistributed earnings since the dates of acquisition. Unincorporated joint ventures are not recorded until the related long-term construction contract is completed.

b. Foreign Currency Translation. The accounts of foreign subsidiaries have been translated into United States dollars using the temporal method. Inventory, plant and equipment and other nonmonetary long-term assets are translated at rates of exchange in effect when acquired. All other assets and liabilities are translated at the rate of exchange in effect at the close of the period. Revenue and expense accounts for each month are translated at the rate of exchange at the end of each month, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired. All exchange and translation adjustments from continuing operations are included in income for the year and amounted to a net loss of approximately \$703,000 in 1976 and a net gain of approximately \$566,000 in 1977.

c. Inventories. The company prices platinum, copper and certain other inventories at last-in, first-out cost, which is less than market. The excess of the replacement cost of these inventories over their carrying value was \$16,456,000 in 1976 and \$18,473,000 in 1977. During 1976, certain inventory quantities were reduced. This resulted in a liquidation of applicable LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1976 purchases, the effect of which increased net income from continuing operations before income taxes and extraordinary item by \$619,000 for 1976 and similar liquidation in 1977 increased the 1977 net income by \$19,000. All other inventories are priced at the lower of first-in, first-out cost or market.

d. Long-Term Construction Contracts. Construction contracts may be either (i) fixed price, (ii) cost-reimbursable, (iii) cost-reimbursable with a guaranteed maximum price or (iv) any combination of the above for various segments of the contracts. Revenues and costs applicable to cost-reimbursable contracts are included in income at specified contract rates which relate to incurred contract costs (as defined in the contracts). Revenues and costs applicable to all other contracts are deferred until completion of the contract at which time they are included in income. Anticipated losses from construction contracts are charged against income as soon as such losses become evident.

e. Depreciation and Depletion. Depreciation is computed on the straight-line method. Timber is depleted on the unit-of-production method. Accelerated depreciation is claimed for income tax purposes. Principal depreciation rates used are as follows:

Buildings and improvements	3%
Machinery and equipment	8
Furniture and fixtures	10

f. Deferred Income. The company follows the practice of recording future royalty installments for a paid-up license as receivables and accruing the related Federal income taxes at that time. Income is deferred until the installment payments are due; however, where a paid-up license is sold and the company receives promissory notes in payment thereof, the income is recorded currently. A portion of profits on construction contracts involving long-term foreign receivables has also been deferred pending collection of the receivables.

g. Intangible Assets. Goodwill is being amortized over periods ranging from 6 to 30 years. Purchased patents are being amortized over their remaining useful life.

h. Maintenance and Repairs. Maintenance and repairs are charged to expense as incurred. The net gain or loss on property retired or otherwise disposed of is recorded in the consolidated statement of income and the cost and accumulated depreciation are removed from the accounts.

i. Income Taxes. Income tax expense is based on recorded income adjusted for differences that will never enter into the computation of taxes payable under applicable tax laws. Deferred income tax expense is provided for net timing differences between book and taxable income (see Note 7).

The company does not provide United States income taxes on that portion of the undistributed earnings from continuing operations of foreign subsidiaries and foreign joint ventures which will be reinvested in the foreign operations. Prior to 1976, the company did not provide United States income taxes on that portion of the earnings of its Domestic International Sales Corporation (DISC) that is eligible for tax deferral. The cumulative amount of undistributed earnings on which the company has not provided United States income taxes is approximately \$38,000,000 at December 31, 1977. The income taxes applicable to the reinvested earnings, if distributed, would amount to approximately \$7,400,000 under relevant statutes currently in effect. Estimated United States taxes are provided on that portion of undistributed earnings from continuing operations that is expected to be paid to the company as dividends in future years.

Investment tax credits are accounted for on the "flow-through" method, which recognizes the benefits in the year in which the assets which gave rise to the credit are placed in service, limited to income sufficient to utilize the credits. As a result of the losses in 1975, no such credits were reflected in income. Investment tax credits for 1976 amounted to approximately \$1,650,000 and \$1,000,000 for 1977. The company utilized approximately \$3,650,000 of carryforward credits from prior years in 1976 and \$2,571,000 in 1977.

Note 2. Commitments and Contingent Liabilities:

Two lawsuits alleging damages of approximately \$22,000,000 in actual damages and punitive damages of \$25,000,000 (as contained in a petition filed in November, 1977 amending a petition originally filed in 1970) are pending against the company and Procon Incorporated (a subsidiary of the company). Both suits were initiated by a company customer and its financial institution with respect to the performance of a processing unit designed by the company and constructed by Procon Incorporated. A lawsuit against the company is pending, claiming damages of \$10,100,000 and punitive damages of \$50,000,000 alleging violation of the antitrust laws, breach of contract and interference with contractual relations of the plaintiff. The company is also involved in various other lawsuits, including a suit which purports to be a class action against the company, all of its present directors, certain of its former directors, and Arthur Andersen & Co., its auditors, alleging improper failure to disclose potential losses and contingent liabilities in connection with the construction of a refinery at Come-By-Chance, Newfoundland, and claiming damages sustained by purchasers of UOP common stock during the period of February 25, 1975 to February 23, 1976. On the basis of the information presently available, management and the vice-president-general counsel for the company are of the opinion that the suits can be successfully defended and in any event the ultimate uninsured liability, if any, resulting therefrom will not materially adversely affect the company's financial position on a consolidated basis.

Information relating to lawsuits and contingent liabilities in connection with the refinery company writeoff is contained in Note 3.

Note 3. Refinery Company Receivables, Guarantees and Pending Litigation:

In 1975, the company wrote off unsecured receivables and provided a reserve against guaranteed obligations, both of which arose in connection with the construction of a refinery at Come-By-Chance, Newfoundland, operated by Provincial Refining Company, Ltd., now in receivership, in the amounts of \$16,027,000 and \$18,364,000, respectively. The company included \$18,364,000 of guarantees plus accrued interest as current liabilities on its balance sheet at December 31, 1975. During 1976, \$5,946,600 was paid and \$11,962,000 remains at December 31, 1977. The company is involved in litigation with the financial institution who holds these remaining guarantees.

In February, 1976, Shaheen Natural Resources Company, Newfoundland Refining Company, Limited, Provincial Building Company, Limited and Provincial Refining Company, Limited instituted a lawsuit against the company, Procon Incorporated and Procon (Great Britain) Limited, UOP subsidiary companies in the Supreme Court of New York. The plaintiffs allege delays in constructing the refinery at Come-By-Chance, Newfoundland, breaches of the construction contract and misrepresentation. They have claimed damages against the defendants in the amount of \$189,000,000. The Clarkson Company Limited, as Trustee in Bankruptcy of the refinery, and Peat Marwick Limited as Receiver and Manager under a first mortgage on the refinery, were added as additional plaintiffs in this suit by the New York Court in February 1977. Third party complaints seeking indemnity or contribution have been filed by the company against the vendors of the hydrogen plant reformer furnaces for the refinery.

Procon (Great Britain) Limited has filed suit in England against Provincial Building Company, Limited, and Provincial Refining Company Limited, for £1,380,000 and (Canadian) \$9,212,000 for work and services performed in connection with the construction of the Come-By-Chance refinery. Liability is denied by the defendants and a counter-claim is asserted against Procon (Great Britain) Limited, for \$18,000,000 for alleged equipment failure and \$97,218,000 for lost profits and other damages. The counterclaim alleges delay, negligence and fundamental breach of contract. In a companion case, UOP has sued Provincial Building Company, Limited, and Provincial Refining Company, Limited for \$6,260,000 which was the amount paid by UOP as a guarantor of the second Euro-dollar loan. Liability is denied by the defendants. A counterclaim has been filed against UOP alleging negligence in the design of certain units of the refinery and relating to performance guarantees given on certain units in the refinery, which was constructed by Procon (Great Britain) Limited.

On the basis of information presently available to them, management and the vice president-general counsel for the company are of the opinion that the suits and the counterclaims can be successfully defended and in any event the ultimate liability, if any, resulting therefrom will not materially adversely affect the company's financial position on a consolidated basis.

Note 4. Construction Contracts:

At December 31, 1976 and 1977 the status of construction contracts in progress was as follows:

	1976	1977
CONTRACTS ON WHICH COSTS EXCEED BILLINGS—		
Costs incurred	\$ 576,000	\$ 3,352,000
Billings	255,000	3,006,000
	<u>\$ 321,000</u>	<u>\$ 346,000</u>
CONTRACTS ON WHICH BILLINGS EXCEED COSTS—		
Billings	\$60,448,000	\$100,991,000
Costs incurred	38,814,000	65,875,000
	<u>\$21,634,000</u>	<u>\$ 35,116,000</u>

The terms of certain contracts provide for a portion of the payments to be withheld by the customer until completion and acceptance of the unit. In conformity with trade practices, retentions payable within one year are included in trade receivables and amounted to \$7,400,000 at December 31, 1976 and \$9,805,000 at December 31, 1977.

Note 5. Long-Term Debt, Lease Obligations and Bank Loans:

Long-Term liabilities at December 31, 1976 and 1977 were as follows:

	1976	1977
LONG-TERM DEBT—		
6½% sinking fund debentures, payable in annual installments of \$1,250,000 and maturing May 1, 1993	\$18,859,000	\$16,541,000
5½% insurance company note, payable in semiannual installments of \$1,000,000 and maturing June 1, 1988	25,000,000	23,000,000
Foreign bank loan	3,300,000	2,300,000
Mortgage payable, maturing January 1, 2000, payable in monthly installments of interest only to 1980 and principal and interest of \$78,534 to maturity with interest at 10¼% collateralized by property at World Headquarters in Des Plaines, Illinois	8,000,000	8,000,000
9% industrial revenue bond due March 1, 1991	2,000,000	2,000,000
Note payable, maturing January 1, 1981, payable in semiannual installments with interest at 8½% collateralized by sludge treatment plant and related facilities located in the Washington, D.C. area	1,650,000	1,250,000
Other (including mortgage loans), at interest rates of 6% to 11% due in varying amounts	1,812,000	759,000
	<u>\$60,621,000</u>	<u>\$53,850,000</u>
LEASE OBLIGATIONS—		
Equipment lease maturing June 30, 1986 payable in quarterly installments of \$174,218 including interest at 10.98%	\$ 3,819,000	\$ 3,530,000
Industrial revenue bonds—		
6¾% bond due April 1, 1984	650,000	550,000
6½% bond due September 1, 1993	3,300,000	3,300,000
6¾% bond due February 1, 1994	2,000,000	2,000,000
8½% bond due February 1, 1994	1,250,000	1,250,000
9% bond due April 1, 1994	3,947,000	3,837,000
Equipment lease maturing May 1, 1999 payable in quarterly installments of \$545,000 including interest at 9%	12,674,000	11,647,000
Other	1,121,000	4,835,000
	<u>\$28,761,000</u>	<u>\$30,949,000</u>
	<u>\$89,382,000</u>	<u>\$84,799,000</u>
CURRENT MATURITIES OF LONG-TERM DEBT AND LEASE OBLIGATIONS—		
Insurance company note payable	\$ 2,000,000	\$ 2,000,000
Foreign bank loan	1,000,000	1,000,000
Lease obligations	1,078,000	2,196,000
Other	800,000	1,231,000
	<u>\$ 4,878,000</u>	<u>\$ 6,427,000</u>
BANK LOANS—		
Foreign credit arrangements	<u>\$ 2,380,000</u>	<u>\$ 1,571,000</u>

Long-term debt at December 31, 1977 matures as follows:

Year ending December 31	
1979	\$ 4,133,000
1980	4,044,000
1981	4,069,000
1982	3,535,000
After 1982	38,069,000
	<u>\$53,850,000</u>

As of December 31, 1977, the company cancelled its \$30,000,000 revolving and term credit agreement dated December 31, 1976, which replaced a short-term credit agreement dated April 30, 1976. No amounts were outstanding under either agreement since July 2, 1976.

Effective January 1, 1978, the company accepted open unsecured lines of credit from several banks aggregating \$37,000,000. Compensating balance arrangements exist with these banks; however, the arrangements do not restrict the use of the cash shown on the balance sheet. Under these arrangements, the company maintains minimum cash balances of 10% of the line of credit on an annual average basis plus up to 10% of any amount borrowed. In most cases, these arrangements permit the company to use the balance to offset activity charges and other services performed by its banks. In addition, compensating balances of approximately \$2,000,000 are maintained in connection with foreign banking arrangements.

Under the most restrictive covenants contained in either the sinking fund debentures or in the insurance company note payable, working capital, as defined, must exceed \$25,000,000. At December 31, 1977 working capital, as defined, was \$145,000,000. The covenants provide that retained earnings in the amount of \$19,500,000 are restricted as to the purchase or redemption of capital stock and payment of dividends. They also provide, among other things, that net tangible assets, as defined, shall be equal to or greater than 250% of senior funded indebtedness, as defined. At December 31, 1977, net tangible assets were \$328,000,000, as defined, or approximately 480% of senior funded indebtedness, as defined.

During 1977 the company purchased, at a discount, \$2,318,000 face value of its outstanding debentures to satisfy future sinking fund requirements. The discount of \$214,000 has been credited to other income.

Note 6. Incentive and Pension Plans:

The company has an incentive plan covering substantially all salaried and non-bargaining unit hourly employees of domestic units. The plan is contributory and noncontributory. Employees are eligible to participate in the plan immediately upon completion of one year's service. The company contributions are based on profits, as defined in the plan, not to exceed a maximum percentage of the participants' compensation. Incentive plan expense for the years ended December 31, 1976 and 1977, was \$2,400,000 and \$3,400,000 respectively.

The company and its subsidiaries also have various pension plans covering substantially all of their employees. The plans are contributory and noncontributory, and employees are eligible to participate in the plans upon the completion of one year of service. Pension plan expense for the years ended December 31, 1976 and 1977, was \$6,800,000 and \$7,100,000 respectively. These amounts include, as to certain of the plans, amortization of prior-service costs over periods ranging up to 30 years. The company's policy is to fund pension costs accrued. As to several of the plans, the actuarially computed value of vested benefits at January 1, 1977 exceeded the total of the market value of the pension funds and balance sheet accruals at December 31, 1977 by approximately \$1,300,000. As to all other plans, funds and current accruals are equal to or in excess of the computed vested benefits. The unfunded past-service liability under all plans was actuarially estimated in accordance with the frozen initial liability method of valuation as of January 1, 1977 in the amount of \$13,100,000.

The company's pension plan accounting policies are in accordance with the provisions of the Employees Retirement Income Security Act of 1974.

During 1976, the company established the Tax Reduction Act Employee Stock Ownership Plan (TRAESOP) as a stock bonus plan for the benefit of its employees. The plan provides that the company will transfer to the Plan and Trust each year an amount equal to one percent of qualified capital expenditures,

said amount to be used to purchase shares of UOP common stock for the benefit of eligible participants. The amount contributed to the Trust in 1976 and 1977 was \$164,000 and \$186,000 respectively.

The company also has a Management Bonus Plan for operating and staff executives. The plan provides that a bonus pool be established each year in an amount not to exceed 6% of annual income before income taxes, as defined, in excess of 7% of shareholders' equity, as defined. Bonus plan expense amounted to \$650,000 in 1976 and \$700,000 in 1977. Some employees who are eligible to participate in this plan may also participate in other bonus plans of the company.

Note 7. Income Taxes:

	1976	1977
Income taxes are summarized as follows (in thousands):		
Currently payable by United States companies:		
Federal income taxes	\$14,338	\$13,292
Reduction as a result of the investment credit	(3,650)	(2,571)
Foreign tax credit carry forwards utilized	(2,750)	(4,510)
State income taxes	1,197	1,007
	<u>9,135</u>	<u>7,218</u>
Currently payable by foreign subsidiaries:		
Income taxes	1,841	4,861
Net operating loss carry forwards utilized	(469)	(2,600)
	<u>1,372</u>	<u>2,261</u>
Tax effect of timing differences:		
Excess of tax over book depreciation	1,750	1,952
Change in deferred income currently taxable	(8)	949
Other timing differences	(1,742)	(2,061)
Restoration of prior year prepaid income taxes	(8,809)	—
Restoration of prior year deferred income taxes	5,059	—
	<u>(3,750)</u>	<u>840</u>
Total	<u>\$ 6,757</u>	<u>\$10,319</u>
Allocated to:		
Income from continuing operations	\$13,726	\$17,429
Extraordinary item	(6,969)	(7,110)
	<u>\$ 6,757</u>	<u>\$10,319</u>

Following is a reconciliation between the amount of tax expense at the federal statutory rate of 48% and the provision for taxes on income from continuing operations:

Income before taxes at 48%	\$14,000	\$20,043
Taxes are not provided on the undistributed earnings of foreign subsidiaries	2,268	137
Effect of earnings of nonconsolidated partially owned subsidiaries	(158)	(915)
State income taxes, net of federal tax impact	622	524
Investment credits	(3,650)	(2,571)
Other	644	211
	<u>\$13,726</u>	<u>\$17,429</u>

Based upon currently anticipated expenditures and operations it is expected that cash outlays will not exceed income tax expense for any of the next three years.

The company has tax credit carryforwards which are unrecorded at December 31, 1977 comprised of foreign tax credits in the amount of \$4,015,000 which expire in 1980; investment credits of \$1,009,000 which expire in 1984; and foreign net operating loss carryforwards of \$3,950,000 which can be used indefinitely.

Note 8. Capital Stock:

In 1969, 1,500,000 shares of preferred stock, without par value, were authorized. These shares may be issued in one or more series, with such voting powers, conversion rights and other terms as the Board of Directors may deem desirable.

The Signal Companies, Inc. holds 5,800,000 of the 11,479,214 shares outstanding, or 50.5%.

On May 23, 1977, the company offered to purchase up to 59,000 shares of its common stock for cash at \$18.00 net, per share to shareholders of record on May 11, 1977 with aggregate holdings of 20 or fewer shares. The offer expired on June 17, 1977 and was extended to June 30, 1977. The company acquired 18,950 shares at a cost of \$341,100. 11,605 of these shares were utilized as the 1977 contribution to the employees stock ownership plan.

Transactions in the common stock account for 1976 and 1977 are summarized as follows:

	Shares Issued	Treasury Shares	Shares Outstanding
Balance January 1, 1976	11,630,879	150,870	11,480,009
Shares issued under stock option plan	500		500
Balance December 31, 1976	11,631,379	150,870	11,480,509
Shares issued under stock option plan	6,050		6,050
Shares acquired		18,950	(18,950)
Shares contributed to TRAESOP		(11,605)	11,605
Balance December 31, 1977	<u>11,637,429</u>	<u>158,215</u>	<u>11,479,214</u>

On May 14, 1974, the shareholders approved the 1974 Stock Incentive Plan. Under this plan, 350,000 shares of the common stock of the company may be granted to certain personnel of the company as qualified stock options, nonqualified stock options (with or without stock appreciation rights), or share units. Options under this plan may be granted for periods of five to ten years at 100% of the fair market value at the date of grant and may be exercised at any time commencing one year after date of grant. No shares were granted under this plan in 1977. Compensation benefits under nonqualified stock options with appreciation rights and share units are measured by the excess of the market value of UOP common stock over the award value plus the market value of dividend equivalents. These benefits amounted to \$30,000 for 1977 and were charged to income. The company also has qualified stock options outstanding under the 1967 plan. Options under this plan may be exercised at any time commencing one year after date of grant. During 1977, 132,050 shares were granted under the 1967 plan. No further grants may be made under the 1967 plan.

At the beginning and end of 1977, 449,425 and 292,850 shares respectively, of \$1.00 par value common stock were reserved for issuance under all stock option plans. Transactions involving stock options were:

	Number of Shares	Per Share	Total*
Balance January 1, 1976	274,130		\$ 5,296
Granted	102,775	\$11-\$12	1,189
Terminated	(115,030)	12-25	(2,495)
Exercised	(500)	11	(5)
Balance December 31, 1976	261,375		\$ 3,985
Granted	132,050	15	2,022
Terminated	(72,850)	12-23	(1,252)
Exercised	(6,050)	11-15	(74)
Balance December 31, 1977	314,525		\$ 4,681
Granted in 1973	43,250	21	\$ 908
Granted in 1974	57,675	15	847
Granted in 1976	91,575	11-12	1,057
Granted in 1977	122,025	15	1,869
	<u>314,525</u>		<u>\$ 4,681</u>

*In thousands

During 1977, 102,775 shares became exercisable at option prices ranging from \$11 to \$12 (market value at exercisable dates ranged from \$15 to \$16). No shares became exercisable in 1976. The market price on the date that shares were exercised was \$14 in 1976 and ranged between \$14 and \$17 in 1977.

Any dilution resulting from exercise of stock options would be insignificant.

Note 9. Investment in Subsidiaries:

The company owns 50% of three nonconsolidated foreign companies, Universal-Matthey Products Ltd. (England), Universal-Matthey Products (Deutschland), GmbH (West Germany), and Nikki-Universal Co., Ltd. (Japan). The investments in these companies are recorded at cost plus the company's share of undistributed earnings since dates of acquisition. The changes in such investments for 1976 and 1977 are as follows:

	1976	1977
Investment, beginning of year	\$10,076,000	\$10,090,000
Company's share of earnings for the year	331,000	1,906,000
Additional investment	—	1,244,000
Cash dividends received	(317,000)	(2,006,000)
Investment, end of year	<u>\$10,090,000</u>	<u>\$11,234,000</u>

The company's share of the undistributed earnings of these nonconsolidated subsidiaries at December 31, 1976 and 1977, in the amounts of \$7,095,000 and \$6,995,000 respectively, is included in consolidated retained earnings of the company.

Note 10. Leases:

In 1977 the method of accounting for leases was changed to comply with the provisions of a recent Statement of Financial Accounting Standards which requires the capitalization of certain leases as assets and the related lease obligations to be recorded as liabilities. The balance sheet at December 31, 1976 has been restated to include \$14,462,000 as additional plant and equipment and lease obligations. There was no effect on income as a result of this change.

The company's property under capital leases at December 31, which is included in plant and equipment, consists of the following (in thousands):

	1976	1977
Land	\$ 192	\$ 192
Buildings	15,398	15,443
Machinery and equipment	18,771	23,360
	<u>34,361</u>	<u>38,995</u>
Less accumulated depreciation	8,193	10,017
	<u>\$26,168</u>	<u>\$28,978</u>

At December 31, 1977 the future minimum lease payments for noncancelable leases are summarized as follows (in thousands):

	Capital Leases	Operating Leases
1978	\$ 5,247	\$ 3,522
1979	5,247	2,895
1980	5,247	2,403
1981	5,024	1,658
1982	5,002	1,329
1983 and thereafter	29,475	11,834
Total minimum lease payments	<u>\$55,242</u>	<u>\$23,641</u>
Amount representing interest	22,097	
Present value of minimum lease obligations	33,145	
Less current portion	2,196	
Non current portion	<u>\$30,949</u>	

Rental expense under all operating leases amounted to \$5,883 in 1976 and \$6,112 in 1977.

Note 11. Supplementary Balance Sheet Information:

Additional information relating to certain balance sheet items is presented below (in thousands):

	1976	1977
DEFERRED CHARGES—		
Other investments	\$ 845	\$ 604
Cost of catalysts leased	827	357
Deferred revenue bond expense and unexpended proceeds	878	621
Prepaid insurance premiums	1,048	869
Jigs, dies and patterns	1,325	1,057
Other	2,517	1,401
	<u>\$ 7,440</u>	<u>\$ 4,909</u>
ACCRUED LIABILITIES—		
Wages and fringe benefits	\$ 9,405	\$14,887
Miscellaneous taxes	6,418	5,745
Warranties	7,856	9,778
Shutdown costs	1,265	1,267
Guarantees of refinery company obligations (Note 3)	11,962	11,962
Other	17,854	20,119
	<u>\$54,760</u>	<u>\$ 63,758</u>
INVENTORIES—		
Raw materials and supplies	\$44,620	\$ 46,308
Work in progress	15,620	24,212
Finished goods	20,723	30,804
	<u>\$80,963</u>	<u>\$101,324</u>

Inventories at the beginning of 1976 were \$89,378.

PLANT AND EQUIPMENT—

	Balance at Beginning of Period*	Additions at Cost	Retire- ments and Sales	Reclas- sifica- tion and Transfer	Deple- tion of Timber	Balance at Close of Period*
1976						
Land and timber	\$ 12,860	\$ 906	\$ (2,210)	\$	\$ (69)	\$ 11,487
Buildings	92,413	6,452	(8,679)	(11)		90,175
Machinery and equipment	152,173	15,068	(7,618)	11	(81)	159,553
Construction in progress	18,898	(9,040)	(32)			9,826
*Restated	<u>\$276,344</u>	<u>\$13,386</u>	<u>\$(18,539)</u>	<u>\$ —</u>	<u>\$(150)</u>	<u>\$271,041</u>
1977						
Land and timber	\$ 11,487	\$ 249	\$ (509)	\$	\$ (70)	\$ 11,157
Buildings	90,175	2,265	(596)	(15)		91,829
Machinery and equipment	159,553	14,940	(3,476)	15	(57)	170,975
Construction in progress	9,826	(1,162)	(43)			8,621
	<u>\$271,041</u>	<u>\$16,292</u>	<u>\$ (4,624)</u>	<u>\$ —</u>	<u>\$(127)</u>	<u>\$282,582</u>

INTANGIBLE ASSETS—

	Balance at Beginning of Period*	Additions at Cost	Retire- ments and Sales	Reclas- sifica- tion and Transfer	Deple- tion of Timber	Balance at Close of Period*
1976						
Patents	\$ 14,239	\$ 443	\$(10,199)			\$ 4,483
Goodwill	4,903	42	(1,631)			3,314
	<u>\$19,142</u>	<u>\$ 485</u>	<u>\$(11,830)</u>	<u>—</u>	<u>—</u>	<u>\$ 7,797</u>
1977						
Patents	\$ 4,483	\$ 37	\$ (287)			\$ 4,233
Goodwill	3,314					3,314
	<u>\$ 7,797</u>	<u>\$ 37</u>	<u>\$ (287)</u>	<u>—</u>	<u>—</u>	<u>\$ 7,547</u>

ACCUMULATED DEPRECIATION OF PLANT AND EQUIPMENT—

	Balance at Beginning of Period*	Provision Charged to Income	Retire- ments and Sales	Reclas- sifica- tion and Transfer	Balance at Close of Period*
1976					
Buildings	\$ 33,086	\$ 2,871	\$ (4,753)	\$ (6)	\$ 31,198
Machinery and equipment	90,474	10,797	(6,205)	151	95,217
*Restated	<u>\$123,560</u>	<u>\$13,668</u>	<u>\$(10,958)</u>	<u>\$145</u>	<u>\$126,415</u>
1977					
Buildings	\$ 31,198	\$ 2,988	\$ (265)	\$	\$ 33,921
Machinery and equipment	95,217	11,051	(3,133)	120	103,255
	<u>\$126,415</u>	<u>\$14,039</u>	<u>\$ (3,398)</u>	<u>\$120</u>	<u>\$137,176</u>

RESERVE FOR AMORTIZATION OF INTANGIBLES—

	Balance at Beginning of Period*	Provision Charged to Income	Retire- ments and Sales	Reclas- sifica- tion and Transfer	Balance at Close of Period*
1976					
Patents	\$ 4,625	\$ 398	\$ (3,211)		\$ 1,812
Goodwill	1,159	1,277	(1,372)		1,064
	<u>\$ 5,784</u>	<u>\$ 1,675</u>	<u>\$ (4,583)</u>	<u>—</u>	<u>\$ 2,876</u>
1977					
Patents	\$ 1,812	\$ 423	\$ (287)		\$ 1,948
Goodwill	1,064	443			1,507
	<u>\$ 2,876</u>	<u>\$ 866</u>	<u>\$ (287)</u>	<u>—</u>	<u>\$ 3,455</u>

OTHER RESERVES—

	Balance at Beginning of Period	Additions Charged to Profit and Loss	Amount Written off During Period	Balance at Close of Period
1976				
Reserve for shutdown expenses	\$1,909		\$ (644)	\$1,265
Reserve for doubtful accounts	<u>\$2,024</u>	<u>\$1,143</u>	<u>\$ (816)</u>	<u>\$2,351</u>
1977				
Reserve for shutdown expenses	\$1,265		\$ 2	\$1,267
Reserve for doubtful accounts	<u>\$2,351</u>	<u>\$2,843</u>	<u>\$ (227)</u>	<u>\$4,967</u>

Note 12. Supplementary Income Statement Information:

	1976*	1977*
Maintenance and repair	\$12,769	\$16,875
Depreciation of plant and equipment	13,668	14,039
Amortization of patents and goodwill	1,675	866
Depletion of timber	150	127
Taxes other than income taxes:		
Payroll taxes	9,311	11,715
Other state and local taxes	<u>5,623</u>	<u>5,625</u>

*in thousands

Note 13. Information About the Company's Operations in Different Industries and Different Geographical Areas:

The company operates in six industries. Descriptive information concerning these industries is contained elsewhere in this proxy statement.

Total revenue by industry includes sales to unaffiliated customers, as reported in the company's consolidated statement of operations. Intersegment sales, which are eliminated in the consolidated financial statements, are also eliminated in these tables since they represent less than 5% of total revenue. Operating profit includes all costs and expenses directly related to the division involved. General corporate expenses as well as interest on corporate debt, net of interest earned on short-term investments are shown as separate items. Identifiable assets are those used by the operation involved. Corporate assets consist principally of cash and marketable securities and real estate located in Des Plaines, Illinois. The company has a 50% interest in three non-consolidated subsidiaries. Information concerning these subsidiaries is contained in Note 9.

The company operates in the following geographic areas: United States, Canada, Europe and has operations in Australia and South America. Transactions between geographic areas are accounted for on an "arm's length" basis.

Financial data, by segment, are as follows (in millions):

	Revenues		Earnings Before Income Taxes		Assets December 31,	
	1976	1977	1976	1977	1976	1977
Petroleum and petrochemical	\$104.6	120.7	20.9	22.7	93.7	97.0
Construction	187.4	154.6	2.3	1.3	68.3	85.5
Fabricated metal products	191.7	220.3	12.1	16.3	91.5	100.2
Transportation equipment	94.5	115.3	17.8	13.2	55.1	66.9
Chemicals and plastics	86.6	105.2	2.2	8.5	46.8	52.8
Other products	12.2	13.8	(3.6)	(4.6)	22.0	21.2
Corporate, research and interest			(22.8)	(17.5)	77.6	73.5
Partially owned subsidiaries .....			.3	1.9	10.1	11.2
Total	<u>\$677.0</u>	<u>729.9</u>	<u>29.2</u>	<u>41.8</u>	<u>465.1</u>	<u>508.3</u>

	Capital Expenditures		Depreciation, Depletion and Amortization	
	1976	1977	1976	1977
Petroleum and petrochemical	\$ 4.7	2.1	2.9	3.6
Construction .....	.5	.7	.6	.5
Fabricated metal products	2.4	2.9	3.7	4.1
Transportation equipment	1.2	1.8	2.6	2.4
Chemicals and plastics	1.7	2.1	3.0	1.7
Other products	1.2	1.1	1.1	1.1
Corporate and research	1.7	5.6	1.6	1.6
Total	<u>\$13.4</u>	<u>16.3</u>	<u>15.5</u>	<u>15.0</u>

Financial data, by geographical area, are as follows:

	Revenues		Earnings Before Income Taxes		Assets December 31,	
	1976	1977	1976	1977	1976	1977
United States	\$586.5	613.3	51.4	46.3	305.8	334.8
Canada	39.6	45.9	(.9)	.2	22.9	22.6
Europe	47.0	66.2	.7	10.4	45.9	62.4
All others	3.9	4.5	.5	.5	2.8	3.8
Corporate, research and interest			(22.8)	(17.5)	77.6	73.5
Partially owned subsidiaries .....			.3	1.9	10.1	11.2
	<u>\$677.0</u>	<u>729.9</u>	<u>29.2</u>	<u>41.8</u>	<u>465.1</u>	<u>508.3</u>

Note 14. Unaudited Data by Calendar Quarters:

	1976				
	1Q	2Q	3Q	4Q	YEAR
Revenues	\$141,767	177,360	159,503	198,411	677,041
Gross profit	31,662	38,894	33,724	44,544	148,824
Net income continuing operations	1,871	6,325	3,863	3,382	15,441
Discontinued operations	1,181	—	—	—	1,181
Extraordinary item	1,285	2,855	750	2,079	6,969
Net income	<u>4,337</u>	<u>9,180</u>	<u>4,613</u>	<u>5,461</u>	<u>23,591</u>
Per common share:					
Continuing operations	\$.17	.55	.33	.30	1.35
Discontinued operations .....	.10	—	—	—	.10
Extraordinary item .....	.11	.25	.07	.18	.61
Total	<u>\$.38</u>	<u>.80</u>	<u>.40</u>	<u>.48</u>	<u>2.06</u>
Dividends paid per share	\$ —	—	.10	.125	.225
Stock price—high	13%	13%	15%	15%	
low	10	10%	11%	12½	

	1977				
	1Q	2Q	3Q	4Q	YEAR
Revenues	\$178,994	183,940	180,181	186,763	729,878
Gross profit	40,691	45,629	39,044	40,887	166,251
Net income continuing operations	6,436	7,673	5,242	4,977	24,328
Extraordinary item	1,560	1,840	1,003	2,707	7,110
Net income	7,996	9,513	6,245	7,684	31,438
Per common share:					
Continuing operations	\$.56	.67	.46	.43	2.12
Extraordinary item .....	.14	.16	.08	.24	.62
Total	\$.70	.83	.54	.67	2.74
Dividends paid per share	\$.125	.15	.175	.175	.625
Stock price—high	17%	18%	17%	15%	
low	14	13%	14½	13½	

Note 15. Joint Ventures:

The company, through its wholly-owned foreign subsidiaries, has interests in unincorporated joint ventures, formed in connection with long-term construction contracts, of which it is the managing partner. The contracts held by the joint ventures are as follows:

<u>Customer</u>	<u>Type of Project and Location</u>	<u>Company's Interest In Joint Venture</u>
Societe Anonyme Marocaine de l'Industrie du Raffinerie (SAMIR)	Expansion of existing refinery at Mohammedia, Morocco	60%
Societe Nationale, et al (SONATRACH)	Complete refinery at Bejaia, Algeria	50%

The joint ventures' combined unaudited balance sheet at December 31, 1976 and 1977 is as follows:

	1976	1977
Assets		
Cash	\$12,709,000	\$33,678,000
Accounts receivable	21,853,000	44,363,000
	<u>\$34,562,000</u>	<u>\$78,041,000</u>
Liabilities:		
Accounts payable	\$ 7,787,000	\$15,678,000
Billings on uncompleted contracts in excess of related costs ...	26,775,000	62,363,000
	<u>\$34,562,000</u>	<u>\$78,041,000</u>

In addition to the above projects, the company, through a wholly-owned foreign subsidiary, is a 50% limited (but not managing) partner in an unincorporated joint venture for the construction of a complete refinery located in Sines, Portugal. The construction contract has approximately \$350,000,000 total value and construction was approximately 95% complete at December 31, 1977.

Note 16. Discontinued Operations:

On March 4, 1976, the company sold its Fragrances Group operating units for cash and notes in the amount of \$21,310,000 resulting in a gain of \$1,181,000 net of applicable income taxes of \$617,000.

Note 17. Unaudited Replacement Cost Data:

The following is an analysis of management's estimates of the replacement cost of certain of the inventories and productive capacity of the company and its subsidiaries. This information should not be interpreted to indicate that the company actually has present plans to replace such assets nor that actual replacement would take place in the form and manner assumed in developing these estimates nor does such information purport to represent amounts at which the assets could be sold. In addition, it must be recognized that, by nature, this replacement-cost data is imprecise and predicated upon certain assumptions and subjective judgments of management, some of which are described below.

The company prices platinum, copper and certain other inventories at last-in, first-out cost, which is less than market. The excess of the replacement cost of these inventories over their carrying value was \$18 million at December 31, 1977. All other inventories are priced at the lower of first-in, first-out cost or market. The replacement value of the raw material element of these inventories was determined by a review of current prices for the quality, quantity and terms at which the company generally purchases these items; the finished goods and work in process elements were established based on standard costs adjusted to reflect current material, labor and overhead variances as well as replacement cost depreciation of buildings, machinery and equipment determined on a straight-line basis.

The replacement cost of buildings was estimated by applying published construction cost indexes to the acquisition prices of the buildings. Equipment indexes, which represent costs paid for installed plant equipment as a whole, were applied to the acquisition prices of the machinery and equipment. It is believed that the indexes used are reasonably representative of changes in prices for the assets; however, the company disclaims any responsibility for the accuracy, consistency, weighting or other factors which may affect such indexes. Accumulated depreciation at the end of the year and the provision for depreciation for the year related to the replacement cost of such assets have been calculated using straight-line depreciation rates based on the estimated service lives used for financial accounting purposes. All amounts related to foreign operations have been translated to U.S. dollars at exchange rates in effect at year end.

Certain productive capacity has been excluded since it is the present intention of management not to replace these facilities.

Replacement cost of sales was estimated through adjustment of historical costs for the approximate three-month time lag between incurring inventory costs and their subsequent conversion into sales revenues.

The replacement cost of the company's assets is estimated as follows (in millions):

	1976		1977	
	Estimated Replacement Cost	Comparable Historical Cost	Estimated Replacement Cost	Comparable Historical Cost
Inventories—as of December 31:				
Raw materials	\$ 51.2	\$ 37.6	\$ 52.9	\$ 39.7
Work-in-process	15.5	13.7	17.9	16.6
Finished goods	16.5	13.9	31.4	28.5
Total	<u>\$ 83.2</u>	<u>\$ 65.2</u>	<u>\$102.2</u>	<u>\$ 84.8</u>
Plant and Equipment—as of December 31:				
Buildings	\$144.0	\$ 81.5	\$151.3	\$ 79.2
Machinery and equipment	240.4	144.6	262.6	157.0
Total	384.4	226.1	413.9	236.2
Less accumulated depreciation	209.3	108.8	234.8	114.1
Total	<u>\$175.1</u>	<u>\$117.3</u>	<u>\$179.1</u>	<u>\$122.1</u>
Cost of goods sold—for the year ended December 31	<u>\$380.4</u>	<u>\$373.9</u>	<u>\$426.9</u>	<u>\$418.6</u>
Depreciation expense—for the year ended December 31:				
Included in cost of goods sold	\$ 14.7	\$ 9.6	\$ 14.7	\$ 9.5
Included in general expenses	4.2	2.9	4.7	3.3
Total	<u>\$ 18.9</u>	<u>\$ 12.5</u>	<u>\$ 19.4</u>	<u>\$ 12.8</u>

A reconciliation of historical cost amounts for which replacement cost data are provided to the related totals as shown on year-end financial statements is as follows (in millions):

	1976		
	Inventories	Plant and Equipment	Accumulated Depreciation
At December 31, 1976:			
Amounts for which replacement cost data are provided	\$ 65.2	\$226.1	\$108.8
Assets which will not be replaced at end of current economic life	14.9	24.2	17.3
Assets located outside North America and the European Economic Community	1.3	.6	.3
Land and timber—at cost	—	11.5	—
Capital jobs in progress—at cost	—	9.8	—
Other adjustments	(.4)	(1.2)	—
Total—as shown on year end balance sheet	<u>\$ 81.0</u>	<u>\$271.0</u>	<u>\$126.4</u>
	1977		
	Inventories	Plant and Equipment	Accumulated Depreciation
At December 31, 1977:			
Amounts for which replacement cost data are provided	\$ 84.8	\$236.2	\$114.1
Assets which will not be replaced at end of current economic life	17.9	25.4	18.5
Land and timber—at cost	—	11.2	—
Capital jobs in progress—at cost	—	8.6	—
Other adjustments	(1.4)	1.2	4.6
Total—as shown on year end balance sheet	<u>\$101.3</u>	<u>\$282.6</u>	<u>\$137.2</u>

	1976		
	Cost of Goods Sold	Depreciation Expense Included in	
		Cost of Goods Sold	General Expense
For the year ended December 31, 1976:			
Amounts for which replacement cost data are provided	\$373.9	\$ 9.6	\$2.9
Amounts related to assets which will not be replaced	44.4	.8	.3
Amounts related to assets located outside North America and the EEC	2.4	—	—
Other adjustments (principally intercompany costs) ..	(21.3)	—	—
Total—as shown on year end income statement	<u>\$399.4</u>	<u>\$10.4</u>	<u>\$3.2</u>

	1977		
	Cost of Goods Sold	Depreciation Expense Included in	
		Cost of Goods Sold	General Expense
For the year ended December 31, 1977:			
Amounts for which replacement cost data are provided	\$418.6	\$ 9.5	\$3.3
Amounts related to assets which will not be replaced	57.0	1.2	—
Other adjustments (principally intercompany costs) ..	(21.2)	—	—
Total—as shown on year end income statement	<u>\$454.4</u>	<u>\$10.7</u>	<u>\$3.3</u>

Although replacement of productive capacity with technologically superior equipment generally results in some efficiencies, such as a reduction in required direct labor per unit of produced output, there are frequently additional costs associated with asset replacement, such as additional costs solely to comply with environmental regulations. Accordingly, it is not practical to estimate any related effects on other costs which would result from replacement of existing productive capacity. Similarly, it is not practicable to quantify the extent to which replacement may result in identical units of produced output which are of superior quality to those which are now produced. The replacement of total existing capacity would take place over many years and would incorporate continuing developments in technology, as well as economies of scale. The nature and magnitude of such future developments are not currently known or predictable and, therefore, could not be included in, or estimated, supplementary to the above mentioned functional replacement cost calculations. The estimates and approaches used to develop the above amounts are based on present technology and are necessarily tentative and subject to considerable reclarification.

The Company has maintained an approximately constant rate of gross profit on product sales for a period of several years. Price increases have generally been timed to coincide with income statement recognition of increased inventory costs. Although management presently anticipates its continued ability to compensate for cost increases by adjusting sales prices so as to maintain an approximately 20% historical cost gross margin on sales, there can be no assurance that competitive or other factors will not affect continuance of this practice.

Note 18. Event Subsequent to Date of Auditors' Report

On March 6, 1978, the Board of Directors of The Signal Companies, Inc. (Signal) proposed and the Company's Board of Directors recommended to the stockholders that they accept a Signal offer to acquire the outstanding 49.5% minority interest in the Company's \$1 par value Common Stock for cash at \$21 per share. The transaction will be effected as a merger and is subject to the approval of the Company's stockholders and certain regulatory agencies. The affirmative vote of at least a majority of the outstanding shares of the Company's Common Stock entitled to vote at the May 1978 annual meeting is required under Delaware law for the consummation of the merger. However, the merger will not be consummated unless the holders of a majority of the shares present and voting at the meeting other than those held by Signal and, additionally, no fewer than two-thirds of all shares entitled to vote, including those held by Signal, vote in favor.

DELAWARE CORPORATION LAW ANNOTATED

Sec. 262

§ 262. Appraisal Rights

(a) Appraisal rights under this section shall be available only for the shares of any stockholder who has complied with subsection (b) of this section and has neither voted in favor of the merger nor consented thereto in writing pursuant to § 228 of this title. When used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation.

(b) Appraisal rights under this section shall be determined as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders entitled to such appraisal rights that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of his shares under this section shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of his shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of his shares; provided, however, that such demand must be in addition to and separate from any proxy or vote against the merger. Within 10 days after the effective date of such merger or consolidation, the surviving corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228 or § 253 of this title, the surviving corporation, either before the effective date of the merger or within 10 days thereafter, shall notify each of the stockholders entitled to appraisal rights of the effective date of the merger or consolidation and that appraisal rights are available for any or all of the shares of the constituent corporations. A copy of this section shall be included in the notice. The notice shall be sent by certified or registered mail, return receipt requested, addressed to the stockholder at his address as it appears on the records of the corporation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of the notice, demand in writing from the surviving corporation the appraisal of his shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of his shares.

(c) Within 120 days after the effective date of the merger or consolidation, the corporation or any stockholder who has complied with subsections (a) and (b) of this section and who is otherwise entitled to appraisal rights under this section, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw his demand for appraisal and to accept the terms offered upon the merger or consolidation.

(d) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the corporation, which shall within ten days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and

with whom agreements as to the value of their shares have not been reached by the corporation. If the petition shall be filed by the corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the corporation and to the stockholders shown upon the list at the addresses therein stated, and notice shall also be given by publishing a notice at least once at least one week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware. The Court may direct such additional publication of notice as it deems advisable. The forms of the notices by mail and by publication shall be approved by the Court.

(e) After the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights under this section. The Court may require the stockholders who demanded payment for their shares to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(f) After the determination of the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger. Upon application by any stockholder entitled to participate in the appraisal proceeding or by the corporation, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of those other stockholders who have complied with this section. Any stockholder whose name appears on the list filed by the corporation pursuant to subsection (d) of this section and who has submitted his certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until the Court shall determine that he is not entitled to appraisal rights under this Section.

(g) The Court shall direct the payment of the appraised value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any other state.

(h) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon the application of any party in interest, the Court shall determine the amount of interest, if any, to be paid upon the value of the stock of the stockholders entitled thereto. In making its determination with respect to interest, the Court may consider all relevant factors, including the rate of interest which the corporation has paid for money it has borrowed, if any, during the pendency of the proceeding. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all of the shares entitled to an appraisal.

(i) Any stockholder who has demanded his appraisal rights as provided in subsection (b) of this section shall thereafter neither be entitled to vote such stock for any purpose nor be entitled to the payment of dividends or other distribution on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (c) of this section, or if such stockholder shall deliver to the corporation a written withdrawal of his demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (c) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(j) The shares of the surviving or resulting corporation into which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

(k) Unless otherwise provided in the certificate of incorporation of the corporation issuing such shares, no appraisal rights under this section shall be available for the shares of any class or series of stock which, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (1) listed on a national securities exchange or (2) held of record by more than 2,000 stockholders. No appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of § 251 of this title.

(l) Notwithstanding subsection (k) of this section, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to § 251 or § 252 of this title to accept for such stock anything except: (1) Shares of stock of the corporation surviving or resulting from such merger or consolidation; (2) shares of stock of any other corporation which at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 shareholders; (3) cash in lieu of fractional shares of the corporations described in clauses (1) and (2) of this subsection; or (4) any combination of the shares of stock and cash in lieu of fractional shares described in clauses (1), (2) and (3) of this subsection.

MERGER AGREEMENT

This Merger Agreement is made this 22nd day of March, 1978, between Sigco Incorporated, a Delaware corporation (herein called "Sigco"), and UOP Inc., a Delaware corporation (herein called "UOP").

The respective Boards of Directors of Sigco and UOP deem it advisable and in the best interests of each of such corporations and their respective stockholders that Sigco be merged into UOP in the manner herein contemplated.

Accordingly, the parties agree as follows:

Article I

MERGER

In accordance with the provisions of the General Corporation Law of the State of Delaware, Sigco shall be merged with and into UOP, which shall be, and is herein sometimes referred to as, "the surviving corporation," and the name of which shall continue to be UOP Inc.

Article II

SURVIVING CORPORATION AND EFFECTIVE DATE

2.01. *Surviving Corporation.* Except as herein specifically set forth, the identity, existence, purposes, powers, objects, franchises, privileges, rights and immunities of UOP shall continue unaffected and unimpaired by the merger, and the corporate franchises, existence and rights of Sigco shall be merged into UOP, and UOP shall, as the surviving corporation, be fully vested therewith. The separate existence and corporate organization of Sigco, except insofar as they may be continued by statute, shall cease when the merger shall become effective.

2.02. *Effective Date.* The merger herein contemplated shall become effective at the time (herein called the "Effective Time of the Merger") when this Merger Agreement is filed with the Secretary of State of the State of Delaware in accordance with the General Corporation Law of the State of Delaware.

Article III

CERTIFICATE OF INCORPORATION, BY LAWS AND DIRECTORS

3.01. *Certificate of Incorporation.* The Certificate of Incorporation of UOP is hereby amended, and shall be the Certificate of Incorporation of UOP, the surviving corporation, effective at the time of filing this Merger Agreement, by changing the Article thereof numbered "Fourth" so as to read in its entirety as follows:

"FOURTH: The total number of shares of stock which this corporation shall have authority to issue is one thousand (1,000) shares of Common Stock, \$2.00 par value."

3.02. *By Laws.* The By Laws of UOP in effect immediately prior to the Effective Time of the Merger shall continue in full force and effect as the By Laws of the surviving corporation until they shall thereafter be duly amended.

3.03. *Directors.* The directors of UOP immediately prior to the Effective Time of the Merger shall continue to be the directors of the surviving corporation, subject to the By Laws thereof, until the next annual meeting of stockholders or until their successors are elected and qualified. If, at or after the Effective Time of the Merger, a vacancy shall exist in the Board

of Directors of the surviving corporation, such vacancy may be filled in the manner provided in the By Laws thereof.

Article IV

CONVERSION OF SHARES

The manner of converting the shares of stock of Sigco into shares of stock of UOP and converting the shares of stock and options to purchase shares of stock of UOP into the right to receive cash, respectively, shall be as follows:

(a) Each share of Capital Stock, \$1.00 par value, of Sigco (herein called the "Sigco Stock") which shall be outstanding at the Effective Time of the Merger shall, at such time and by virtue of the merger without any action on the part of the holder thereof, be converted into and exchanged for one share of Common Stock, \$2.00 par value, of UOP, the surviving corporation.

(b) Each share of Common Stock, \$1.00 par value, of UOP (herein called the "UOP Stock"), other than those shares then held by The Signal Companies, Inc., a Delaware corporation (herein called "Signal"), or held in the Treasury of UOP, which shall be outstanding at the Effective Time of the Merger shall, at such time and by virtue of the merger without any action on the part of the holder thereof, be converted into and exchanged for the right to receive \$21.00 cash, payable by the surviving corporation, and each holder of such UOP Stock, at the Effective Time of the Merger (except Signal and the shares held in the Treasury of UOP) shall, upon the merger, cease being a stockholder of UOP and shall by such merger be converted from a stockholder into a creditor of UOP for an amount equal to the product of the number of shares of UOP Stock held of record by such holder at the Effective Time of the Merger and \$21.00. There is no preferred stock of UOP outstanding.

(c) Upon the merger each share of UOP Stock held by Signal (other than shares issued pursuant to paragraph (a) of this Article IV) or held as Treasury shares by UOP at the Effective Time of the Merger shall be cancelled.

(d) Each option or other right to acquire or purchase a share of UOP Stock which shall be outstanding, if any, at the Effective Time of the Merger shall, at such time and by virtue of the merger without any action on the part of the holder thereof, be converted into and exchanged for a right to receive, upon the payment of the exercise price and the satisfaction of all other conditions to the exercise thereof, \$21.00 cash.

(e) After the Effective Time of the Merger the surviving corporation shall cause to be delivered to Morgan Guaranty Trust Company of New York, New York, New York, as exchange agent (herein called the "Exchange Agent") the cash deliverable pursuant to this Merger Agreement. Each holder of UOP Stock at the Effective Time of the Merger (other than Signal or UOP or any stockholder of UOP who shall have perfected his appraisal rights) shall be entitled upon surrender to the Exchange Agent of the certificate or certificates for his shares of stock of UOP Stock for cancellation to receive the cash into which such shares shall have been converted in the merger. Unless and until any such certificates shall be so surrendered, the holder of such certificate shall not have any right to receive the cash into which such shares have been converted and in no event shall the holder of any such certificate have the right to receive any interest on the cash to be received.

Upon the expiration of one year after the Effective Time of the Merger, any unpaid cash held by the Exchange Agent for the benefit of holders of certificates formerly representing shares of UOP Stock shall be delivered to the surviving corporation and thereafter the Exchange Agent shall not be liable to any person claiming such cash.

Article V

APPROVAL, TERMINATION, EXPENSES

5.01. *Approval.* This Merger Agreement shall be submitted at the earliest practicable date to the stockholders of each of Sigco and UOP for adoption and, if adopted by the vote or written consent of the stockholders of Sigco as required by the Delaware General Corporation Law and the vote of the stockholders of UOP as provided for in the next sentence, shall be made effective as soon as practicable thereafter in the manner provided in Article II hereof. The vote for approval of the Merger Agreement by the stockholders of UOP shall be approval by the holders of a majority of the issued and outstanding shares of UOP Stock, other than those owned by Signal, present and voting at a meeting convened for the purpose of approving this Merger Agreement and the transactions contemplated hereby, provided that not less than two-thirds of the shares of UOP Stock, including shares owned by Signal, outstanding on the record date for such meeting shall have approved this Merger Agreement.

5.02. *Termination.* If the Agreement Regarding Merger, dated March 22, 1978 between UOP, Sigco and Signal, is terminated prior to the Effective Time of the Merger, this Merger Agreement shall simultaneously terminate without further action on the part of Sigco and UOP, notwithstanding prior approval by the stockholders of either or both Sigco and UOP.

5.03. *Expenses.* Sigco and UOP shall each bear and pay all costs and expenses incurred by it or on its behalf in connection with the consummation of the merger, including, without limiting the generality of the foregoing, fees and expenses of financial consultants, accountants and counsel.

Article VI

MISCELLANEOUS

6.01. *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.02. *Amendment.* At any time before or after approval and adoption by the respective stockholders of Sigco and UOP, this Merger Agreement may be amended or supplemented by additional agreements, articles or certificates as may be determined in the judgment of the respective Boards of Directors of Sigco and UOP to be necessary, desirable or expedient to further the purposes of this Merger Agreement, to clarify the intention of the parties, to add to or to modify the covenants, terms or conditions contained herein or to effectuate or to facilitate any governmental approval of the merger or this Merger Agreement, or otherwise to effectuate or to facilitate the consummation of the transactions contemplated hereby; provided, however, that after the approval of the stockholders of Sigco or UOP: (i) neither paragraph (b) of Article IV of this Merger Agreement, nor the provisions of Section 5.01 hereof regarding the vote required by stockholders of UOP to approve this Merger Agreement, may be amended or supplemented without the vote of the majority of the issued and outstanding shares of UOP Stock, other than those owned by Signal, present and voting at a meeting convened for the purpose of approving and adopting the proposed amendment or supplement, provided that not less than two-thirds of the shares of UOP Stock, including shares owned by Signal, outstanding on the record date for such meeting shall have approved such amendment or supplement, and (ii) Section 3.01 of this Merger Agreement may not be amended without the vote or written consent of the majority of the issued and outstanding shares of UOP Stock on the record date for such determination.

6.03. *Governing Law.* This Merger Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, Sigco Incorporated and UOP Inc. have each caused this Merger Agreement to be executed on its behalf by its President or one of its Vice Presidents, attested by its Secretary or an Assistant Secretary, and its corporate seal to be affixed hereto, all on the date first above written.

(Seal)

Attest:

SIGCO INCORPORATED

/s/ L. Earl Logue
Secretary

By /s/ A. J. Chitlea
President

(Seal)

Attest:

UOP Inc.

/s/ M. B. Peek
Secretary

By /s/ J. V. Crawford
President

I,, of UOP Inc., a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Merger Agreement was adopted and approved by the Board of Directors of UOP Inc. in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the President and attested by the Secretary of UOP Inc. under its corporate seal in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Merger Agreement was submitted to the stockholders of UOP Inc., at a meeting thereof duly called for the purpose of acting on said Merger Agreement and at said meeting the holders of a majority of the issued and outstanding shares of UOP Common Stock, \$1 par value, other than those owned by The Signal Companies, Inc., present and voting at said meeting, and not less than two-thirds of the shares of said UOP Common Stock, including shares owned by The Signal Companies, Inc., outstanding on the record date for such meeting voted for the adoption and approval of the foregoing Merger Agreement.

IN WITNESS WHEREOF, I have hereunto signed my name as of UOP Inc. and affixed the seal of said corporation this day of, 1978.

[CORPORATE SEAL]

I,, of Sigco Incorporated, a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Merger Agreement was adopted and approved by the Board of Directors of Sigco Incorporated in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the President and attested by the Secretary of Sigco Incorporated, under its corporate seal, in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Merger Agreement was adopted by the unanimous written consent of the stockholder of Sigco Incorporated.

IN WITNESS WHEREOF, I have hereunto signed my name as of Sigco Incorporated and affixed the seal of said corporation this day of, 1978.

[CORPORATE SEAL]

The foregoing Merger Agreement having been duly adopted by the stockholders of UOP Inc., a Delaware corporation, and by the stockholder of Sigco Incorporated, a Delaware corporation, and the fact of the adoption thereof as aforesaid having been duly certified thereon by the of UOP Inc., and by the of Sigco Incorporated, respectively, all in accordance with law, said Merger Agreement is hereby executed by each of the parties by its duly authorized officers under its respective corporate seal, this day of, 1978.

UOP Inc.

By _____
[Title]

[CORPORATE SEAL]

Attest:

Secretary

SIGCO INCORPORATED

By _____
[Title]

[CORPORATE SEAL]

Attest:

Secretary

State of Illinois }
County of Cook } ss.:

I,, a Notary Public, do hereby certify that before me this day in person appeared James V. Crawford, personally known to be the President of UOP Inc., a Delaware corporation, and Merl B. Peek, personally known to me to be the Secretary of said corporation, and each and severally acknowledged that they signed and delivered the foregoing Merger Agreement in the respective capacities herein set forth and caused to be affixed thereto the corporate seal of said corporation, pursuant to authority given under the certificate of incorporation and bylaws of the corporation, as the free and voluntary act of said corporation, and as their own free and voluntary act, for the uses and purposes therein set forth.

Given under my hand and seal this day of, 1978.

Notary Public

My Commission Expires

(SEAL)

State of California }
County of Los Angeles } ss.:

I,, a Notary Public, do hereby certify that before me this day in person appeared, personally known to be the President of Sigco Incorporated, a Delaware corporation, and personally known to me to be the Secretary of said corporation, and each and severally acknowledged that they signed and delivered the foregoing Merger Agreement in the respective capacities herein set forth and caused to be affixed thereto the corporate seal of said corporation, pursuant to authority given under the certificate of incorporation and bylaws of the corporation, as the free and voluntary act of said corporation, and as their own free and voluntary act, for the uses and purposes therein set forth.

Given under my hand and seal this day of, 1978.

Notary Public

My Commission Expires

(SEAL)

AGREEMENT REGARDING MERGER

This Agreement Regarding Merger (herein, as the same may be amended from time to time in accordance with its terms, called the "Agreement") is made this 22nd day of March, 1978 by and among UOP Inc., a Delaware corporation (herein called "UOP"), The Signal Companies, Inc., a Delaware corporation (herein called "Signal"), and Sigco Incorporated, a Delaware corporation (herein called "Sigco").

Signal is the owner of all of the outstanding capital stock of Sigco and of 5,800,000 shares of Common Stock, \$1.00 par value, of UOP. To enhance its investment, to eliminate potential conflicts of interest, to provide for a freer flow of resources between and among UOP, Signal and Signal's other wholly-owned subsidiaries, to provide certain other economies, and for other purposes, Signal wishes to merge Sigco into UOP. As a result, each of the outstanding shares of UOP's Common Stock, \$1.00 par value, other than those shares owned by Signal or by the Treasury of UOP, would be converted into and become a right to receive \$21.00 per share, and thereafter Signal would own all of UOP's outstanding Common Stock, \$2.00 par value. UOP has determined that the merger is in its best interests because it would, among other things, provide access to greater financial, technical and other resources and result in certain economies, and has further determined that the terms and conditions of such merger are fair and equitable to its stockholders other than Signal and to recommend the merger on such terms and conditions to its stockholders.

Accordingly, the parties agree as follows:

Article I

MERGER AGREEMENT AND EFFECTIVE DATE

A Merger Agreement between UOP and Sigco (herein called the "Merger Agreement"), providing for the merger of Sigco into UOP (herein called the "merger"), is being executed concurrently with this Agreement. Subject to the terms and conditions of this Agreement and the Merger Agreement, the Merger Agreement shall be filed with the Secretary of State of the State of Delaware and become effective in accordance with its terms. The date of the merger's effectiveness is herein called the "Effective Date."

Article II

REPRESENTATIONS AND WARRANTIES OF UOP

UOP represents and warrants to Signal and Sigco as follows:

2.01. *Reports.* UOP has filed all documents required to be filed by it with the Securities and Exchange Commission (herein called the "Commission") under the Securities Exchange Act of 1934 (herein called the "Act") and the rules and regulations thereunder, and will in the near future file its annual report on Form 10-K for its year ended December 31, 1977 (herein called the "UOP 10-K"), and all such documents at the time of filing thereof conformed or will conform in all material respects to the requirements of the Act and such rules and regulations, and did not include and will not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

2.02. *Financial Statements.* The consolidated financial statements of UOP heretofore delivered to Signal, as examined and reported on by Arthur Andersen & Co., fairly present the financial position of UOP and its consolidated subsidiaries and the results of their operations and changes in financial position as of the dates and for the periods indicated, in conformity with generally accepted accounting principles consistently applied during the periods indicated, except as otherwise stated therein. Such consolidated financial statements for the year ended December 31, 1977 are herein called the "UOP Financial Statements."

2.03. *Capital Stock.* The authorized and outstanding Capital Stock of UOP at December 31, 1977, and the outstanding options, warrants or rights to purchase or convert any obligation into Capital Stock of UOP at December 31, 1977, are as set forth in the UOP Financial Statements. There has been no change in such Capital Stock or options, warrants or rights since December 31, 1977 except as a result of the exercise, cancellation or satisfaction of options outstanding on that date.

2.04. *No Adverse Change.* Since the date of the UOP Financial Statements, there has been no material adverse change in the business, prospects, properties, consolidated financial position or consolidated results of operations of UOP and its subsidiaries, or any material litigation commenced or threatened against UOP or any of its subsidiaries.

2.05. *Authority.* UOP has full corporate power and authority to enter into this Agreement and the Merger Agreement and, subject to the conditions herein and therein set forth, to carry out the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Merger Agreement and, subject to the satisfaction of the conditions herein and therein set forth, the consummation of the transactions contemplated hereby and thereby will not violate any provision of UOP's Certificate of Incorporation or Bylaws, or violate any provision of or result in the acceleration of any obligation or the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security, mortgage, lien, order, arbitration award, judgment or decree to which UOP or any of its subsidiaries is a party or by which UOP or any of such subsidiaries or any of their respective properties is bound, and will not violate any other restriction of any character to which UOP or any of its subsidiaries is subject.

2.06. *Accuracy of Statements.* Neither this Agreement, the Merger Agreement, nor any statement, list, certificate or other written information furnished or to be furnished by UOP to Signal or Sigco in connection with this Agreement or the Merger Agreement or any of the transactions contemplated hereby or thereby contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading.

Article III

REPRESENTATIONS AND WARRANTIES OF SIGNAL AND SIGCO

Signal and Sigco represent and warrant to UOP as follows:

3.01. *Reports.* Signal has filed all documents required to be filed by it with the Commission under the Act and the rules and regulations thereunder, and will in the near future file its annual report on Form 10-K for its year ended December 31, 1977 (herein called the "Signal 10-K"), and all such documents at the time of filing thereof conformed or will conform in all material respects to the requirements of the Act and such rules and regulations, and did not include and will not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

3.02. *Financial Statements.* The consolidated financial statements of Signal heretofore delivered to UOP, as examined and reported on by Haskins & Sells, fairly present the financial position of Signal and its consolidated subsidiaries and the results of their operations and changes in financial position as of the dates for the periods indicated, in conformity with generally accepted accounting principles consistently applied during the periods indicated, except as otherwise stated therein. Such consolidated financial statements for the year ended December 31, 1977 are herein called the "Signal Financial Statements."

3.03. *No Adverse Change.* Since the date of the Signal Financial Statements, there has been no material adverse change in the business, prospects, properties, consolidated

financial position or consolidated results of operations of Signal and its subsidiaries, or any material litigation commenced or threatened against Signal or any of its subsidiaries.

3.04. *Authority.* Signal and Sigco have full corporate power and authority to enter into this Agreement and the Merger Agreement and, subject to the conditions herein and therein set forth, to carry out the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Merger Agreement and, subject to the conditions herein and therein set forth, the consummation of the transactions contemplated hereby and thereby will not violate any provision of Signal's or Sigco's Certificates of Incorporation or Bylaws, or violate any provision of or result in the acceleration of any obligation or the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security, mortgage, lien, order, arbitration award, judgment or decree to which Signal or any of its subsidiaries is a party or by which Signal or any of such subsidiaries or any of their respective properties is bound, and will not violate any other restriction of any character to which Signal or any of its subsidiaries is subject.

3.05. *Accuracy of Statements.* Neither this Agreement, the Merger Agreement, nor any statement, list, certificate or other written information furnished or to be furnished by Signal or Sigco to UOP in connection with this Agreement or the Merger Agreement or any of the transactions contemplated hereby or thereby contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading.

Article IV

COVENANTS OF UOP

UOP agrees that from the date hereof to the Effective Date:

4.01. *Stockholders' Meeting; Other Action.* UOP will duly convene and hold a meeting of its stockholders for the purpose of approving the Merger Agreement and authorizing the transactions contemplated thereby and will take all other action required by it to carry out the transactions contemplated by the Merger Agreement.

4.02. *Access to Information.* UOP will give to Signal and to Signal's accountants, counsel and other representatives full access, without unreasonable interference with business operations, to all of the properties, books, contracts, commitments and records of UOP and its subsidiaries, will furnish to Signal all such documents and copies of documents and records and information relating to UOP and its subsidiaries and will make its officers and employees available to Signal as Signal shall from time to time reasonably request. Signal agrees to keep confidential any information so obtained so long as it shall remain confidential.

4.03. *Ordinary Course.* UOP and its subsidiaries shall operate their business only in the usual, regular and ordinary course and manner.

4.04. *Amendments, Stock.* UOP shall not amend its Certificate of Incorporation or Bylaws and shall not issue or acquire any shares of UOP Capital Stock, except upon exercise of outstanding stock options; and no option, warrant or other right to purchase or to convert any obligation into shares of UOP Capital Stock shall be granted or issued.

4.05. *No Dividends, Etc.* No dividend or other distribution or payment shall be declared, paid or made by UOP with respect to its Common Stock, \$1.00 par value, except that the regular quarterly dividend of \$.20 per share for the first quarter of the fiscal year ending December 31, 1978 previously declared by the Board of Directors of UOP in accordance with UOP's regular dividend policy may be paid.

4.06. *Consents and Approvals.* UOP shall obtain any necessary consents and approvals of other persons and governmental authorities to the performance by UOP of the

transactions contemplated by this Agreement and the Merger Agreement. UOP shall make all filings, applications, statements and reports to all federal or state governmental agencies or entities which are required to be made prior to the Effective Date by or on behalf of UOP or any of its subsidiaries pursuant to any statute, rule or regulation in connection with the transactions contemplated by this Agreement and the Merger Agreement.

Article V

COVENANTS OF SIGNAL AND SIGCO

Signal and Sigco agree that from the date hereof to the Effective Date:

5.01. *Corporate and Other Action.* Signal and Sigco will take all necessary corporate and other action required of them to carry out the transactions contemplated by this Agreement and the Merger Agreement by Signal and Sigco. Prior to the Effective Date, Signal shall contribute to Sigco sufficient cash to pay for all shares of UOP Common Stock, \$1.00 par value, issued or issuable and exchangeable for cash pursuant to the merger.

5.02. *Information for UOP Proxy Statement.* Signal will furnish to UOP all information concerning Signal and its subsidiaries which UOP reasonably requests for inclusion in the proxy solicitation material to be transmitted by UOP to its stockholders in connection with the meeting referred to in Section 4.01.

5.03. *Consents and Approvals.* Signal and Sigco shall obtain any necessary consents and approvals of other persons and governmental authorities to the performance by Signal and Sigco of the transactions contemplated by this Agreement and the Merger Agreement. Signal and Sigco shall make all filings, applications, statements and reports to all federal or state government agencies or entities which are required to be made prior to the Effective Date by or on behalf of Signal or Sigco pursuant to any statute, rule or regulation, in connection with the transactions contemplated by this Agreement and the Merger Agreement.

Article VI

CONDITIONS PRECEDENT TO OBLIGATIONS OF SIGNAL AND SIGCO

The obligations of Signal and Sigco under this Agreement and the Merger Agreement are, at the option of Signal and Sigco, subject to satisfaction of the following conditions precedent on or before the Effective Date.

6.01. *Warranties True as of Effective Date.* The representations and warranties of UOP contained herein shall be true in all material respects on and as of the date of this Agreement, and shall also be true in all material respects (except for such changes as are permitted by the terms of this Agreement) on and as of the Effective Date with the same force and effect as though made on and as of the Effective Date.

6.02. *Compliance with Covenants; Certificate.* UOP shall have performed all obligations and agreements and complied with all covenants contained in this Agreement and the Merger Agreement to be performed and complied with by it on or prior to the Effective Date; all consents or approvals herein provided for or required for the consummation by UOP of the transactions contemplated herein or in the Merger Agreement shall have been obtained by UOP; the holders of a majority of the shares of UOP's Common Stock, \$1.00 par value, other than those owned by Signal, present and voting on the merger proposal at the meeting referred to in Section 4.01 shall have voted for the merger, provided that not less than two-thirds of the shares of UOP's Common Stock, \$1.00 par value, including shares owned by Signal, outstanding on the record date for such meeting shall have voted for the merger; and UOP shall have delivered to Signal and Sigco a certificate dated as of the Effective Date of its President or a Vice President, certifying to the correctness of all warranties and representations of UOP as of such date and as to compliance with Section 6.01 and this Section 6.02.

6.03. Opinion of Counsel. Signal and Sigco shall have received an opinion, dated the Effective Date, of Messrs. Rogers & Wells, as counsel for UOP, to the effect that:

(a) UOP is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted.

(b) This Agreement and the Merger Agreement have been duly and validly authorized, executed and delivered by UOP and constitute valid and binding obligations of UOP.

(c) All proceedings, other than the filing and recording of the Merger Agreement in Delaware, necessary under Delaware law on the part of UOP to effect the merger have been duly taken by UOP in accordance with law.

(d) The execution, delivery and performance of this Agreement and the Merger Agreement by UOP will not violate any provision of its Certificate of Incorporation or Bylaws, nor violate any provision of, or result in the acceleration of any obligation or the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security, mortgage, lien, order, arbitration award, judgment or decree known to such counsel to which UOP is a party or by which UOP or its properties is bound.

6.04. Proceedings Satisfactory to Counsel. All corporate proceedings taken by UOP and all instruments executed and delivered by UOP on or prior to the Effective Date in connection with the transactions herein contemplated shall be satisfactory in form and substance to counsel for Signal and Sigco.

6.05. Litigation. No action or proceeding shall have been instituted or threatened by any third party which would enjoin, restrain or prohibit, or might result in substantial damage in respect of, this Agreement or the Merger Agreement or consummation of the transactions contemplated hereby and thereby, and no court order shall have been entered which enjoins, restrains or prohibits this Agreement or the Merger Agreement or consummation of the transactions contemplated hereby and thereby.

Article VII

CONDITIONS PRECEDENT TO OBLIGATIONS OF UOP

The obligations of UOP under this Agreement and the Merger Agreement are, at the option of UOP, subject to the satisfaction of the following conditions precedent on or before the Effective Date:

7.01. Warranties True as of Effective Date. The representations and warranties of Signal and Sigco contained herein shall be true in all material respects on and as of the date of this Agreement, and shall also be true in all material respects (except for such changes as are permitted by the terms of this Agreement) on and as of the Effective Date with the same force and effect as though made by Signal and Sigco on and as of such date.

7.02. Compliance with Covenants; Certificate. Signal and Sigco shall have performed all obligations and agreements and complied with all covenants contained in this Agreement and the Merger Agreement to be performed and complied with by them on or prior to the Effective Date; all consents or approvals herein provided for or required for the consummation by Signal or Sigco of the transactions contemplated herein or in the Merger Agreement shall have been obtained by Signal and Sigco; the holders of a majority of the shares of UOP's Common Stock, \$1.00 par value, other than those owned by Signal, present and voting on the merger proposal at the meeting referred to in Section 4.01 shall have voted for the merger, provided that not less than two-thirds of the shares of UOP's Common Stock, \$1.00 par value, including shares owned by Signal, outstanding on the record date of such meeting shall have voted for the merger; and Signal and Sigco shall have delivered to UOP certificates, dated as of the Effective Date, of the President or a

Vice President of Signal and of the President or a Vice President of Sigco, certifying as to the correctness of all warranties and representations of Signal and Sigco as of such date and as to compliance with Section 7.01 and this Section 7.02.

7.03. *Opinion of Counsel.* UOP shall have received an opinion, dated the Effective Date, of Messrs. Latham & Watkins, counsel for Signal and Sigco, to the effect that:

(a) Signal and Sigco are corporations duly organized, validly existing and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to own, operate and lease their properties and to carry on their businesses as now being conducted.

(b) This Agreement and the Merger Agreement have been duly and validly authorized, executed and delivered by Sigco and constitute valid and binding obligations of Sigco; this Agreement has been duly and validly authorized, executed and delivered by Signal and constitutes a valid and binding obligation of Signal.

(c) All proceedings, other than the filing of the Merger Agreement in Delaware, necessary under Delaware law on the part of Signal or Sigco to effect the merger have been duly taken by Signal and/or Sigco in accordance with law.

(d) The execution, delivery and performance of this Agreement and the Merger Agreement by Signal and Sigco will not violate any provision of their Certificates of Incorporation or Bylaws, nor violate any provision of, or result in the acceleration of any obligation or the creation of any lien or security interest under, any agreement, indenture, instrument, lease, security, mortgage, lien, order, arbitration award, judgment or decree known to such counsel to which Signal or Sigco is a party or by which Signal or Sigco or their respective properties is bound.

7.04. *Proceedings Satisfactory to Counsel.* All corporate proceedings taken by Signal and Sigco and all instruments executed and delivered by Signal and Sigco on or prior to the Effective Date in connection with the transactions herein contemplated shall be satisfactory in form and substance to counsel for UOP.

7.05. *Litigation.* No action or proceeding shall have been instituted or threatened by any third party which would enjoin, restrain or prohibit or might result in substantial damages in respect of, this Agreement or the Merger Agreement or consummation of the transactions contemplated hereby and thereby, and no court order shall have been entered which enjoins, restrains or prohibits this Agreement or the Merger Agreement or consummation of the transactions contemplated hereby and thereby.

Article VIII

MISCELLANEOUS

8.01. *Termination.* This Agreement and the Merger Agreement may be terminated (notwithstanding that approval thereof by stockholders of UOP or Sigco may have been obtained) any time prior to the Effective Date:

(a) With the consent of the Boards of Directors of UOP, Signal and Sigco; or

(b) By Signal and Sigco if any of the conditions provided in Article VI shall not have been satisfied, complied with or performed in any material respect, and Signal and Sigco shall not have waived such failure of satisfaction, noncompliance or nonperformance; or

(c) By UOP if any of the conditions provided in Article VII shall not have been satisfied, complied with or performed in any material respect, and UOP shall not have waived such failure of satisfaction, noncompliance or nonperformance.

In the event of any termination pursuant to this Section 8.01 (other than pursuant to subparagraph (a) hereof), written notice setting forth the reasons thereof shall forthwith

be given by UOP, if it is the terminating party, to Signal and Sigco, or by Signal and Sigco, if they are the terminating parties, to UOP. This Agreement shall terminate automatically if the Effective Date shall not have occurred on or before September 30, 1978, or such later date as shall have been agreed to by the parties hereto.

8.02. *Expenses, Etc. upon Termination.* In the event this Agreement is terminated as provided in Section 8.01 hereof, none of UOP, Signal and Sigco, or any officer, director or stockholder thereof, shall have any liability to any of the others or to any third party (including, without limitation, any officer, employee or stockholder) for costs, expenses (including, without limitation, legal and accounting fees and expenses), loss of anticipated profits or otherwise; it being understood that in the event of such termination each party shall bear its own legal, accounting and other fees, costs, losses and expenses.

8.03. *Amendment.* UOP, Signal and Sigco, with the approval of their respective Boards of Directors, but only in writing signed by UOP, Signal and Sigco, may amend, modify or supplement this Agreement at any time before or after approval of the Merger Agreement by the stockholders of UOP or Sigco; provided, however, that no such amendment, modification or supplement after such approval by the stockholders of UOP shall affect the rights of such stockholders in a manner which is materially adverse to such stockholders in the judgment of the Board of Directors of UOP.

8.04. *Brokers.* Each of the parties represents that no broker or finder has acted for it in connection with this Agreement or the Merger Agreement or the transactions contemplated hereby and thereby and that no broker or finder is entitled to any brokerage or finder's fee or other commission based on agreements, arrangements or understandings made by it.

8.05. *Non-Survival of Warranties, Etc.* Warranties, representations, covenants and agreements contained in this Agreement or the Merger Agreement or in documents or certificates delivered pursuant hereto or thereto on the Effective Date with respect to UOP, Signal or Sigco shall not survive the Effective Date.

8.06. *Notices.* Any notice, request, instruction or other document to be given hereunder by either party hereto shall be in writing and shall be deemed to have been given, when received, or when deposited in the United States mail, certified or registered mail, postage prepaid:

If to UOP:

UOP Inc.
Ten UOP Plaza
Algonguin and Mt. Prospect Roads
Des Plaines, Illinois 60016
Attention: President

If to Signal or Sigco:

The Signal Companies, Inc.
9665 Wilshire Boulevard
Beverly Hills, California 90212
Attention: President

or to such other address as any party hereto may designate for itself by notice given as herein provided.

8.07. *Place of Closing.* The closing of the transactions to be completed on the Effective Date shall take place at the offices of UOP at its address set forth in Section 8.06 on the Effective Date.

8.08. *Entire Agreement.* This Agreement and the Merger Agreement set forth the entire agreement and understanding of the parties with respect of the transactions contemplated hereby and thereby and supersede all prior agreements, arrangements and understandings relating to the subject matter hereof and thereof.

8.09. *Waivers.* Each party may, by written instrument, extend the time for the performance of any of the obligations or other acts of any other party hereto, and (a) waive any

inaccuracies of such other party in the representations and warranties contained herein or in any document delivered pursuant to this Agreement or the Merger Agreement, (b) waive compliance with any of the covenants of such other party contained in this Agreement or the Merger Agreement, and (c) waive such other party's performance of any of the obligations or any condition set out in this Agreement or the Merger Agreement, except that any vote or written consent of stockholders required by this Agreement or the Merger Agreement may not be so waived. The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect its right at a later time to enforce the same.

8.10. *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.11. *Applicable Law.* This Agreement shall be governed by and construed in accordance with laws of the State of Delaware.

IN WITNESS WHEREOF, UOP Inc., The Signal Companies, Inc. and Sigco Incorporated have each caused this Agreement Regarding Merger to be executed on its behalf by its President or one of its Vice Presidents, attested by its Secretary or an Assistant Secretary, and its corporate seal to be affixed hereto, all on the date first above written.

UOP INC.

(Seal)

By /s/ J. V. Crawford
President

Attest:

/s/ M. B. Peek
Secretary

THE SIGNAL COMPANIES, INC.

(Seal)

By /s/ W. E. Walkup
Chairman of the Board

Attest:

/s/ C. Neil Ash
Secretary

SIGCO INCORPORATED

(Seal)

By /s/ A. J. Chitrea
President

Attest:

/s/ L. Earl Logue
Secretary

LEHMAN BROTHERS KUHN LOEB

Incorporated

One William Street

New York, N.Y. 10004

March 6, 1978

**Board of Directors
UOP Inc.
Ten UOP Plaza
Des Plaines, Illinois 60016**

Gentlemen:

You have asked for Lehman Brothers Kuhn Loeb Incorporated's opinion as to whether the proposed merger between The Signal Companies, Inc. ("Signal") and UOP Inc. ("UOP") is fair and equitable to the shareholders of UOP other than Signal. Signal currently owns 50.5% of UOP's outstanding shares of common stock. According to the offer presented by Signal to the Board of Directors of UOP on March 6, 1978, Signal would offer to purchase for cash the remaining shares of UOP at a price of \$21.00 per share.

In forming our opinion of the proposed transaction, we did, among other things, the following:

1. Reviewed UOP's Annual Reports and related financial information for each of the four years ended December 31, 1973 through 1976 and its audited financial statements for the year ended December 31, 1977;
2. Reviewed UOP's Form 10-K reports for each of the four years ended December 31, 1973 through 1976 and its Form 10-Q reports and Interim Reports to Stockholders for the periods ending March 31, 1977, June 30, 1977 and September 30, 1977;
3. Reviewed other information (unaudited) given to us by management regarding the business of UOP which, among other things, included the Report to the Audit Committee dated February 9, 1978;
4. Visited the principal executive offices of UOP in Des Plaines, Illinois and held meetings and discussions with its management and independent public accountants on March 3, 1978. During the course of these meetings with management we discussed the current business and future prospects of UOP and reviewed its forecasts for the year ending December 31, 1978;
5. Reviewed the historical and recent market prices and trading volumes of UOP common stock;
6. Reviewed the terms of the Offer to Purchase UOP common stock made by Signal in April, 1975; and
7. Reviewed certain other transactions in which companies already owning common shares in other companies sought to acquire the remaining common shares of those companies.

In the process of forming our opinion expressed herein, we did not make or obtain independent reports on or appraisals of any properties or assets of UOP and have relied upon the accuracy (which we have not independently verified) of the audited financial statements and other information furnished to us, or otherwise made available, by UOP.

Mr. James W. Glanville, a managing director of Lehman Brothers Kuhn Loeb Incorporated, has been on the Board of Directors of UOP since 1972 and is familiar with the business and future prospects of UOP.

On the basis of the foregoing, our opinion is that the proposed merger is fair and equitable to the stockholders of UOP other than Signal.

Very truly yours,

LEHMAN BROTHERS KUHN LOEB
INCORPORATED

By J. W. GLANVILLE
Managing Director

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1978

Commission File Number 1-4162

UOP INC.

(Exact name of registrant as specified in its charter)

Corporation of State of Delaware(State or other jurisdiction of
incorporation or organization)36-2405518(IRS Employer
Identification No.)**Ten UOP Plaza****Des Plaines, Illinois 60016**

(Address of principal executive offices)

Registrant's telephone number, including area code 312-391-2000

None

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Class**Common Stock, Par Value \$1.00 Per Share**Outstanding at March 31, 1978**11,488,302**

UOP INC. AND SUBSIDIARIES

Index

	<u>Page No.</u>
Part I. Financial Information:	
Consolidated Condensed Balance Sheet—March 31, 1977 and 1978	E-3
Consolidated Condensed Statement of Income—For the Three Months Ended March 31, 1977 and 1978	E-4
Consolidated Condensed Statement of Changes in Financial Position—For the Three Months Ended March 31, 1977 and 1978	E-5
Notes to Consolidated Condensed Financial Statements	E-6
Management's Analysis and Discussion of the Consolidated Condensed Statement of Income	E-7
Exhibit I—Copy of Consolidated Financial Statements and Notes to Consolidated Financial Statements and statement on Legal Proceedings incorporated herein by reference to File No. 1-4162, Form 10-K Report for year ended December 31, 1977.	
Part II. Other Information	E-9

UOP INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheet

March 31, 1977 and 1978

(000 omitted)

ASSETS

	March 31,	
	1977	1978
	(Restated)	
Current Assets:		
Cash and marketable securities	\$ 53,245	\$ 46,663
Receivables, net	140,687	171,798
Cost of uncompleted contracts in excess of related billings	652	1,502
Inventories (Note 6)	80,791	99,056
Prepaid expenses	15,741	19,010
Total current assets	<u>291,116</u>	<u>338,029</u>
Plant and Equipment:		
Cost	272,115	286,116
Less accumulated depreciation	129,477	140,656
	<u>142,638</u>	<u>145,460</u>
Other Assets:		
Investments	10,280	11,791
Patents and goodwill, net	4,742	3,919
Deferred charges	8,765	7,275
Noncurrent receivables	10,805	9,544
	<u>34,592</u>	<u>32,529</u>
	<u>\$468,346</u>	<u>\$516,018</u>

LIABILITIES

Current Liabilities:		
Bank loans	\$ 2,588	\$ 1,519
Current maturities of long-term debt	4,935	6,556
Accounts payable	50,825	53,046
Accrued liabilities	56,495	62,034
Billings on uncompleted contracts in excess of related costs	23,341	37,929
Federal and foreign taxes on income	7,663	8,712
Total current liabilities	<u>145,847</u>	<u>169,796</u>
Long-Term Debt, less current maturities shown above	87,906	82,175
Deferred Income and Liabilities	<u>24,328</u>	<u>26,411</u>
Shareholders' Equity:		
Preferred stock, no par value	—	—
Common stock, par value \$1.00 per share	11,631	11,640
Capital surplus	131,756	131,867
Retained earnings	69,378	96,661
Treasury stock, at cost (150,870 shares in 1977 and 151,327 in 1978)	(2,500)	(2,532)
	<u>210,265</u>	<u>237,636</u>
	<u>\$468,346</u>	<u>\$516,018</u>

See accompanying notes to Consolidated Condensed Financial Statements.

UOP INC. AND SUBSIDIARIES

Consolidated Condensed Statement of Income For the Three Months Ended March 31, 1977 and 1978 (000 omitted)

	<i>Three Months Ended March 31,</i>	
	<u>1977</u>	<u>1978</u>
INCOME		
Royalties (Note 2)	\$ 10,931	\$ 7,387
Products:		
Product sales	141,506	155,917
Cost of sales	116,299	127,779
Gross Profit	<u>25,207</u>	<u>28,138</u>
Construction Contracts:		
Revenue from completed contracts	18,681	50,576
Cost of completed contracts	16,717	46,230
Gross Profit—Completed Contracts	1,964	4,346
Income from nonconsolidated joint venture	—	9,260
Total—Gross Profit	<u>1,964</u>	<u>13,606</u>
Engineering and Operating Services:		
Revenues	7,876	8,644
Cost of services	5,287	6,525
Gross Profit	<u>2,589</u>	<u>2,119</u>
INCOME BEFORE GENERAL EXPENSES	40,691	51,250
General expense	27,995	33,856
OPERATING INCOME	12,696	17,394
Other Income (Expense)	(978)	340
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	11,718	17,734
Provision for taxes (Note 7)	5,282	7,981
INCOME FROM CONTINUING OPERATIONS	6,436	9,753
Extraordinary item (Note 7)	1,560	2,123
NET INCOME	<u>\$ 7,996</u>	<u>\$ 11,876</u>
AVERAGE NUMBER OF SHARES OUTSTANDING (in thousands) ...	<u>11,481</u>	<u>11,483</u>
EARNINGS PER COMMON SHARE:		
Continuing Operations	\$.56	\$.85
Extraordinary Item .....	.14	.18
Net Income	<u>\$.70</u>	<u>\$ 1.03</u>

See accompanying notes to Consolidated Condensed Financial Statements.

UOP INC. AND SUBSIDIARIES

Consolidated Condensed Statement of Changes in Financial Position

For the Three Months Ended March 31, 1977 and 1978

(000 omitted)

	<i>Three Months Ended March 31,</i>	
	<u>1977</u>	<u>1978</u>
Source of Funds:		
Income for the period before extraordinary item	\$ 6,436	\$ 9,753
Expenses not affecting working capital	<u>2,428</u>	<u>3,997</u>
Working capital generated from current operations	8,864	13,750
Extraordinary income tax credit	<u>1,560</u>	<u>2,123</u>
	<u>\$10,424</u>	<u>\$15,873</u>
Application of Funds:		
Increase in working capital	\$ 7,684	\$ 5,404
Dividends paid	1,435	2,296
Additions to plant and equipment	1,900	3,911
Payment of long-term debt	1,429	2,624
Other	<u>(2,024)</u>	<u>1,638</u>
	<u>\$10,424</u>	<u>\$15,873</u>

See accompanying notes to Consolidated Condensed Financial Statements.

UOP INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

March 31, 1977 and 1978

(1) The consolidated financial statements included herein have been prepared by the Company, without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. While the Company believes that the procedures followed in preparing the financial statements are reasonable under the circumstances, the accuracy of the amounts are in some respects dependent upon facts that will exist, and procedures that will be accomplished by the Company, later in the fiscal year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report.

In the opinion of management, the consolidated financial statements reflect all adjustments necessary to fairly present the results for the three months ended March 31, 1977 and 1978.

(2) The accounting policies of the Company are more fully explained in the 1977 annual report. For interim reporting purposes, the Company accrues ratably over the first three quarters of each year, 60 percent of certain royalties that are expected to become payable to the Company at year end.

(3) The Signal Companies, Inc. own 5,800,000 of the 11,488,302 shares of common stock outstanding, or 50.5%.

(4) On March 6, 1978, the Board of Directors of The Signal Companies, Inc. (Signal) proposed and the Company's Board of Directors recommended to the stockholders that they accept a Signal offer to acquire the outstanding 49.5% minority interest in the Company's \$1 par value Common Stock for cash at \$21 per share. The transaction will be effected as a merger and is subject to the approval of the Company's stockholders and certain regulatory agencies. The affirmative vote of at least a majority of the outstanding shares of the Company's Common Stock entitled to vote at the May 1978 annual meeting is required under Delaware law for the consummation of the merger. However, the merger will not be consummated unless the holders of a majority of the shares present and voting at the meeting other than those held by Signal and, additionally, no fewer than two-thirds of all shares entitled to vote, including those held by Signal, vote in favor.

(5) Several lawsuits are pending against the Company. More detailed information concerning these lawsuits is contained in the 1977 annual report on Form 10-K and in Part II of this report. On the basis of information presently available, management and vice president-general counsel for the Company are of the opinion that these suits can be successfully defended, and, in any event, the ultimate uninsured liability, if any, resulting therefrom will not materially adversely affect the Company's financial position on a consolidated basis.

(6) The Company takes a physical inventory of its raw materials, work in process and finished goods in November and December. The amounts shown for inventories at March 31, 1977 and 1978, have been determined under the Company's regular accounting system, and past experience would indicate that no significant adjustment will arise when the next physical inventory is taken. The components of inventories at March 31, 1977 and 1978 are estimated as follows:

	March 31,	
	1977	1978
Raw materials	\$44,435,000	\$48,723,000
Work in process	15,350,000	26,608,000
Finished goods	21,006,000	23,725,000
	<u>\$80,791,000</u>	<u>\$99,056,000</u>

UOP INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements—(Continued)

The Company prices platinum, copper and certain other inventories at the last-in, first-out cost, which is less than market. Since amounts for inventories under the LIFO method are based on an annual determination of quantities and costs as of December 31, 1978, the inventories at March 31, 1978, are based on certain estimates relating to quantities and costs as of December 31, 1978.

(7) Taxes on income from continuing operations are based on the expected effective income tax rate for the year. The extraordinary income tax credit results from tax carryforwards which are expected to be realized in the year.

(8) In 1977 the method of accounting for leases was changed to comply with the provisions of a recent Statement of Financial Accounting Standards which requires the capitalization of certain leases as assets and the related lease obligations to be recorded as liabilities. The balance sheet at March 31, 1977 has been restated to reflect this change. There was no effect on income as a result of this change.

MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED CONDENSED STATEMENT OF INCOME

The following information is given to further explain certain financial information shown in the Consolidated Statement of Income. See also "Notes to Consolidated Financial Statements" for accounting policies that are significant in evaluating the results.

Royalties

Royalties are payments for the use of technology covered by UOP patents. License agreements provide that the licensee pay royalties in a lump sum, in installments or annual running payments, or a combination thereof. Accrued running and fully paid royalties are shown below:

	<u>Running</u>	<u>Fully Paid</u>	<u>Total</u>
1st Quarter 1977	\$1,248,000	\$9,683,000	\$10,931,000
2nd Quarter 1977	2,327,000	9,345,000	11,672,000
3rd Quarter 1977	2,180,000	3,426,000	5,606,000
4th Quarter 1977	4,593,000	6,236,000	10,829,000
1st Quarter 1978	1,300,000	6,087,000	7,387,000

As pointed out in Note 2 to "Notes to Consolidated Financial Statements" twenty percent of estimated running royalties for the year are reported in each of the three quarters of the year and the balance recorded in the fourth quarter, making the comparison of quarters inappropriate. Since fully paid royalties depend on the date the license agreement is signed, fully paid royalties reported by quarters varies significantly.

Products

Product sales by major lines of business were as follows: (in thousands of dollars)

	<u>Quarter Ended</u>				
	<u>March 31, 1977</u>	<u>June 30, 1977</u>	<u>Sept. 30, 1977</u>	<u>Dec. 31, 1977</u>	<u>March 31, 1978</u>
Petroleum related products	\$ 11,482	\$ 10,948	\$ 11,509	\$ 10,862	\$ 17,059
Construction related products	14,802	13,856	13,514	13,579	10,373
Fabricated metal products	57,194	57,947	52,453	52,739	60,731
Transportation equipment	26,959	29,442	28,792	30,063	34,074
Chemical & plastic	27,555	27,314	25,802	24,515	29,407
Other products	3,514	3,733	4,017	2,205	4,273
Total sales	141,506	143,240	136,087	133,963	155,917
Cost of sales	116,299	114,088	109,405	114,589	127,779
Gross profit	<u>\$ 25,207</u>	<u>\$ 29,152</u>	<u>\$ 26,682</u>	<u>\$ 19,374</u>	<u>\$ 28,138</u>
Gross profit percentage	<u>18%</u>	<u>20%</u>	<u>20%</u>	<u>14%</u>	<u>18%</u>

Product sales overall increased by 10% in the first quarter of 1978 as compared to the first quarter of 1977. The principal changes between the two first quarters were in:

Transportation equipment up 26% due to increased sales of airline seats.

Petroleum related products up 49% due principally to a \$2.6 million sale of desorbants in 1978.

Other products up 21% due primarily to increased sales of forest products.

Construction related products down 30% due principally to decreased sales of air pollution control equipment.

The decrease in the gross margin in the fourth quarter of 1977 is due to provisions for cost overruns on SO₂ removal systems.

Construction Contracts

During the first quarter of 1978, the Company's construction subsidiary completed the construction of a refinery under a joint venture agreement. In addition, UOP was a subcontractor to the joint venture which contributed approximately 55% of revenues for completed contracts. In accordance with generally accepted accounting principles, revenues and expenses of the joint venture are not reported and the income is shown separately while revenues and costs of the subcontract are included with revenues and costs of other construction projects, which for both periods were primarily cost reimbursable.

Engineering and Operating Services

Revenues from engineering and operating services were \$8,644,000 in the first quarter of 1978 as compared to \$7,876,000 in the first quarter of 1977, reflecting a growing demand for the Company's specialized services, such as interim refinery management and personnel training.

General Expenses

General expenses increased \$5.8 million in the first quarter of 1978 as compared to the same period in 1977. The increase was spread throughout the Company. There were no unusual large items of expense.

Other Income and Expense

Interest income increased \$1.6 million in the first quarter of 1978 as compared to the first quarter of 1977 due to more favorable rates on money invested in short-term securities. Other miscellaneous income and expense consists of income from nonconsolidated subsidiaries, currency fluctuations, gains and losses on the disposal of assets, which, by their nature, vary from quarter to quarter.

Income Taxes and Extraordinary Item

Income taxes are provided based on the expected effective income tax rate for the year, as more fully explained in Note 7 to "Notes to Consolidated Financial Statements".

UOP INC. AND SUBSIDIARIES

Part II—Other Information

Item 1. Legal Proceedings

Two lawsuits alleging damages of approximately \$22,000,000 in actual damages and punitive damages of \$25,000,000 (as contained in a petition filed in November, 1977 amending a petition originally filed in 1970) are pending against the Company and Procon Incorporated (a subsidiary of the Company). Both suits were initiated by a Company customer and its financial institution with respect to the performance of a processing unit designed by the Company and constructed by Procon Incorporated. A lawsuit against the Company is pending, claiming damages of \$10,100,000 and punitive damages of \$50,000,000 alleging violation of the antitrust laws, breach of contract and interference with contractual relations of the plaintiff. The Company is also involved in various other lawsuits, including a suit which purports to be a class action against the Company, all of its present directors, certain of its former directors, and Arthur Andersen & Co., its auditors, alleging improper failure to disclose potential losses and contingent liabilities in connection with the construction of a refinery at Come-By-Chance, Newfoundland, and claiming damages sustained by purchasers of UOP common stock during the period of February 25, 1975 to February 23, 1976.

In 1975, the Company wrote off unsecured receivables and provided a reserve against guaranteed obligations, both of which arose in connection with the construction of a refinery at Come-By-Chance, Newfoundland, operated by Provincial Refining Company, Ltd., now in receivership, in the amounts of \$16,027,000 and \$18,364,000, respectively. The Company included \$18,364,000 of guarantees plus accrued interest as current liabilities on its balance sheet at December 31, 1975. During 1976, \$5,946,600 was paid and \$11,962,000 remains at December 31, 1977. The Company is involved in litigation with the financial institution who holds these remaining guarantees.

In February, 1976, Shaheen Natural Resources Company, Newfoundland Refining Company, Limited, Provincial Building Company, Limited and Provincial Refining Company, Limited instituted a lawsuit against the Company, Procon Incorporated and Procon (Great Britain) Limited, UOP subsidiary companies in the Supreme Court of New York. The plaintiffs allege delays in constructing the refinery at Come-By-Chance, Newfoundland, breaches of the construction contract and misrepresentation. They have claimed damages against the defendants in the amount of \$189,000,000. The Clarkson Company Limited, as Trustee in Bankruptcy of the refinery, and Peat Marwick Limited as Receiver and Manager under a first mortgage on the refinery, were added as additional plaintiffs in this suit by the New York Court in February 1977. Third party complaints seeking indemnity or contribution have been filed by the Company against the vendors of the hydrogen plant reformer furnaces for the refinery.

Procon (Great Britain) Limited, has filed suit in England against Provincial Building Company, Limited and Provincial Refining Company, Limited, for £1,380,000 and (Canadian) \$9,212,000 for work and services performed in connection with the construction of the Come-By-Chance refinery. Liability is denied by the defendants and a counterclaim is asserted against Procon (Great Britain) Limited, for \$18,000,000 for alleged equipment failure and \$97,218,000 for lost profits and other damages. The counterclaim alleges delay, negligence and fundamental breach of contract. In a companion case, UOP has sued Provincial Building Company, Limited, and Provincial Refining Company, Limited, for \$6,260,000 which was the amount paid by UOP as a guarantor of the second Euro-dollar loan. Liability is denied by the defendants. A counterclaim has been filed against UOP alleging negligence in the design of certain units of the refinery and relating to performance guarantees given on certain units in the refinery, which was constructed by Procon (Great Britain) Limited.

On the basis of information presently available to them, management and the vice president—general counsel for the Company are of the opinion that the suits and the counter-

claims can be successfully defended and in any event the ultimate liability, if any, resulting therefrom will not materially adversely affect the Company's financial position on a consolidated basis.

Item 2. Changes in Securities

The Company has outstanding a commitment to unsecured lines of credit aggregating \$37,000,000, sinking fund debentures and an insurance company note payable. The latter two agreements contain restrictions on working capital, dividend payments, etc. All are more fully explained in Form 10-K for the year 1977. There has been no substantial change in these agreements and the Company is in compliance with all provisions of the agreements.

Item 5. Increase in Amount Outstanding of Securities

Item 6. Decrease in Amount Outstanding of Securities

The change in outstanding equity securities is as follows:

	<u>Shares Issued</u>	<u>Shares Outstanding</u>
Balance December 31, 1977	11,637,429	11,479,214
Shares issued under Qualified and Non-Qualified Stock Option Plans	2,200	2,200
Shares contributed to UOP Tax Reduction Act Employee Stock Ownership Plan for 1977 ...		6,888
Balance March 31, 1978	<u>11,639,629</u>	<u>11,488,302</u>

Shares issued under the Company's Qualified and Non-Qualified Stock Option Plans are covered under Registration Statement No. 2-53185 and 2-26721 on Forms S-8.

Item 9. Exhibits and Reports on Form 8-K

(b) There were no reports on Form 8-K filed for the three months ended March 31, 1978.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UOP INC. AND SUBSIDIARIES

(Registrant)

Date: April 27, 1978

J. V. CRAWFORD

J. V. Crawford
President and Chief Executive Officer

Date: April 27, 1978

C. H. SCHUMANN

C. H. Schumann
Vice President—Finance and Treasurer