

**Note 1. Significant
Accounting Policies**

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, except for those of a wholly owned finance company which is reflected on the equity basis (see Note 3). Investments in partially owned companies in which the Company has an ownership interest of 20% to 50% are generally stated at equity.

Inventories: Inventories are stated at the lower of cost, determined principally on the last-in, first-out method, or market.

Plant and Equipment: For financial statement purposes, depreciation is calculated using the straight-line method. At the time plant and equipment are retired or otherwise disposed of, the asset and related allowance for depreciation accounts are adjusted for the applicable cost and accumulated depreciation and any profit or loss on such disposal is credited or charged to income. Maintenance and repairs are charged to income; improvements which extend the lives of existing plant and equipment are capitalized.

Revenues: Transportation revenues, consisting principally of freight forwarding revenues, are recognized at the time freight is shipped from the origin station. Product sales are recognized upon passage of title to the customer which generally coincides with physical delivery and acceptance.

Income Taxes: Deferred income taxes relate principally to the excess of tax over book depreciation, to the use of the installment method of reporting certain sales for income tax purposes and to undistributed earnings of partially owned domestic companies stated at equity.

Investment tax credits are recognized as a reduction of the provision for Federal income taxes in the year in which the credits arise. The amounts of such credits in 1976 and 1975 were \$536,000 and \$574,000, respectively.

No provision has been made for Federal income taxes which would be payable if retained earnings of foreign subsidiaries were distributed to the Company or its subsidiaries, since it is management's intention to permanently reinvest such earnings in the applicable operations. At December 31, 1976, such undistributed retained earnings amounted to \$35,397,000.

Pension Costs: Substantially all eligible employees of the Company and its subsidiaries are covered by several contributory and noncontributory pension plans administered either by the Company or by unions on an industry-wide basis. Pension expense, which includes for nonunion plans normal costs and, where applicable, a provision for prior service costs, which are amortized over approximately 30 years, was \$3,420,000 in 1976 and \$3,134,000 in 1975.

The Company's policy is generally to fund pension costs accrued. At the latest valuation dates, the actuarially computed value of vested benefits of certain pension plans exceeded the related pension fund assets by an aggregate of approximately \$850,000 and unfunded prior service costs were approximately \$7,300,000.

Income Per Share: Per share amounts of income were determined by dividing net income by the weighted average number of shares of capital stock and equivalents outstanding during each year.

Note 2. Inventories

Inventories at December 31, 1976 and 1975 are summarized as follows (thousands of dollars):

	<u>1976</u>	<u>1975</u>
Raw materials and parts	\$ 9,298	\$ 6,270
Work in process	2,543	892
Finished goods	14,196	12,161
	<u>\$26,037</u>	<u>\$19,323</u>

If the first-in, first-out (FIFO) method had been used, inventories would have been \$2,710,000 and \$2,449,000 higher than reported at December 31, 1976 and 1975, respectively.

Note 3. Investments

Investments at December 31, 1976 and 1975 include the following (thousands of dollars):

	<u>1976</u>	<u>1975</u>
Investments (at equity) in and advances to:		
Transway Finance Company (Transway Finance), a wholly owned finance company	\$ 8,502	\$ 7,836
Waterman Marine Corporation (Waterman), 50% owned	16,752	10,623
Other, principally 50% owned companies	1,903	1,801
Other investments, at cost	3,732	2,911
	<u>\$30,889</u>	<u>\$23,171</u>

Condensed audited balance sheet of Transway Finance at December 31, 1976 and 1975 and statement of income for the years then ended follow (thousands of dollars):

	<u>1976</u>	<u>1975</u>
Installment contracts receivable, net of interest, due from:		
Customers	\$52,193	\$42,737
Parent company and affiliates	7,683	6,255
Cash	4,139	4,834
Total assets	<u>\$64,015</u>	<u>\$53,826</u>
Notes payable to banks	\$42,000	\$38,000
Accounts payable and accrued expenses	4,513	3,990
Subordinated notes	9,000	4,000
Subordinated note payable to parent company		250
Equity of parent company	8,502	7,586
Total liabilities and equity	<u>\$64,015</u>	<u>\$53,826</u>
Income	\$ 5,621	\$ 5,100
Interest expense	3,163	3,430
Management fee	584	(45)
	<u>3,747</u>	<u>3,385</u>
	1,874	1,715
Provision for taxes	958	877
Net income	<u>\$ 916</u>	<u>\$ 838</u>

Transway Finance's receivables are purchased from its parent, Great Dane Trailers, Inc., a wholly owned subsidiary of the Company. The Company has guaranteed a \$4,000,000, 7¾% Subordinated note payable in 1979 and a \$5,000,000, 8⅞% Subordinated note payable in 1981. Interest on the notes payable to banks is at the banks' prime rate (see Note 4 for data on compensating balances and lines of credit).

Earnings of Transway Finance included in consolidated net income reflect, under an income maintenance agreement, the elimination, after tax effect, of an intercompany management fee paid by Transway Finance to its parent in 1976 and of intercompany income received from its parent in 1975.

Condensed audited balance sheet of Waterman at December 31, 1976 and 1975 and statement of income for the years then ended follow (thousands of dollars):

	1976	1975
Current assets	<u>\$ 50,612</u>	<u>\$ 45,672</u>
Property and equipment, net	45,722	42,993
Other assets and deferred charges	21,507	16,472
Total assets	<u>\$117,841</u>	<u>\$105,137</u>
Current liabilities	<u>\$ 21,458</u>	<u>\$ 22,192</u>
Voyages in progress, net	15,827	17,574
Long-term debt, less current portion	37,596	36,259
Other liabilities and deferred credits	9,457	7,867
Capital stock and surplus	4,002	4,002
Retained earnings	29,501	17,243
Total liabilities and capital	<u>\$117,841</u>	<u>\$105,137</u>
Revenues	<u>\$148,028</u>	\$132,409
Operating-differential subsidy	16,532	16,227
	<u>164,560</u>	148,636
Expenses, including income taxes	<u>152,302</u>	138,771
Net income	<u>\$ 12,258</u>	<u>\$ 9,865</u>

Waterman operates under two operating-differential subsidy agreements with the U. S. Maritime Administration (MARAD) which cover principal trade routes and expire in 1991 and 1996. An application for a third subsidy agreement, related to a trade route agreement which expired in 1976, is pending and a decision is expected in 1977. Under the more restrictive of these agreements, Waterman is precluded from paying dividends without the approval of MARAD. Under the terms of one subsidy agreement, Waterman is required to contract for construction of at least three, and possibly four, LASH vessels in 1977. The estimated cost for each vessel, including barges, after deducting the portion to be borne by MARAD under a construction-differential subsidy, is approximately \$40,000,000 per vessel.

Future rentals under Waterman's noncancelable vessel leases aggregate approximately \$98,000,000 through 1994. The lease agreements include various restrictions pertaining to working capital and net worth requirements.

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Consolidated Statement of Changes in Financial Position

Transway International Corporation and Subsidiaries

		Year Ended December 31,	
		1976	1975
		(thousands of dollars)	
Financial Resources Were Provided By	Net income	\$20,370	\$18,053
	Items not involving working capital:		
	Depreciation	9,676	8,568
	Deferred income taxes	403	840
	Equity in earnings of wholly owned finance company and partially owned companies	(7,379)	(6,280)
	Working capital provided from operations	23,070	21,181
	Disposition of property, plant and equipment	1,355	3,829
	Decrease in investments, net	470	460
	Increase in long-term debt, net		10,560
	Other, net		1,048
		<u>24,895</u>	<u>37,078</u>
Financial Resources Were Used For	Purchases of property, plant and equipment	10,694	27,365
	Payment of dividends	9,096	9,082
	Decrease in long-term debt, net	1,223	
	Other, net	1,059	
		<u>22,072</u>	<u>36,447</u>
	Increase in working capital	<u>\$ 2,823</u>	<u>\$ 631</u>
Increase In Working Capital	Cash	\$ 1,287	\$ 4,954
	Accounts receivable, net	8,968	(1,377)
	Inventories	6,714	(2,896)
	Notes payable and current portion of long-term debt	(765)	1,945
	Accounts payable and accrued expenses	(9,609)	(1,020)
	Federal and foreign taxes payable	(3,772)	(975)
		<u>\$ 2,823</u>	<u>\$ 631</u>

See Notes to Consolidated Financial Statements

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Future rentals under Waterman's noncancelable vessel leases aggregate approximately \$98,000,000 through 1994. The lease agreements include various restrictions pertaining to working capital and net worth requirements.

Note 4. Debt

Long-term debt at December 31, 1976 and 1975 is comprised of (thousands of dollars):

	<u>1976</u>	<u>1975</u>
10½ % Senior notes, payable in equal annual installments, 1981-1990	\$25,000	\$14,750
Term loan, interest at ½ of 1% above the prime rate, payable in 1977	2,250	17,500
6½ % to 12½ % chattel mortgage notes due to Transway Finance, less unearned interest, payable through 1984	7,683	6,255
Other	998	1,036
	35,931	39,541
Less, Current portion	4,359	6,746
	<u>\$31,572</u>	<u>\$32,795</u>

Pursuant to the senior note agreement, \$10,250,000 of notes were sold in February 1976 with the proceeds used to repay part of the term loan.

The agreements relating to the senior notes and the term loan contain various restrictive covenants relating to minimum working capital, payment of cash dividends and repurchases of capital stock. At December 31, 1976, under the most restrictive of the covenants, \$20,600,000 of consolidated retained earnings was free of such restrictions and consolidated working capital exceeded the minimum by \$17,200,000.

The Company has available bank lines of credit, with interest at the prime rate, aggregating \$15,700,000, of which \$13,150,000 were unused at December 31, 1976. In addition, Transway Finance has lines of \$58,000,000, of which \$16,000,000 were unused at December 31, 1976. Under Transway Finance's credit lines, each bank's commitment must be unused for 60 consecutive days in a twelve-month period.

Although there are no formal agreements regarding the maintenance of compensating balances in connection with the Company's and Transway Finance's lines of credit, it is generally understood that under normal circumstances average compensating balances will approximate 15-20% of such lines. Compensating balances under such credit lines and the term loan averaged approximately \$7,450,000 during 1976.

Note 5. Capital Stock and Surplus

The Company has 12,500,000 capital shares authorized. At December 31, 1976 and 1975, respectively, there were 6,994,410 shares and 6,982,461 shares issued, of which 494,832 shares were held in treasury in both years. Shares outstanding, capital stock and capital surplus increased in 1976 and 1975 as a result of shares issued upon conversion of debentures and exercise of stock options.

At December 31, 1976, there were 139,950 shares under option from both the 1975 and 1965 stock option plans at prices ranging from \$13.87 to \$21.06 per share (market prices at dates of grant), options for 128,700 shares were exercisable and 293,950 shares were available for future grant. During 1976, options on 20,000 shares were cancelled, options on 3,000 shares were granted and options on 63,850 shares were exercised at \$13.87 per share.

Note 6. Provision for Income Taxes

The provision for income taxes includes (thousands of dollars):

	<u>1976</u>	<u>1975</u>
Currently payable:		
Federal	\$ 7,450	\$2,743
Foreign	2,358	1,673
State and local	1,303	980
Deferred Federal	403	840
	<u>\$11,514</u>	<u>\$6,236</u>

Reconciliation of the provision for income taxes, computed at the Federal statutory rate, to the reported provision for income taxes follows (thousands of dollars):

	<u>1976</u>	<u>1975</u>
Provision computed at 48% on reported pretax income	\$15,304	\$11,658
Decreases in the provision resulting from:		
Inclusion in pretax income of equity in earnings of unconsolidated subsidiaries and partially owned companies	(3,247)	(3,003)
Taxes on foreign income at less than 48%	(1,044)	(2,518)
State and local income taxes, net of Federal income tax benefit	677	510
Other, net	(176)	(411)
	<u>\$11,514</u>	<u>\$ 6,236</u>

Note 7. Foreign Operations

Net income of foreign subsidiaries and partially owned foreign companies included in consolidated net income amounted to approximately \$7,017,000 in 1976 and \$7,325,000 in 1975. Net assets of foreign subsidiaries and equity in partially owned foreign companies amounted to approximately \$48,696,000 in 1976 and \$45,743,000 in 1975.

In 1976, a subsidiary sold 80% of its investment in its Venezuelan LP-Gas subsidiaries for approximately net asset value.

Note 8. Commitments and Guarantees

The Company is obligated for minimum rentals under noncancelable leases at December 31, 1976 as follows (thousands of dollars):

Year	<u>Real Estate</u>	<u>Vessels</u>	<u>Other</u>	<u>Total</u>
1977	\$2,818	\$11,020	\$1,057	\$14,895
1978	1,914	4,736	554	7,204
1979	1,553	2,820	136	4,509
1980	1,404		104	1,508
1981	1,109		35	1,144
1982-86	2,691			2,691
1987-91	1,027			1,027
1992-96	720			720
Remainder	123			123

Total rent expense amounted to \$15,064,000 and \$15,037,000 for the years ended December 31, 1976 and 1975, respectively.

At December 31, 1976, the Company and its subsidiaries have made various guarantees aggregating approximately \$4,100,000 (see Note 3 for other guarantees).

Coordinated Caribbean Transport, Inc., a subsidiary of the Company, has signed contracts aggregating \$42,457,000 for construction of two ARTUBARS (articulated tug-barges). The U.S. Maritime Administration will subsidize \$16,157,000 of the cost under a construction-differential subsidy.

Note 9. Quarterly Financial Data (Unaudited)

Summarized 1976 quarterly financial data on page 16 of this report is incorporated herein by reference.

Note 10. Replacement Cost Data (Unaudited)

A new rule of the Securities and Exchange Commission (SEC) requires the Company to disclose the estimated current replacement costs of inventories and certain property, plant and equipment, as well as the associated cost of sales and depreciation expense on a replacement cost basis.

Replacement costs are moderately higher than the comparable historical costs reported in the financial statements. The Company has traditionally realized operating efficiencies from capital expenditures and has been able to counteract some of the effects of inflation through cost controls and selective price increases. Therefore, the Company does not expect higher replacement costs to have a material effect on its profitability.

Replacement cost accounting is in the experimental stage and is based on numerous assumptions, subjective judgments and estimates. The resultant data is therefore inherently imprecise and not fully comparable among companies.

Current replacement cost information will be found in the Company's 1976 Annual Report to the SEC on Form 10-K.

Auditors' Report

To the Board of Directors and Stockholders
of Transway International Corporation:

We have examined the consolidated balance sheet of Transway International Corporation and Subsidiaries as of December 31, 1976 and 1975, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1976 and 1975 consolidated financial statements of Waterman Marine Corporation, a 50% owned company carried at equity, which statements reflect net assets and net income applicable to the related Company consolidated totals of 7% and 30%, respectively, in 1976 and 5% and 27%, respectively, in 1975. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Waterman Marine Corporation, is based solely upon such report.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned consolidated financial statements present fairly the consolidated financial position of Transway International Corporation and Subsidiaries at December 31, 1976 and 1975, and the consolidated results of their operations and the changes in their consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
February 15, 1977

COOPERS & LYBRAND

WATERMAN MARINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Schedules other than those listed above are omitted for the reason that they are not required, are not applicable, or the information is included in the notes to consolidated financial statements.

HARRIS, KERR, FORSTER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

COMMERCIAL GUARANTY BANK BUILDING

61 ST. JOSEPH ST., MOBILE, ALABAMA 36601

205-432-0481

MAILING P. O. BOX 1888

OFFICES IN PRINCIPAL CITIES
OF THE UNITED STATES

PANNELL KERR FORSTER & COMPANY
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

To the Board of Directors
Waterman Marine Corporation

We have examined the financial statements and schedules of Waterman Marine Corporation and Consolidated Subsidiaries as listed in the index on page F-1. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements and schedules listed on page F-1 present fairly the financial position of Waterman Marine Corporation and Consolidated Subsidiaries at December 31, 1976 and 1975 and the results of their operations and the changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Harris, Kerr, Forster & Company

February 11, 1977

**WATERMAN MARINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

BALANCE SHEET

ASSETS

	<u>December 31</u>	
	<u>1976</u>	<u>1975</u>
CURRENT ASSETS		
Cash and short-term investments (note 2)	\$ 27,148,430	\$ 15,941,389
Receivables, less allowances of \$372,000 and \$235,000 respectively (note 3)	24,757,860	27,063,195
Prepaid expenses	<u>2,405,573</u>	<u>2,667,369</u>
	54,311,863	45,671,953
Less deposits to be made in capital construction fund	<u>3,700,000</u>	<u>-0-</u>
Total Current Assets	<u>50,611,863</u>	<u>45,671,953</u>
 SPECIAL FUNDS AND DEPOSITS, including above deposits of \$3,700,000 (note 4)	 <u>15,930,512</u>	 <u>11,570,546</u>
 PROPERTY AND EQUIPMENT, at cost (notes 1, 5 & 6)		
Vessels and improvements	60,354,895	51,201,463
Furniture, fixtures and equipment	<u>425,470</u>	<u>303,952</u>
	60,780,365	51,505,415
Less accumulated depreciation and amortization	<u>15,058,724</u>	<u>8,512,467</u>
	<u>45,721,641</u>	<u>42,992,948</u>
 OTHER ASSETS AND DEFERRED CHARGES	 <u>5,576,629</u>	 <u>4,901,918</u>
	 <u>\$117,840,645</u>	 <u>\$105,137,365</u>

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>December 31</u>	
	<u>1976</u>	<u>1975</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (note 5)	\$ 6,711,210	\$ 6,061,295
Accounts payable	6,097,626	7,044,861
Accrued expenses	6,122,687	8,438,444
Accrued income taxes (note 7)	2,525,684	647,086
Total Current Liabilities	<u>21,457,207</u>	<u>22,191,686</u>
VOYAGES IN PROGRESS, net of expenses (notes 1 & 6)	<u>15,827,175</u>	<u>17,574,221</u>
LONG TERM DEBT, less current maturities (note 5)	<u>37,595,894</u>	<u>36,259,105</u>
OTHER NON-CURRENT LIABILITIES (note 1)	<u>6,739,149</u>	<u>3,864,958</u>
DEFERRED CREDIT (note 6)	<u>2,058,760</u>	<u>2,174,318</u>
DEFERRED INCOME TAXES (note 7)	<u>659,000</u>	<u>1,828,000</u>
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value; authorized, issued and outstanding 100,000 shares	100,000	100,000
Paid-in capital	3,902,000	3,902,000
Retained earnings	29,501,460	17,243,077
	<u>33,503,460</u>	<u>21,245,077</u>
	<u>\$117,840,645</u>	<u>\$105,137,365</u>

WATERMAN MARINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF INCOME

	For The Year Ended December 31	
	<u>1976</u>	<u>1975</u>
VESSEL OPERATIONS - TERMINATED VOYAGES (note 1)		
Revenue	\$148,028,148	\$132,408,969
Expense	<u>137,837,599</u>	<u>125,720,105</u>
	10,190,549	6,688,864
Operating differential subsidy (note 3)	<u>16,531,730</u>	<u>16,226,676</u>
Income from vessel operations	<u>26,722,279</u>	<u>22,915,540</u>
OTHER EXPENSES AND INCOME (note 1)		
Administrative and general expenses	8,384,773	7,756,476
Interest expense	4,102,771	3,334,821
Miscellaneous expenses	325,326	77,796
Interest income	<u>(1,298,974)</u>	<u>(1,128,590)</u>
	<u>11,513,896</u>	<u>10,040,503</u>
INCOME BEFORE INCOME TAXES	15,208,383	12,875,037
INCOME TAXES (note 7)	<u>2,950,000</u>	<u>3,010,000</u>
NET INCOME	<u>\$ 12,258,383</u>	<u>\$ 9,865,037</u>
Net income per common share	<u>\$ 123</u>	<u>\$ 99</u>

STATEMENT OF RETAINED EARNINGS

BALANCE, BEGINNING OF YEAR	\$ 17,243,077	\$ 7,378,040
NET INCOME	<u>12,258,383</u>	<u>9,865,037</u>
BALANCE, END OF YEAR	<u>\$ 29,501,460</u>	<u>\$ 17,243,077</u>

See notes to financial statements.

**WATERMAN MARINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

STATEMENT OF CHANGES IN FINANCIAL POSITION

	For The Year Ended	
	December 31	
	<u>1976</u>	<u>1975</u>
SOURCE OF WORKING CAPITAL		
Operations		
Net income	\$ 12,258,383	\$ 9,865,037
Items not affecting working capital		
Depreciation and amortization	6,546,257	3,999,502
Non current liability accruals	1,589,633	1,985,393
Gain on sale of vessel	-o-	(177,900)
	<u>20,394,273</u>	<u>15,672,032</u>
Sale of vessel	-o-	402,104
Additional long-term borrowings	7,629,000	15,139,099
	<u>28,023,273</u>	<u>31,213,235</u>
 APPLICATION OF WORKING CAPITAL		
Retirement of long-term debt	6,292,211	7,344,843
Purchase of property and equipment	9,274,950	19,041,798
Increase in other assets and deferred charges	674,711	392,435
Increase in special funds, net	4,359,966	7,334,951
Decrease in voyages in progress	1,747,046	1,369,752
	<u>22,348,884</u>	<u>35,483,779</u>
 INCREASE (DECREASE) IN WORKING CAPITAL	 <u>\$ 5,674,389</u>	 <u>\$(4,270,544)</u>
 INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS		
Cash and short-term investments	\$ 11,207,041	\$(5,961,030)
Receivables	(2,305,335)	5,007,272
Prepaid expenses	(261,796)	226,723
Capital construction fund deposit to be made	(3,700,000)	-o-
Current maturities of long-term debt	(649,915)	(564,360)
Accounts payable	947,235	(564,243)
Accrued expenses	2,315,757	(2,151,820)
Accrued income taxes	(1,878,598)	(263,086)
	<u>\$ 5,674,389</u>	<u>\$(4,270,544)</u>

See notes to financial statements.

**WATERMAN MARINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1976 AND DECEMBER 31, 1975**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. The consolidated financial statements include the accounts of Waterman Marine Corporation (Marine) and its wholly-owned domestic subsidiaries, Waterman Steamship Corporation (Steamship) and Waterman Transport Corporation (Transport). All inter-company balances and transactions have been eliminated.

b. Marine and its subsidiaries follow the U. S. Maritime Administration (Marad) Uniform System of Accounts for Maritime Carriers in all significant respects including terminated voyage accounting under which the results of voyages, including depreciation and subsidy accrual, are deferred until the completion of each voyage.

Allowances are provided for on a voyage leg or voyage day basis for estimated insurance deductible costs arising from marine, cargo or crew illness and injury claims.

Maintenance and repairs are charged to income as incurred, with the exception of minor amounts which may be deferred at year end due to voyage accounting principles. Betterments and renewals which extend the life of existing property and equipment are capitalized.

In accordance with Marad regulations, certain interest charges related to vessel construction have been capitalized in prior years, but there were no such charges in 1976 and 1975. A total of \$1,870,946 has been applied in reduction of the deferred gain on the 1974 sale of contracts for construction of two (2) Lash vessels and 450 lighters (see note 6) and \$807,566 is included in the acquisition cost of the Lash vessel retained.

Interest expense for 1976 includes \$660,359 which pertains to the settlement of a prior year tax case.

c. Depreciation is calculated using the straight-line method designed to amortize the cost of various classes of depreciable assets over their estimated useful lives. Leasehold costs are amortized over the shorter of the life of the related asset or the life of the lease.

For federal income tax purposes, accelerated methods of depreciation are used for certain vessels and deferred income taxes are provided on the difference between the depreciation expense for financial accounting purposes and that for income tax purposes.

The estimated lives and methods of computing depreciation on vessels are as follows:

Vessel Description	Estimated Life in Years		Method			
	Accounting	Tax	Accounting		Tax	
Lash vessel	25	14.5	Straight-line		Double declining balance	
2 C-4 vessels	10	10	"	"	Straight-line	
4 Mariners	2-2.5	2-2.5	"	"	"	"
4 Mariners	6-7	6-7	"	"	"	"

**WATERMAN MARINE CORPORATION
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**NOTES TO FINANCIAL STATEMENTS
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Vessel Description	Estimated Life in Years		Method	
	Accounting	Tax	Accounting	Tax
2 Mariners	3.5-4.5	3.5-4.5	Straight-line	Declining balance
2 Mariners	11-12	11-12	" "	" "
125 Lighters	20	14.5	" "	Double declining balance

Provisions for vessel depreciation and amortization charged to terminated voyages were \$6,366,199 in 1976 and \$3,826,139 in 1975.

d. Investment credit is utilized as a reduction of income tax expense in the year the credit arises. Such credits amounted to \$1,010,000 in 1976 and \$200,000 in 1975.

e. Certain start up cost of the Lash vessels operation and the cost of long term operating subsidy applications have been deferred and are being amortized over a five year period.

f. Under a long-term noncapitalized financing lease, which began November 14, 1974, Steamship is required to pay \$2,733,428 annual charter hire for the first six years of the lease agreement on two Lash vessels, and \$4,085,764 annually for the remaining fourteen years of the agreement. The entire cost of the charter hire agreement is being allocated equally to each of the years in the agreement. As of December 31, 1976 and 1975 the amount of excess rental expense that has been credited to a non-current liability account is \$2,020,360 and \$1,071,128.

NOTE 2 - CASH AND SHORT-TERM INVESTMENTS

The cash and short-term investment balances at December 31 consist of the following:

	<u>1976</u>	<u>1975</u>
Cash on hand and in banks	\$ 9,570,221	\$ 8,453,636
Bank certificates of deposit	1,250,000	750,000
U. S. Treasury bills - at cost, which approximates market	<u>16,328,209</u>	<u>6,737,753</u>
	<u>\$27,148,430</u>	<u>\$15,941,389</u>

A portion (\$6,258,259 and \$5,948,329, respectively) of the U. S. Treasury bills represents an escrow deposit account from which withdrawals may be made with the approval of Marad.

NOTE 3 - OPERATING DIFFERENTIAL SUBSIDY AGREEMENTS

Steamship entered into operating differential subsidy (ODS) agreements with Marad under

WATERMAN MARINE CORPORATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1976 AND DECEMBER 31, 1975

Title VI of the Merchant Marine Act of 1936, as amended. Under these agreements, Steamship is required to operate designated vessels in certain trade routes and must make a designated minimum number of sailings on each trade route. Marad agrees to pay Steamship for the excess of certain vessel expenses over comparable vessel expenses of principal foreign competitors in each respective trade route for each sailing up to a designated maximum number of sailings each year. A summary of the agreements at December 31, 1976, follows:

Trade Route Area	Trade Route No.	Date of		No. of Vessels	Number of Sailings	
		Inception	Termination		Minimum	Maximum
Mid East	18	June 4, 1971	June 3, 1991	7	30	40
Far East	12/22	October 26, 1976	October 25, 1996	8	18	30

Under the terms of the new ODS agreement for Trade Route 12/22, the company is required to contract for the construction of at least three new Lash vessels by April 26, 1977 to replace the eight mariner vessels now assigned to the trade route.

A short term ODS agreement for Trade Route 21 (Gulf of Mexico - Europe) expired June 3, 1976. An application for twenty year ODS agreements for Trade Routes 21,5-7-8-9,6,11 (Gulf of Mexico - Atlantic - Europe) is pending and a decision is expected in 1977.

Subsidies amounted to \$16,531,730 in 1976 and \$16,226,676 in 1975 of which, \$4,428,355 and \$4,736,626 were included in receivables at December 31, 1976 and 1975. Subsidy billings are based on rates furnished by Marad and are subject to adjustment after audit and final approval by Marad.

The ODS agreement on trade route 18 provides that Steamship must obtain Marad's approval prior to paying dividends. The ODS agreement on trade route 12/22 provides that dividends may be paid without prior Marad approval provided a conservative dividend program is followed within the limits prescribed in Marad's general regulations regarding dividend payments.

NOTE 4 - SPECIAL FUNDS AND DEPOSITS

Capital construction funds (\$11,114,970 and \$7,010,812 in 1976 and 1975 respectively) are segregated deposits for purposes of long-term construction programs. Earnings deposited into the fund are deductible for income tax purposes. Withdrawals are permitted for certain purposes including the construction or purchase of vessels and for retirement of mortgages on vessels.

A security deposit of \$4,000,000 was made as a guaranty of performance of contract obligations arising from the sale of construction contracts of the Lash vessels in 1974. Releases of deposits will begin in June, 1977, at 50% and in decreasing amounts until final release in June, 1987. As the funds are released, they must be deposited into the capital construction fund. The balance of such deposits, including interest earnings, was \$4,815,542 at December 31, 1976 and \$4,559,734 at December 31, 1975.

**WATERMAN MARINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1976 AND DECEMBER 31, 1975**

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term debt at December 31, 1976 and 1975. The mortgage notes and sinking fund bonds are secured by company vessels.

	1976	1975
Term notes, interest at prime plus 1/2%, maturing 1980 and 1981	\$ 6,500,000	\$ 8,100,000
Second preferred fleet mortgage notes, interest rates at prime plus 1/2%, to prime plus 1-3/4%, maturing 1980 to 1982	9,766,664	11,412,152
First preferred mortgage notes, interest rates, 7.65% to 8.625%, maturing 1977 to 1984	8,146,440	7,198,248
5% to 9.15% U. S. Government Guaranteed Sinking Fund Bonds, final maturity 1996	19,239,000	14,955,000
A related company, convertible, subordinated note, interest 8%, payable 1986	655,000	655,000
Totals	44,307,104	42,320,400
Less amount payable within one year	6,711,210	6,061,295
Long-Term Debt	\$37,595,894	\$36,259,105

Long-term debt is payable in subsequent years as follows:

Year	Amount
1977	\$ 6,711,210
1978	6,237,334
1979	5,753,367
1980	4,885,880
1981	1,590,313
1982-1996	19,129,000
	\$44,307,104

NOTE 6 - COMMITMENTS

During 1974, Steamship sold its interest in construction contracts for two (2) Lash vessels and 450 lighters and entered into twenty-year bareboat charters for the use of the vessels and lighters. Upon expiration of the noncancellable leases, Steamship has a right of first refusal to purchase the vessels and lighters at the fair market value.

**WATERMAN MARINE CORPORATION
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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1976 AND DECEMBER 31, 1975**

The net after tax gain from the sale of the construction contracts was deferred and is being amortized over the terms of the leases as a reduction of rent expense.

Lease or rent paid for 1976 and 1975 was approximately \$5,773,000 and \$6,338,000, respectively, comprised of the following:

	1976	1975
Noncapitalized financing leases on vessels and lighters	\$ 4,301,000	\$ 4,297,000
Other vessel leases	648,000	1,751,000
Rent on other property	824,000	290,000
	\$ 5,773,000	\$ 6,338,000

Annual lease or rental commitments for future periods under existing noncancellable leases are as follows:

Year	Total	Vessel/Lighter Noncapitalized Financing Leases	Other Vessels	Offices
1977	\$ 5,057,596	\$ 4,301,379	\$ 648,000	\$ 108,217
1978	5,038,054	4,301,379	648,000	88,675
1979	5,030,979	4,301,379	648,000	81,600
1980	4,855,979	4,301,379	473,000	81,600
1981	5,764,315	5,653,715	29,000	81,600
1982-1986	28,594,975	28,268,575	-o-	326,400
1987-1991	28,268,575	28,268,575	-o-	-o-
1992-1994	16,177,170	16,177,170	-o-	-o-
	\$ 98,787,643	\$ 95,573,551	\$ 2,446,000	\$ 768,092

The following information relates to leases which have been determined to be noncapitalized financing leases as defined by the Securities and Exchange Commission:

	Interest Rate Implicit in Lease	Present Value of Future Rentals at December 31	
		1976	1975
Lash vessels	6.5%	\$ 38,286,000	\$ 38,519,000
Lighters	5.4%	17,591,000	18,182,000
		\$ 55,877,000	\$ 56,701,000

**WATERMAN MARINE CORPORATION
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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1976 AND DECEMBER 31, 1975**

In accordance with new accounting regulations, the cost of these vessels and lighters, \$57,619,133, together with the related debt and accumulated amortization, will be recorded in the respective accounts of the company in 1981. If all such noncapitalized financing leases were now capitalized, related assets were amortized on a straight-line basis and interest cost was accrued on the basis of the outstanding debt balance, additional expense would have been charged to terminated and untermi-
nated voyages for the years ended December 31, 1976 and 1975 as follows:

	1976	1975
Amortization of leasehold rights	\$ 2,881,000	\$ 2,881,000
Interest expense	3,462,000	3,510,000
	6,343,000	6,391,000
Less charter hire expense	5,244,000	5,244,000
Additional expense	\$ 1,099,000	\$ 1,147,000

Under Title XI guaranty agreements, Steamship is subject to various covenants pertaining to working capital and net worth requirements. At December 31, 1976 and 1975, these requirements were satisfied and thus, the covenants were inoperative.

NOTE 7 - INCOME TAXES

The Companies file consolidated income tax returns and allocate income tax liabilities and credits to the individual corporations based upon the net taxable income of each corporation.

The Internal Revenue Service has examined and approved the Company's returns through April 30, 1971.

The provision for income taxes is summarized as follows:

	1976	1975
Current	\$ 3,168,000	\$ 2,352,000
Deferred	(218,000)	658,000
	\$ 2,950,000	\$ 3,010,000

The effective Federal income tax rate was 19.4% in 1976 and 23.4% in 1975. The differences between the amounts recorded and the amounts computed by applying the federal income tax rate to earnings before provision for income taxes are explained as follows:

**WATERMAN MARINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1976 AND DECEMBER 31, 1975**

	<u>1976</u>		<u>1975</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Taxes computed at statutory rate	\$ 7,300,000	48.0	\$ 6,180,000	48.0
Investment tax credit	(1,010,000)	(6.7)	(200,000)	(1.6)
Capital construction fund deposits	(3,107,000)	(20.4)	(3,453,000)	(26.8)
Other - net	<u>(233,000)</u>	<u>(1.5)</u>	<u>483,000</u>	<u>3.8</u>
	<u>\$ 2,950,000</u>	<u>19.4</u>	<u>\$ 3,010,000</u>	<u>23.4</u>

Deferred income tax provisions are summarized as follows:

	<u>1976</u>	<u>1975</u>
Depreciation expense	\$ 912,000	\$ 915,000
Operating reserves provision	(898,000)	(276,000)
Excess charter hire expense accrual	(456,000)	(467,000)
Other	<u>224,000</u>	<u>486,000</u>
	<u>\$ (218,000)</u>	<u>\$ 658,000</u>

NOTE 8 - PENSION PLAN

Effective January 1, 1974, Steamship adopted a noncontributory pension plan, covering all full time employees except those covered under existing union plans. In order to comply with the Employment Retirement Income Security Act of 1974, the plan has been revised and submitted to the Internal Revenue Service for a favorable determination. The actuarially computed contribution (entry age normal cost) for the years 1976 and 1975, consisted of:

	<u>1976</u>	<u>1975</u>
Normal cost	\$ 111,300	\$ 95,900
Amortization (30-year basis) of past service liability	<u>90,700</u>	<u>74,800</u>
Total expense paid for year	<u>\$ 202,000</u>	<u>\$ 170,700</u>

At December 31, 1975, the excess of the computed value of vested benefits exceeded pension fund assets by \$1,237,000. Actuarial computations for the year ended December 31, 1976, are not available. However, no material change is anticipated.

**WATERMAN MARINE CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1976 AND DECEMBER 31, 1975**

NOTE 9 - RELATED PARTY TRANSACTIONS

Steamship leases two vessels from Hammond Leasing Corporation (Hammond), a company which is principally owned and controlled by officers and employees of the companies. In each of the years, 1976 and 1975, Steamship paid \$648,000 as charter hire expense for these vessels. Scheduled payments under the terms of the bareboat charters, which expire in 1980 and 1981, are \$648,000 per year. All charter hire rates have been approved by Marad and management is of the opinion such arrangements are no less favorable than have been negotiated with third parties.

Steamship is a guarantor for the Marad first preferred mortgages on the two vessels leased from Hammond. The amount of unpaid principal balance on such long-term debt was \$1,002,050 at December 31, 1976 and \$1,341,947 at December 31, 1975.

NOTE 10 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected financial information relating to the results of operations for each quarterly period in 1976 is as follows:

	<u>1976 Quarter Ending</u>			
	<u>(In Thousands of Dollars Except Earnings Per Share)</u>			
	<u>Mar. 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
Terminated voyage revenue	<u>\$ 28,892</u>	<u>\$ 32,661</u>	<u>\$ 46,205</u>	<u>\$ 40,270</u>
Income from vessel operations*	<u>\$ 5,349</u>	<u>\$ 5,409</u>	<u>\$ 7,105</u>	<u>\$ 8,859</u>
Net income	<u>\$ 2,096</u>	<u>\$ 2,191</u>	<u>\$ 3,623</u>	<u>\$ 4,348</u>
Earnings per share	<u>\$ 21</u>	<u>\$ 22</u>	<u>\$ 36</u>	<u>\$ 44</u>

* Income from vessel operations consists of revenue, expense and operating differential subsidy on all terminated voyages.

Quarterly financial data are not necessarily indicative of results which might be expected throughout the year, primarily because of the timing of voyage terminations. During 1976 the number of voyages terminating by quarters were: first quarter 11, second quarter 11, third quarter 19, fourth quarter 15.

WATERMAN MARINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

**SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975**

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements and Sales</u>	<u>Other Charges Add (Deduct) - Describe</u>	<u>Balance at End of Period</u>
1976					
Vessels and improvements	\$50,353,963	\$ 364,359	\$ 48,581	\$ 9,620,263 (A)	\$60,290,004
Furniture, fixtures and equipment	303,952	129,591	8,073	-	425,470
Barge and vessel construction in progress	<u>847,500</u>	<u>8,844,572</u>	<u>6,918</u>	<u>(9,620,263) (A)</u>	<u>64,891</u>
	<u>\$51,505,415</u>	<u>\$ 9,338,522</u>	<u>\$ 63,572</u>	<u>\$ -</u>	<u>\$60,780,365</u>
1975					
Vessels and improvements	\$33,025,889	\$18,412,717	\$ 1,084,643	\$ -	\$50,353,963
Furniture, fixtures and equipment	229,339	89,148	14,535	-	303,952
Barge construction in progress	<u>-</u>	<u>847,500</u>	<u>-</u>	<u>-</u>	<u>847,500</u>
	<u>\$33,255,228</u>	<u>\$19,349,365</u>	<u>\$ 1,099,178</u>	<u>\$ -</u>	<u>\$51,505,415</u>

(A) Transfer of completed barges

Item 3. Properties.

The Registrant's executive offices are located in leased premises occupying 16,500 square feet at 747 Third Avenue, New York, New York 10017.

Terminal, garage, warehouse and office space occupied or used by the Registrant in its freight forwarding business is, in most instances, located in leased premises. Generally, terminal facilities and appurtenant office and warehouse space are leased by the freight forwarding subsidiaries from the railroads. Such leases are of varying duration, and some of them are terminable at the election of either party upon specified notice.

The Registrant owns and occupies a garage in Chicago (the sale of which is contemplated), a warehouse in Orlando, Florida and freight facilities in Chicago, Indianapolis, Milwaukee and Phoenix. Other garage, warehouse and office space is occupied under leases for varying periods.

CCT owns a terminal in El Salvador which is used in connection with its marine activities.

Great Dane's principal trailer manufacturing facilities are located in a plant containing approximately 335,000 square feet of space, situated on two tracts of land aggregating approximately 50 acres which Great Dane owns in Savannah, Georgia. Other manufacturing activities are conducted in its 210,000-square foot plant located on an 80-acre site in Brazil, Indiana and in leased premises occupying approximately 99,000 square feet on a 9.8-acre site in Memphis, Tennessee. Construction will begin in 1977 on an additional 160,000 square feet of space at the Brazil, Indiana facility for the purpose of manufacturing refrigerated van trailers; it is estimated that such new construction will cost approximately \$8,300,000. Manufacturing plants and the equipment at such premises are well-maintained, in good condition and adequate for the conduct of the operations to which they relate.

The largest capital investment of Tropigas is in bulk storage facilities and in utilization equipment such as cylinders, systems tanks (used in larger commercial, industrial or agricultural applications), regulators and meters. Tropigas' storage facilities at December 31, 1976 were located in 13 countries and are summarized by area in the table which follows:

Interest Expense—The increased interest expense is principally due to the senior notes being outstanding for a larger portion of the year 1976 versus 1975.

Provision for Income Taxes—The percentage of income taxes to income before taxes increased to 36.1% from 25.7% in 1975. This increased effective tax rate is due to substantially higher income of domestic subsidiaries and increased taxes on foreign income. See Note 6 of the Notes to Consolidated Financial Statements.

Net Income—Net income increased \$2.3 million (12.8%) in 1976 as a result of factors noted above and an increase in equity earnings, partially offset by increases in operating expenses. The increases in operating expenses reflects a higher level of operations, normal cost increases and operating expense associated with the *S. S. Veracruz I* which commenced operation in late 1975. Increased 1976 equity earnings reflect improved vessel utilization by Waterman in the fourth quarter.

1975 Versus 1974

Revenues—The revenue decline of \$76.1 million, or 12.9%, in 1975 compared to 1974 is attributed principally to \$27.8 million (10.5%) decline in Freight Forwarding revenues and a \$34 million (38.4%) decline in Trailer Manufacturing revenue. Freight Forwarding experienced a 15.2% decline from 1974 in traffic tonnage handled, and Trailer Manufacturing sold 66% fewer trailers than in 1974. Both segments were adversely affected by the national recession and, in addition, trailer sales were depressed by the imposition of costly new Federal brake safety standards.

Cost of Revenues—The 15.0% decline in cost of revenues in 1975 from the prior year is generally consistent with the decline in revenues and is attributed to the same factors. In addition, LPG cost of revenues declined at a higher rate (15.2%) than its related revenue decrease of 8.5% because the sales decrease was concentrated in the world gas market which was not profitable in 1974.

Interest Expense—Higher average borrowings is the major reason for the increase in interest expense for 1975.

Provision for Income Taxes—The change in the 1975 tax provision compared to 1974 results primarily from the change in income before taxes, after adjustment for equity earnings and for foreign income taxed at less than 48%, included therein.

Net Income—Net income decreased 7.6% in 1975 from 1974. Factors noted above, as well as changes in operating expenses, including depreciation and maintenance and repairs, and equity earnings, caused the changes in net income. Equity earnings benefited from the inauguration of LASH vessels service by Waterman in the third quarter of 1974.

WATERMAN MARINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE XIII - CAPITAL SHARES

FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

F-18

COL. A	COL. B	COL. C	COL. D		COL. E		COL. F		COL. G	
NAME OF ISSUER AND TITLE OF ISSUE	Number of Shares Authorized by Charter	Number of Shares Issued and Not Retired or Cancelled	Number of Shares Included in Column C Which Are		Shares Issued or Outstanding as Shown on or Included in Related Balance Sheet Under Caption "Capital Shares"		Number of Shares Held by Affiliates for Which Statements are Filed Herewith		Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	
			(1) Held by or for Account of Issuer Thereof	(2) Not Held by or for Account of Issuer Thereof	(1) Number	(2) Amount at Which Shown	(1) Persons Included in Consolidated Statements	(2) Others	(1) Directors, Officers and Employees	(2) Others
1976 and 1975 common stock of \$1 par value	100,000	100,000	None	None	100,000	\$100,000	None	None	None	None

WATERMAN MARINE CORPORATION AND CONSOLIDATED SUBSIDIARIES

**SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975**

<u>Column A</u>	<u>Column B</u>
<u>Item</u>	<u>Charged to Costs and Expenses</u>
<u>1976</u>	
Maintenance and repairs	\$5,528,262
Depreciation and amortization	6,546,257
Taxes other than income	1,340,783
Rents	5,773,000
Advertising costs	239,963
<u>1975</u>	
Maintenance and repairs	\$4,796,793
Depreciation and amortization	3,999,502
Taxes other than income	1,102,423
Rents	6,338,000
Advertising costs	229,686

TRANSWAY FINANCE COMPANY, INC.

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Schedules are omitted for the reason that they are not required or are not applicable or the information is included in Notes to Financial Statements.

COOPERS & LYBRAND

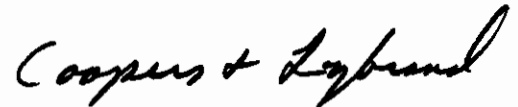
CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

To the Board of Directors
Transway Finance Company, Inc.

We have examined the balance sheets of Transway Finance Company, Inc. as of December 31, 1976 and 1975, and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Transway Finance Company, Inc. at December 31, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



COOPERS & LYBRAND

Atlanta, Georgia
February 4, 1976

TRANSWAY FINANCE COMPANY, INC.

BALANCE SHEETS

December 31, 1976 and 1975

ASSETS	<u>1976</u>	<u>1975</u>
Cash	\$ 4,139,393	\$4,834,173
Finance receivables, less unearned income of \$11,710,528 in 1976 and \$9,643,505 in 1975 (Notes 1 and 2)	52,192,624	42,737,378
Finance receivables from parent company and affiliates, less unearned income of \$2,465,190 in 1976 and \$1,512,495 in 1975 (Notes 1 and 2)	<u>7,683,205</u>	<u>6,254,376</u>
	<u>\$64,015,222</u>	<u>\$53,825,927</u>
LIABILITIES		
Demand notes payable to banks (Note 3)	\$42,000,000	\$38,000,000
Payable to parent company	350,921	445,870
Accrued interest payable	251,608	277,704
Income taxes payable (Note 1)	880,515	776,583
Finance receivable holdback reserve, payable to parent company (Note 2)	2,994,000	2,450,000
Subordinated notes payable (Note 4):		
Parent company		250,000
Bank	9,000,000	4,000,000
Other liabilities	<u>35,851</u>	<u>39,459</u>
	<u>55,512,895</u>	<u>46,239,616</u>
STOCKHOLDER'S EQUITY		
Common stock, no par value; 1,000 shares authorized, 265 shares issued and outstanding	2,650,000	2,650,000
Retained earnings, as annexed	<u>5,852,327</u>	<u>4,936,311</u>
	<u>8,502,327</u>	<u>7,586,311</u>
	<u>\$64,015,222</u>	<u>\$53,825,927</u>

The accompanying notes are an integral part
of this statement.

STATEMENTS OF INCOME AND RETAINED EARNINGS
for the years ended December 31, 1976 and 1975

	<u>1976</u>	<u>1975</u>
Income:		
Finance	\$5,577,681	\$4,990,620
Other	43,177	109,722
Income maintenance (Note 5)		45,000
	<u>5,620,858</u>	<u>5,145,342</u>
Expenses:		
Interest:		
Banks	3,146,816	3,410,598
Parent company	16,026	19,270
Management fee (Note 5)	584,000	
	<u>3,746,842</u>	<u>3,429,868</u>
Income before provision for income taxes	<u>1,874,016</u>	<u>1,715,474</u>
Provision for income taxes:		
State	112,000	103,000
Federal (Note 1)	846,000	774,000
	<u>958,000</u>	<u>877,000</u>
Net income	916,016	838,474
Retained earnings, beginning of year	<u>4,936,311</u>	<u>4,097,837</u>
Retained earnings, end of year	<u>\$5,852,327</u>	<u>\$4,936,311</u>

The accompanying notes are an integral part
of this statement.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended December 31, 1976 and 1975

	<u>1976</u>	<u>1975</u>
Financial resources were provided by:		
Net income	\$ 916,016	\$ 838,474
Net collections of finance receivables	21,132,865	19,178,060
Increase in demand notes payable to banks	4,000,000	
Increase in holdback reserve	544,000	
Increase in subordinated debt	4,750,000	
Change in amounts due from or payable to parent company		1,357,726
Increase in other liabilities	74,228	
Decrease in cash	<u>694,780</u>	
	<u>\$32,111,889</u>	<u>\$21,374,260</u>
Financial resources were used for:		
Finance receivables (excluding unearned income)	\$32,016,940	\$17,882,673
Decrease in demand notes payable to banks		2,000,000
Decrease in holdback reserve		64,000
Decrease in other liabilities		192,169
Change in amounts due from or payable to parent company	94,949	
Increase in cash	<u>94,949</u>	<u>1,235,418</u>
	<u>\$32,111,889</u>	<u>\$21,374,260</u>

The accompanying notes are an integral part
of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Accounting Policy:

The company is a wholly-owned subsidiary of Great Dane Trailers, Inc. (parent company) which, in turn, is a wholly-owned subsidiary of Transway International Corporation. The company's principal business activity consists of financing customers of the parent company and its distributors in connection with the purchasing and leasing of equipment.

The company is included in the consolidated federal income tax return of Transway International Corporation.

Finance charges are recognized as income over the terms of the receivables principally by applying the sum-of-the-years-digits method to scheduled monthly collections under the contracts. The contracts have an average term of 48 months and range from 24 to 96 months.

Contractual maturities of finance receivable, including unearned income, are as follows: 1977 - \$21,286,881; 1978 - \$17,973,676; 1979 - \$13,356,999; 1980 - \$8,874,294; 1981 to 1984 - \$12,559,697.

2. Finance Receivable Holdback Reserve:

Under an agreement with its parent, contracts are purchased without recourse, but any defaulted receivables can be charged to the finance receivable holdback reserve account, and the company's interest in the defaulted receivables is reassigned to the parent company. The reserve account is replenished by withholding from payments to the parent for subsequent new receivables acquired, an amount equal to the lesser of (a) 5 percent of the receivable face amount (less unearned income) or (b) the amount, if any, required to increase the aggregate amount of the reserve account to 5 percent of total outstanding finance receivables less unearned income. In lieu of a charge to the reserve account, the parent has the option to repurchase any defaulted contracts.

3. Demand Notes:

The company has available bank lines of credit, with interest at the prime rate, aggregating \$58,000,000, of which \$16,000,000 was unused at December 31, 1976. Generally, under these credit lines, each bank's commitment must be unused for 60 consecutive days in a twelve-month period.

NOTES TO FINANCIAL STATEMENTS, Continued

3. Demand Notes, continued:

Although there are no formal agreements regarding the maintenance of compensating balances under the aforementioned lines, it is generally understood that, under normal circumstances, average yearly compensating balances maintained by the company, Transway International Corporation, and its subsidiaries will approximate 15-20 percent of such lines. The maximum amount of demand notes outstanding during 1976 was \$42,000,000. The weighted average amount outstanding during the year was \$39,300,000 and the weighted average interest thereon was 7.0 percent.

4. Subordinated Notes Payable:

The company has a \$4,000,000, 7.75 percent subordinated note payable January 15, 1979 and a \$5,000,000, 8.875 percent subordinated note payable August 1, 1981. Both notes are guaranteed by Transway International Corporation.

5. Income Maintenance/Management Fee:

Under an agreement with its parent company, the company receives payments from (income maintenance) or makes payments to (management fees) its parent in amounts sufficient to cause gross revenues less expenses, other than interest and income taxes, to be not less than one and one-half times fixed charges.

TRANSWAY INTERNATIONAL CORPORATION
and ITS CONSOLIDATED SUBSIDIARIES
EXHIBIT I
for the five years ended December 31, 1976

	Years Ended December 31,				
	1976	1975	1974	1973	1972
Computation of income per average share of common stock on a fully diluted basis:					
Weighted average number of shares	6,495,536	6,487,130	6,485,256	6,481,777	6,476,222
Shares applicable to convertible debentures outstanding as of year end	22,020	29,898	33,037	35,153	40,332
Shares applicable to convertible debentures converted during the year	2,460	300	1,479	3,157	4,105
Shares applicable to stock options outstanding at year end and those options converted during the year	61,657	35,767		216	26,473
Weighted average number of shares on a fully diluted basis	6,581,673	6,553,095	6,519,772	6,520,303	6,547,132
Income before extraordinary items	\$20,370,260	\$18,052,673	\$18,558,077	\$15,208,344	\$12,051,133
Add, Interest, net of federal taxes, on convertible debentures	9,414	12,415	12,893	13,948	16,381
Income before extraordinary items, as adjusted	20,379,674	18,065,088	18,570,970	15,222,292	12,067,514
Extraordinary items			975,000	992,961	676,500
Net income, as adjusted	\$20,379,674	\$18,065,088	\$19,545,970	\$16,215,253	\$12,744,014
Income per share of common stock on a fully diluted basis:					
Income before extraordinary items	\$3.10	\$2.76	\$2.85	\$2.34	\$1.85
Extraordinary items	.15	.15	.15	.15	.10
Net income	\$3.10	\$2.76	\$3.00	\$2.49	\$1.95