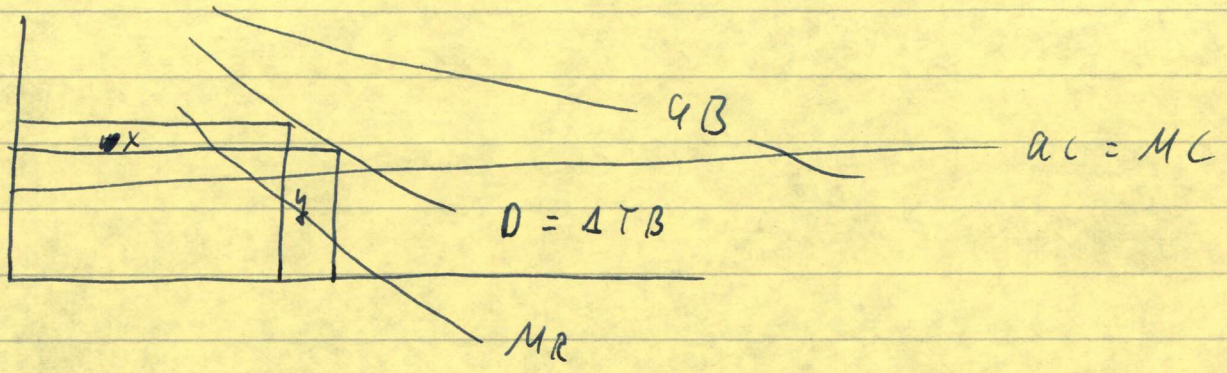
Ec. 177 [redacted] Mtrls. '89



$MR = y - x$

$\Sigma MR = TR$

$$\frac{TR}{Q} = AR$$

$\Sigma \Delta TB = TB$

$$\frac{TB}{Q} = AB$$

Annual Δ in PVF $= I^{-n}$

Annual $\%\Delta = \dfrac{I^{-n}}{\dfrac{1 - I^{-n}}{i}}$

$= \dfrac{i}{I^n - 1}$

May 10, '78

I. Recap Mineral Leasing Blunders

A. Overdecentralization.

1. Regional Dev.
2. Discr. vs. old oil, etc.
3. Overallowance for am-u.
   Tieing up large reserves on the cheap.
4. Tax bias pro explr.
5. Lower prop. taxes for out
6. Rule of capture -- dfn. disadvantage
7. Sliding scale royalties.
   Slow down rate of better res.
8. Internalizing earnings.
   Reinvest captive K in the indy.
9. Cheap money as subsidy mode.
   attracts & holds K in mining.
   Slow recovery; early explr.
10. Cartels.

B. Overdelegation

C. Overallowance for risk

D. Overadmission of prospectors -- free entry.

E. Underpricing

FPC. Shortages.

Failure to collect rent. Earth not uniform. Hence Ricardian.

F. Confusing Rent & Profit

Rent = Profit - Interest

" = Cash flow - Amortn. flow.

Landlord can collect all rent, not much of ~~profit~~ interest. (He wd. only lower rent.)

E.g. Port of Milw. leases. & prop. tax.)

G. Partial analysis

E.g. hi-grading caused by royalties -- overlooking depln. allowance; x-subsidy in xptn.; expensing; etc.

Everything is subsidized but the labor input.

Same everywhere.

Results: goods of higher resource content; lesser labor content. Deplete resources too early, while labor is underemployed.

II McNichols, Chaps 1-5

Top Sohio Officers Fired as BP Takes Direct Control

28 Feb 86 ✓

By DONALD WOUTAT, *Times Staff Writer*

Top management at Standard Oil of Ohio was fired in a surprise move Thursday as dissatisfied British Petroleum, owner of 55.5% of the Cleveland-based oil giant, took direct managerial control for the first time.

The British concern said it wanted "the best possible professional leadership" at the helm of the world's 10th-largest oil company as the industry heads into a "critical" period of collapsing oil prices.

Analysts said BP was unhappy with Standard's record in finding new oil and with the outcome of its 1981 purchase of Kennecott, the copper firm. Standard wrote off that investment as part of a $1.15-billion charge against earnings in 1985's fourth quarter.

Moreover, Standard is regarded as especially vulnerable to the decline in crude oil prices because of its huge Alaskan reserves.

Ousted were Alton W. Whitehouse Jr., 58, chairman and chief executive, and John Miller, 48, president and chief operating officer.

The new chairman and chief executive is Robert B. Horton, 46, a managing director of BP. Frank E. Mosier, 55, a Standard executive vice president, was named president and chief operating officer. Two other BP officers, E. John P. Browne, 37, and J. Colin E. Webster, 49, were installed as executive vice presidents.

"This is a critical time for the oil industry and especially for Standard Oil," BP Chairman Sir Peter Walters said. "BP believes it is also an appropriate time to strengthen Standard Oil's management to cope with the difficult environment ahead."

The lengthy statement contained none of the customary thanks to departing executives for a job well done. Analysts said the drop in oil prices brought to a head BP's

Please see SOHIO, Page 3

y Slips $600 Million

noon report from the Federal had little effect on interest dit markets, where a rally was under way.

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SOHIO: Officials Fired

Continued from Page 1

dissatisfaction with Standard's performance.

A separate statement from Standard's board said BP wanted "a management team in which they had more confidence."

Whitehouse, a lawyer, took over as chairman in 1978 after 10 years at the firm. Miller, a career Standard man, became president in 1980.

Standard Oil became the world's biggest copper producer with its $1.7-billion purchase of Kennecott. But the copper unit subsequently lost about $100 million a year.

Expensive Dry Hole

"It was a disaster," said oil analyst Elmer L. Meszaros of Roulston & Co. in Cleveland. But he said the firings were a surprise because "it hasn't been BP's style" at Standard Oil. "They've been very low key and usually accomplish what they want quietly."

Standard has had a below-average record of exploration. It sank $430 million into the most expensive oil well ever drilled—at Mukluk Island in Alaska—that turned out in 1984 to be a dry hole.

"Suffice it to say that BP has not been completely satisfied," said analyst M. Craig Schwerdt of Morgan, Olmstead in Los Angeles.

The housecleaning at Standard Oil came two days after the company announced that it was dropping the "Ohio" from its name. It was one of the companies formed in 1911 as part of the court-ordered breakup of John D. Rockefeller's Standard Oil empire.

Majority Ownership in 1978

BP bought 25% of the firm in 1969 because it needed a refining and marketing outlet for its newly discovered Alaskan reserves. It became a majority owner in 1978.

After the $1.15-billion special charge in the fourth quarter, Standard Oil earned $308 million for the year, compared to $1.49 billion in 1984.



Boom Time Is Back for U.S. Marble Firms

By CHARLES HILLINGER,
Times Staff Writer

SYLACAUGA, Ala.—"These are the best of times in 50 years for the structural marble industry," Tom McGahey said as he watched a 12-ton block of solid marble being lifted out of the Moretti-Harrah quarry by a towering derrick boom.

The structural marble industry is having one of the biggest booms in its history. Sales by domestic marble companies to the construction industry across the nation in 1983 totaled about $36 million—twice as much as four years ago.

Architects and designers are rediscovering natural stone as a building material, and marble is a favorite for exteriors, interior walls and floors, despite its high cost, because of its durability and beauty.

Mile-Long Vein of Marble

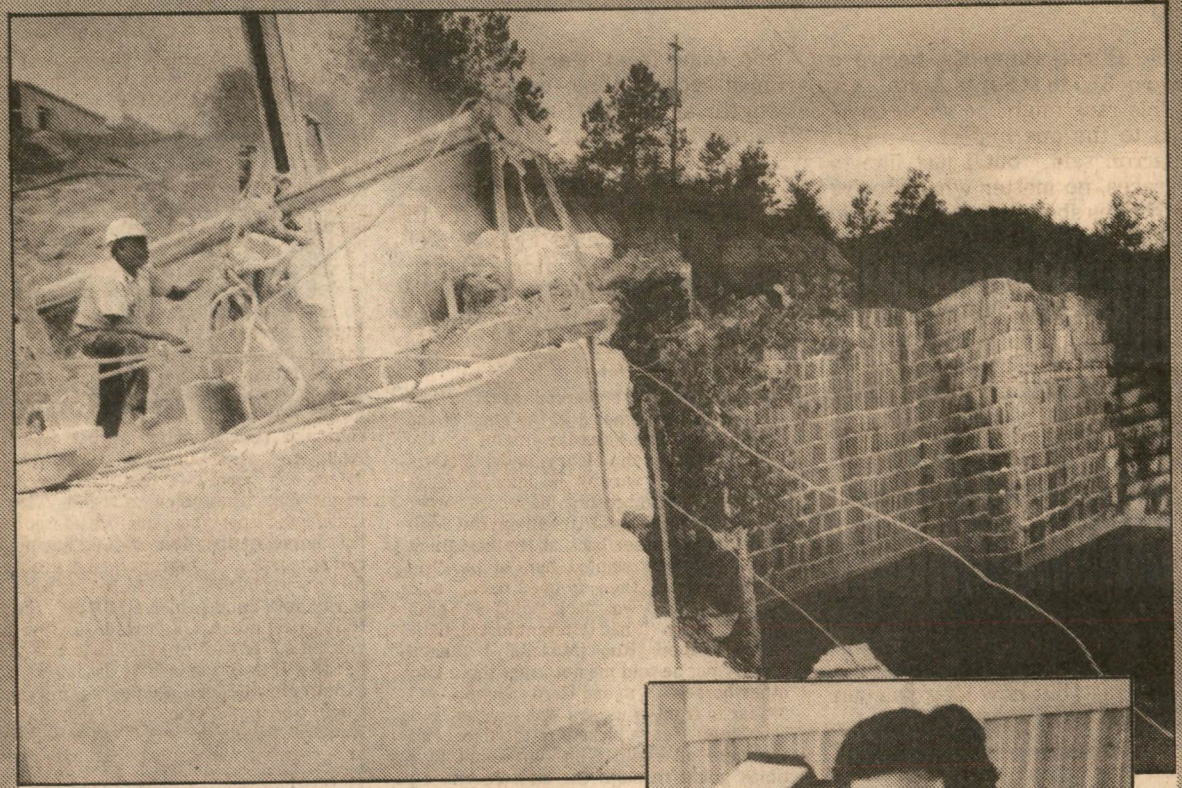
McGahey, 35, is general manager of Moretti-Harrah Marble Co., the third-largest producer of structural marble in the United States. Visitors to the U.S. Supreme Court and the Lincoln Memorial may not have been aware of it, but marble contained in those buildings came from Moretti-Harrah's quarries.

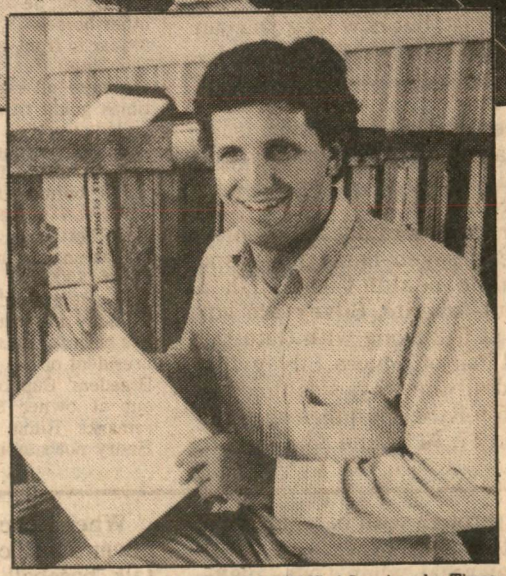
McGahey was in his firm's newest quarry here in Sylacauga (pronounced Sil-a-caw-ga) in Alabama's historic Talladega County, where quarry men were drilling through a vein of marble at least 400 feet deep, a block wide and a mile long. Marble is a metamorphic rock laid down millions of years ago, remnants of microscopic shellfish fused over the centuries by heat and pressure.

Quarry men were drilling 20 feet

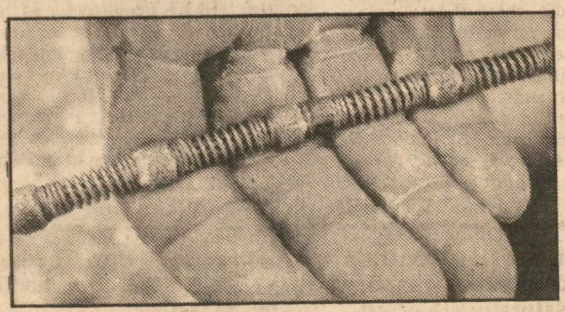
Please see MARBLE, Page 3

BUSINESS





Worker at the Moretti-Harrah marble quarry drills stone (above), which is then sawed with diamond-studded wire (below). Polished tile is displayed by Tom McGahey.



PATRICK DOWNS / Los Angeles Times

ent, Labor in U.S. Need to e to Compete With Japan

sensitive to the impact of their actions on the public than are their American counterparts. Japanese labor seeks public sympathy by attempting to pin a parsimonious label on industry. Industry, in turn, trumpets public accusations that unions are demanding more than their rightful share of the nation's largesse.

What makes Japan's labor picture so different from the American? In the Western world, the primary human value is justice for the individual. In the Orient, justice is outranked by a value people find far more compelling: harmony among group members. So when we ask why Japan has become such a formidable economic force, this answer emerges: It is ideally structured for success in a world of corporate enterprise.

Cooperation Is Automatic

In the Japanese working world, cohesion and cooperation among all units and levels of an enterprise are automatic. The secret of Japan's success lies in establishing national objectives and working cooperatively to achieve them. Labor harmony thrives in this environment.

The American labor picture, by contrast, has continued on the route of confrontation. Today, organized labor has the lowest level of union membership in a half-century, the poorest public-respect rating of any major institution and the worst success rate in union representation elections since the National Labor Relations Board appeared on the scene in the Great Depression.

The answer to what has happened can be found in the arrival of the international economic age. In just 10 years, world trade has multiplied seven times, transforming the world's economy, shattering old patterns, displacing whole industries and uprooting established work forces.

This has had a disastrous effect on American labor. Union strength was built largely through an exercise of power within the nation. But economic life today largely ignores political borders. Labor's passionate espousal of protectionism is also doomed to failure in an economic world that is devastatingly Darwinian.

In this new era, the only sure way to survive is to stay competitive. Competitive efficiency, not government protection, will keep America and its workers strong.

Then where should American labor channel its impressive energy? If it looks toward an alliance with government in its historic contest with industrial management, it is battling the wrong opponent. To meet this competition, American unions and American management must somehow find ways to make common cause.

(Note this Japanese technique for resolving differences: Instead of trying to inflict economic loss on a bargaining opponent, negotiators seek to inflict loss of face. Psyches get bruised, but the nation's economy charges ahead.)

Three important points for Americans:

- First, it is self-[illegible]



MARY FRAMPTON / Los Angel

The equipment may change, bu telephones there will be operat Stella Nutt (lower right), hired S the Telephone Dispatch Co of E operators looked up numbers ir but now Pacific Bell's Katherine sophisticated computer termin

OPERATORS

Continued from Page 1

sodes of drama, pathos and comedy. Ruth Jack, who has answered phones for Pacific since 1953, remembers a caller who complained that her telephone cord was too long and asked the operator if she could "pull it in a bit at your end." Her colleague Watson once guided a "gentleman" in how to prepare a roast for a dinner party.

Neoma Luce of General Telephone, whose 27 years of operator experience includes time with the old California Water & Tel[illegible]

Georgia Is Top Producer

"Ninety percent of structural marble used in America goes into building materials," Hund noted. "The rest is for cemetery monuments, sculptures, novelties, etc. Of that 90%, half is for marble floor and wall tiles—where the biggest growth in the industry is occurring—the other half for panels, slabs, counter and table tops, with 60% for residential and 40% for commercial structures."

The marble industry spokesman says structural marble is being produced in seven states—Vermont, Alabama, North Carolina, Georgia, Minnesota, Missouri and Tennessee.

Georgia produces more structural marble than any other state, and a century-old Georgia Marble Co., headquartered in Atlanta, is first in the nation in production, reporting $12 million in sales last year. Next is the 104-year-old Vermont Marble Co., with $9.5 million in sales. Moretti-Harrah sales totaled about $6 million last year, with 14 smaller companies having combined sales of about $8.5 million.

Moretti-Harrah Marble Co. was founded at the turn of the century by well-known Italian sculptor Giuseppe Moretti, a native of Carrara, Italy, where for 20 centuries quarry men have been mining snow-white marble from a marble mountain. Marble is being mined in Carrara from the same mine used by Roman and Renaissance sculptors, including Michelangelo.

Moretti, who was working as a sculptor in New York, heard about the marble deposits in Talladega County and moved there to start his own marble mine in 1900. He operated the mine and a sculpture school at the same time in Sylacauga. Moretti-Harrah traces its beginning to Giuseppe Moretti's marble mine.

Generations of Alabamians have been mining marble in Talladega County since the 1830s. Earl Deason, 54, has been employed by Moretti-Harrah for the last 30 years. His father, grandfather and

om Time Returns to American Quarries

great-grandfather also worked in the marble pits as quarry men.

"I love it. There is always something new every day. The marble changes in coloration throughout the deposit. You never know what it is going to look like as you dig it out," said Deason, quarry supervisor.

Only 75 acres of marble running to depths of 400 feet have been dug out of the Moretti-Harrah quarries since 1900. The company has leases here on 2,000 acres.

To help increase employment in the nation's marble deposits during the Great Depression, many federal buildings across the country were built with marble. The current boom is the biggest since the 1930s.

In Tate, Ga. (Georgia Marble Co.), and Proctor, Vt. (Vermont Marble Co.), several generations in the same families have also worked in marble quarries and in the marble-finishing plants where marble is sawed for panels and individual tiles and then polished.

"My father, grandfather, great-grandfather and great-great-grandfather all worked in the quarries here in Proctor," said Georgia Darby, 33, in sales for Vermont Marble Co. "In the old days you can bet just about everybody in Proctor (population 2,000) worked for the marble company."

The town is named after Redfield Proctor, who founded Vermont Marble Co. in 1880. Proctor later became a U.S. senator and governor of the state. His son and grandson also served as Vermont governors. The Proctor family owned Vermont Marble until 1976, when it was sold to Pluess-Stauffer Industries, owned by a family in Switzerland.

For many years, Vermont Marble was the largest marble company in the nation, with more than 5,000 employees at 67 quarries. Modernization of marble operations reduced the number of employees to a fraction of what it was many years ago. Today the company employs 130. The main quarry for Vermont Marble is Danby Mountain, a mountain that has been mined by the company continuously since 1905.

Othmar Gaechter, 61, general manager of Vermont Marble, estimates that it will take another 50 to 100 years to mine all the marble still inside Danby Mountain.

HOUSEHOLD BANK f.s.b.
A.R.M. multi-family loans under $500,000 pay

Los Angeles Times

MARBLE: Boo

Continued from Page 1

below the surface in the open pit, then cutting out 9-by-4½-by-4½-foot marble blocks using wire saws studded every inch with diamond chips.

The marble blocks were lifted out of the quarry and transported by truck to the nearby finishing plant, where precision saws cut the blocks into panels, slabs and tiles.

"Marble varies in impurities from one quarry to another," McGahey explained. "Some marble is sparkling white without impurities. Impurities add color—pink from iron stain; dolemite gives it a blue cast."

McGahey said Moretti-Harrah expects sales to triple in the next five years. To meet the growing demand, the company is in the process of installing $1.8 million in new saws and polishing equipment.

"To say the marble industry has taken off is an understatement," said Robert Hund, managing director of the Marble Institute of America in Farmington, Mich. "Architects and designers are rediscovering all-natural stone as building material, and marble is a favorite. It has happened virtually overnight. It's a small industry, but one that's really booming."

He tells how marble "literally lasts forever. There is no maintenance involved. No worry ever about wearing out a marble floor. In Europe, marble floors laid 2,000 years ago are still in use today. The more you use marble the better it looks."

U.S. producers are spending millions of dollars to modernize in an effort to tap this lucrative market, he added.

It is a market traditionally tapped by foreign producers as well. The U.S. Commerce Department reports that $50 million worth of structural marble was imported last year, with 72% of it coming from Italy, the world's largest producer.

Admin. 203

Wed ~~Tues.~~, March 9, 1977

I. Find fuel maturity.
Basis for all replacement policy.
" " " invt. planning, which is b.s. replmt. policy.

II ~~Normalize (to hand)~~
Show steps of factors

III Normalize - they are the same.

IV ACE says normalize elims. inventory
Klumpen

V Clawson.

$$\frac{1 - I^{-n}}{i} - \frac{1 - I^{-(n-1)}}{i} = \frac{I^{1-n} - I^{-n}}{i}$$

$$= \frac{I^{-n}(I - 1)}{i} = I^{-n}$$

Value of conserving a perpetuity, vs. maintaining K.

$$\frac{\frac{1 - I^{-n}}{i}}{\frac{1}{i}} = 1 - I^{-n}$$

$$\frac{\frac{1 - I^{-n}}{i}}{\frac{1}{i - g}} = \frac{1 - I^{-n}}{} \left(\frac{i - g}{i}\right)$$

Turnover strategy

Corporate strategies

Peabody International: Taking risks on big contracts to keep net growing

By virtue of 24 acquisitions—six in the last year alone—Peabody International Corp. has positioned itself firmly in the environmental control and energy testing and service markets. With its business spurred by government mandates against pollutants, the company chalked up a remarkable performance: annual earnings increases of 22% over a nine-year period, culminating in last year's profit of $15.7 million. Now Peabody is trying to sustain that kind of growth, with or without further acquisitions. To do so, it is chasing far larger contracts than it ever did before, with all the risk that involves.

Late last year, for example, it successfully bid on a $61 million fixed-price contract to build a flue gas desulfurization unit, or scrubber, for Colorado Ute Electric Assn. The largest prior contract was half that size. And the company expects its large-contract business to account for 14% of sales this year, up from 9% of last year's total of $391 million. Eventually, Peabody management sees large-scale business moving to 25% of total sales. But analysts, competitors, and Peabody executives themselves are all wondering whether Peabody's management, engineering, and financial capabilities are equal to that amount of big-order business.

Wide-ranging interests. Peabody, based in Stamford, Conn., provides a mix of engineering, manufacturing, testing, and service functions that span air, water, and solid-waste control and energy production and utilization. The company's interests range from coal analysis to oil-spill cleanup and include flue gas desulfurization, garbage compacting, and pipeline testing. "We've chosen the markets we want to be in," says Peabody's chairman and chief executive, John E. McConnaughy Jr. "The point now is to reduce our risk exposure." Peabody's president, Alan W. Drew, agrees: "A lot of the companies we bought were seat-of-the-pants-type operations. But we have what we want now, so we are emphasizing efficiencies and looking to eliminate marginal operations."

Building a $61 million flue gas 'scrubber' and bidding on two more

To increase Peabody's reserve base so that large risks are better covered, McConnaughy, Drew, and Anthony J. Giglio, Peabody's executive vice-president and chief operating officer, have determined that Peabody must turn its inventory four times a year—rather than the current 3.6 times, while the company's aftertax margin on sales must be pushed from 4% to 5%.

To achieve these aims, monthly budgetary analysis has been implemented and cash flow is being emphasized. Peabody also has graded each of its businesses on risk-reward grids with the expressed intent of increasing the low-risk, high-profit portions—such as oil field reclamation and coal analysis—to 87.6% by 1980 from the 77.6% they were in 1976. Further, the company has been reducing debt, which dropped to 33.8% of total capital from 46.7% four years ago, right in line with management's target of 30% to 35%.

Fiscal controls are critical as Peabody presses for more big business. Through a joint venture with Welltrade Middle East, the company's oil field testing and service business is expanding internationally. In air pollution, Peabody is seven months into its 22-month, fixed-price scrubber project for Colorado Ute, the largest of its kind, and it is putting together bids for at least two more such undertakings. In addition, the company's solid-waste group is proposing a major garbage composting package for Saudi Arabia, even as work progresses on a similar $60 million venture in Libya.

Conservative accounting. Because of looming inflation in labor and materials, major contracts are risky if they are done on a fixed-priced basis. To reduce the risks on the Colorado Ute project, early design work and firm commitments from 35 subcontractors were the essential prerequisites to Peabody's fixed-price bid. In addition, Peabody is reserving 5% to 10% over its estimated profits as a contingency fund until the project is completed. Nevertheless, one executive with a Peabody competitor,

Iroquois Brands: An aggressive search for the 'unique' product



John Marmaras

President Fox: His 1980 sales goal of $250 million is now "attainable."

"We outmaneuvered them," says Terence J. Fox, Iroquois Brands Ltd.'s president and chief executive. Fox is referring to his company's blitz attack on Archon Inc., a $40 million West Coast vitamin and food supplement company that Iroquois wrested away from Revco D. S. Inc., the giant drugstore chain. Even after Archon accepted Revco's offer, Fox relentlessly pressed his bid for Archon, finally taking over last month. That addition should bring the specialty food and beverage company's sales this year to $150 million, up from nearly $90 million in 1977. "It was an all-around satisfying deal," says Fox, grinning, "except from Revco's viewpoint."

Fox's aggressiveness typifies the operations and planning at Iroquois, which is headquartered in Greenwich, Conn. For the past five years the company has been working through a clearly defined acquisition and marketing program in three major areas: beverages, nutritional products, and specialty foods and flavorings. James F. Pomroy, who was lured away from Kitchens of Sara Lee Inc., a Consolidated Foods Corp. subsidiary, just 14 months ago, enunciates Iroquois' goals. Says the senior vice-president of operations: "We are looking at market niches, opportunities for unique products that can fill specialty needs of the marketplace. I'm not after a $50 million line that can be readily copied by a General Mills or a General Foods. I'm

in Self-Insurance

Major considerations

As such, he must choose, from among a number of complex alternatives, a program that assures his company the fullest possible protection at minimum risk and expense.

The financial capacity of the company to assume risk must be determined. All feasible internal funding methods need to be reviewed, and appropriate funds must be earmarked as risk retention reserves (including those formerly intended for insurance premiums). Tax consequences must be evaluated—for example, insurance premiums are fully deductible from federal income taxes, while funds set aside as reserves may not be.

Cut-off levels must be established beyond which the company's exposures will be transferred to commercial insurers. Even the formation of a company-owned "captive" insurance company may be indicated.

And as part of a self-insurance program, the risk manager must take over many of the functions of an insurance company. These include such responsibilities as loss control, claims adjustment and even salvage and subrogation. For all of these, he may elect to use the services of an outside organization.

Filling the gaps

A further complexity for the risk manager is that many primary insurers are holding down the upper limits of their policies. Insurance above those limits must be placed with "excess" carriers, who may have restrictions of their own.

For example, on $20 million of coverage wanted for a given risk, a primary carrier may not be willing to underwrite more than $250,000 to $500,000 (above the deductible). Yet the first excess carrier may itself have a minimum lower limit of $1 million—thereby creating a gap which can be difficult to fill. Moreover, to reach the $20 million limit, several layers of excess insurance may be needed, all of which must fit smoothly together.

Arranging for such complex insurance coverages has become an important responsibility of the risk manager and his broker. In response to this need, INA has created a special facility to provide comprehensive products and services covering all aspects of insurance and risk management.

* * *

The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation, whose vast resources are primarily devoted to serving the insurance and financial needs of business worldwide. Property and casualty insurance, life and group insurance, risk management services, investment banking, and hospital and health care management are all part of the INA spectrum.

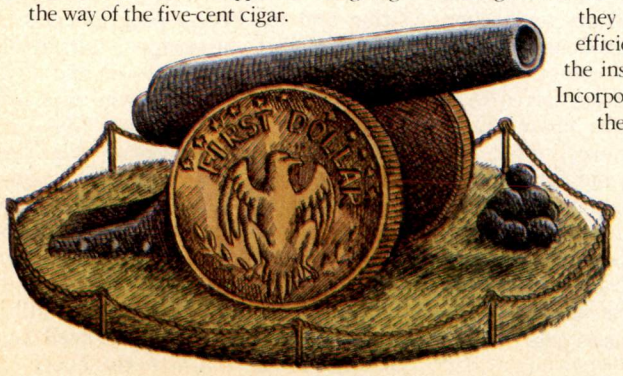
INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on current trends in self-insurance, write INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

The last stand of the "first dollar"

Insurance policies that provide business with "first dollar" coverage—protection without deductibles, right down to the smallest claims—appear to be going the way of the five-cent cigar.

And in the opinion of many insurance people, that's a good thing for all concerned.

Large numbers of very small claims, they point out, are most efficiently handled outside the insurance mechanism. Incorporated in insurance, they are unproductive, forcing rates up.



INA

The Professionals



Peabody's triumvirate: McConnaughy (center), flanked by Drew and Giglio, built Peabody through acquisitions.

Envirotech Corp., points out, "Day in and day out, you've got to be right, so there's always a hazard."

On its current largest contract, the Colorado Ute project, Peabody should net "substantially in excess of $5 million," according to industry sources. Indeed, one source says that Peabody got word of its award on a Thursday, was moving dirt the following Monday, and is on schedule today.

Metamorphosis. The capacity to handle such large contracts did not materialize overnight. Only 10 years ago, Peabody was Hercules Galion Products Inc., a manufacturer of bodies for garbage and dump trucks, with sales of only $24 million. McConnaughy, then head of European operations for Singer Co., the sewing machine maker, jumped at the opportunity to make something of Hercules Galion and brought Drew and Giglio with him. The troika, without any environmental or energy background, relied on its management and accounting skills, identifying two small profit centers—a fast-food processing unit and a solid-waste equipment group. Almost arbitrarily, they sold off the fast-food business, plowed the money into the solid-waste equipment group, and made the string of acquisitions that turned Hercules Galion into today's Peabody International.

Not all of the acquisitions worked. McConnaughy concedes that an earlier attempt at upstream integration, fabricating components for the scrubbers Peabody sells to utilities, was a mistake. Similarly, Peabody's attempt to build wastewater treatment facilities was also a costly error in some sections of the country. McConnaughy claims that Peabody pushed beyond its expertise.

Wooing talent. While Peabody has no qualms about abandoning marginal activities—indeed, Giglio remarks, "Shame on you if you don't"—the company clearly needs to hold on to the management talent it has acquired if it is to achieve the strategic shift to internal growth. The members of Peabody's ruling triumvirate are relative newcomers to the industry, and think they bring a valuable detachment to Peabody's operations. But from the beginning they wooed top engineers for jobs close to the top. Howard P. Willett, for instance, joined Peabody from Chemico, a division of General Tire & Rubber Co., where he had acquired a reputation as America's "dean" of scrubber technology. Peabody had considered buying Chemico's air group but then simply hired Willett.

The three top executives recognize that their technical people need broader management exposure, especially as the company takes on more major projects. Curiously, the pollution control industry is not short of engineers. Rather, in the opinion of many in the field, the complexity of the increasingly large projects is creating a management problem. "What we want to do now," says Drew, "is to spread managers' exposure . . . move people around a little."

But even McConnaughy is aware that, however Peabody minimizes risk, it cannot eliminate it. He points to a turtle shell on his office wall at Peabody's new corporate headquarters. "Why a turtle?" he asks. "Because a turtle must judge the situation very carefully before making a move," McConnaughy says. "But then, to move, it literally and physically has to stick its neck out . . . and we still see that as part of our business." ■

looking for the $5 million to $8 million specialty item that will let me have the market to myself. Most companies are looking to sell something that's used every week. We're not. We'd love to have 5% of the people use one of our products once a month."

All of Iroquois' recent product acquisitions fit that mold. They include Champale, Black Horse ale, Yoo-Hoo chocolate-flavored drink, Angostura bitters, Major Grey's chutney, and Raffeto condiments and delicacies. All are backed by strong marketing—the advertising budget this year is a record $8 million—and a distribution system that covers health-food jobbers, beer wholesalers, soft-drink bottlers, and liquor and food brokers.

A neat package. Archon, Iroquois' 12th and largest acquisition to date, is itself the product of a half-dozen acquisitions, including several that fit neatly into the operations already in Iroquois' stable. Archon manufactures capsules and tablets for food supplements and pharmaceuticals, as well as natural vitamins and health foods. Iroquois' chief has been eying its operations for the past five years. Says Robert L. Cummings, Iroquois' young executive vice-president: "We really are the beneficiaries of a lot of effort by Archon's management to digest, divest, and get their house in order. We ended up picking up a totally cleaned-up package with yearend pretax earnings of something like $3 million on $40 million sales."

The Archon acquisition brings in operations that neatly fit Iroquois

Iroquois' net earnings last year, not yet announced, were more than $3 million, up from $1.7 million the year before on a 50% rise in sales. Fox's goal is sales of $250 million by 1980. "That goal is now very attainable," he says, "just from internal growth in [product] line extensions, product development, and market penetration."

Exploiting Yoo-Hoo. Fox, 40, built Iroquois from an unpromising brewing operation into a savvy marketer by taking the shell of the original company and using its assets to grow. Starting with International Breweries Inc. in Buffalo, N. Y., some 13 years ago, Fox sold off its three rundown breweries. He then built the onetime loser into Iroquois, which bears scant resemblance

to its predecessor. Typical of its changing image is the company's 1976 acquisition of Yoo-Hoo, the only product of its type that does not need refrigeration. Iroquois is expanding its distribution nationwide, and in school lunch programs and emerging nations. And in line with the company's push to capitalize on existing markets, Yoo-Hoo is tagging on a new line of noncarbonated fruit-flavored soft drinks as well.

But it is Champale Inc., Iroquois' largest subsidiary, that brings in the bulk of the company's sales. The subsidiary's malt beverage enjoyed explosive growth last year with the introduction of Pink Champale. "It was all we could do to meet the demands from the test market states," says Cummings. "We nearly doubled sales, but our existing product, extra dry Champale, even gained slightly."

That was no accident. To avoid the tendency of salesmen to push the new at the expense of the old, Iroquois changed its commission structure so that salesmen had to meet quotas on the extra dry product before commissions on the pink became effective. For Iroquois, booming sales of Champale are a bonanza. Because it is an alcoholic beverage, buyers of the product must pay for it within two weeks, keeping Iroquois' receivables nearly current with orders and raising cash flow. This year Iroquois is spending $3 million of its $5 million capital budget to complete the doubling of Champale capacity.

Unloading misfits. Not all of Iroquois' acquisitions have been winners, however. In the past, Iroquois, as did much larger conglomerates, sometimes bought growth for its own sake. That resulted in such misfits as Eagle Lock Co., which Iroquois unloaded in 1971, and Trophy Brands Inc., a nut company. When a change in distribution forced Trophy to lower prices, Iroquois chucked it.

But the company's latest acquisition, Archon, fits clearly into Iroquois' product mix, marketing strategy, and distribution network. Iroquois already has a natural vitamin and food supplemental line, Schiff, and its Leeds-Dixon Labora-

Canadian Tire: A price leader adjusts to fierce competition

Until recently, Canadian Tire Corp. stood as a proud and unblemished example of a homegrown mass merchandiser that had blended entrepreneurial drive and marketing savvy as successfully as the top U. S. retailers. Under President J. Dean Muncaster, 44, the Toronto company made a decade-long habit of racking up sales gains of 20% a year while earnings jumped almost sixfold. It has become Canada's top merchandiser of tires and auto supplies—and a leading marketer of small appliances and other household goods—by selling its wares at low prices in the company's 315-store network of franchised outlets.

But last year, as the Canadian economy turned pallid and competitors became more aggressive, Canadian Tire faltered. The company reported that sales rose only 5.5% and profits were flat during the first nine months of 1977, a period when it was opening new stores. The soon-to-be released full-year earnings are expected to be just above those of 1976, when it reported profits of $28.9 million on sales of $684 million. And the outlook for this year is not bright. As Muncaster admits: "We are clearly experiencing a slowdown in growth. . . . It's unlikely that we'll go through a period of sustained growth again unless there's a real rebound in the Canadian economy."

But Muncaster believes Canadian Tire can now maintain a more modest, though still healthy, growth rate of about 10% annually in sales over the coming five years by altering its game plan. Cutting prices sharply on its strongest product lines, when necessary to guard the company's market position, is the linchpin in Muncaster's new strategy. He also plans to jettison some products and to trim capital expenses. At the same time, he is pondering a move into the U. S., where the outlook for consumer spending in Canadian Tire's principal markets seems more favorable.

Missteps. The company's current troubles are partly due to the stumbling of the Canadian economy, which has crimped the pace of consumer purchases. Last year, the growth in Canada's real gross national product slipped to 2.3% from about 5% in 1976. By December the unemployment rate was 8.5%, and inflation had hit 9.5%. And with no sign of an economic pickup and the government's anti-inflation controls scheduled to come off in mid-April, economists and retailers agree that consumers are unlikely to be spending much more this year.

Still, Canadian Tire recently made missteps that also hurt its business. Pricing has emerged as the battleground for Canada's scarce consumer dollars. So now a number of the big general merchandisers are pursuing the same strategy that Canadian Tire worked so successfully for years. And lately, the company seems to be losing its reputation as a pricing leader.

Last fall, for example, Consumers Distributing Co., a big catalog sales operation, underpriced Canadian Tire on many of the small appliances, personal-care items, power tools, and sporting goods that both companies offer. "We were not ready for the pricing that Consumers brought to the field," Muncaster admits. In response, Canadian Tire, which also advertises its wares in catalogs, immediately cut in-store prices.

Yet the stiffening price competition in Canadian Tire's house-goods lines, ranging from coffee pots to snow blowers and house paints, is now coming from several directions. Big retailers such as Simpsons-Sears, catalog sellers such as Hudson's Bay Co.'s Shop-Rite stores, and the large Canadian branches of the two largest U. S. discount chains, K-mart and Woolco, all are trimming their price tags.

No longer gaining 20% a year in sales, it looks to the U. S.

But Muncaster and his staff do not plan to drag behind. "We will continue to go down in price with them," says Muncaster. "That's clearly the policy." And that policy will be backed up with a bigger ad budget. "This year we're going to advertise our prices with all our power," says William R. Dawson, marketing vice-president. Even to maintain its market share in the new competitive environment will be costly to Canadian Tire, of course. Profit margins will be "under pressure," Muncaster admits.

Diversifying. Outsiders say that Canadian Tire has also strayed too far from its tried-and-true products in recent years.

all Re sale ers.

HOPE TO BOOST SUPPLIES

Firms Testing Oil Recovery Process

BY LINDA GRANT
Times Staff Writer

A new process designed to extract oil from reserves now classified as "unrecoverable" is being evaluated by several major oil companies, including Exxon Corp. and Standard Oil Co. of Indiana.

The process—which involves injecting inorganic polymeric compounds into old wells—was patented eight months ago by George Merkl, an executive with a private Houston-based company called Molecular Energy Research Co. (MERCO).

His technology has not yet been tested sufficiently to determine whether it represents a breakthrough in oil recovery, according to industry sources.

A spokesman for one major oil company said, "We are testing MERCO's material in our laboratories using our conventional, well-substantiated procedures. We should have enough hard data in three or four weeks to determine whether it is a viable product."

If the MERCO technology were to prove commercially feasible, its primary use would be in stripper wells (those that produce less than 10 barrels a day) and abandoned oil fields. Industry sources point out that, using present technology, only one of every three barrels of oil in discovered fields is recovered. The other two barrels become classified as unrecoverable.

Big oil companies have spent millions of dollars and many years searching for methods to produce that hard-to-get oil, but none has pioneered a major technological advance.

In the United States, about 300 billion barrels are classified as unrecoverable. However, industry researchers believe that perhaps 100 billion barrels of that oil could be recovered if a technological breakthrough could be achieved. The remaining 200 billion barrels are made up of oil that is either so heavy that it probably never can be forced through rock, or oil that is trapped in such tight rock formations that each pool would require a separate well.

Since the United States consumes about 6.7 billion barrels of oil a year, a successful technique for extracting those 100 billion barrels would represent close to a 15-year supply. If successful, the technology could be applied in newly discovered fields as well.

To date, MERCO's substance has been field tested in about a dozen wells, all owned by independent oil companies. The company claims that its polymer increased production in those wells, but oil researchers stress that not enough time has passed to assess the compound's long-term impact.

BATEMAN EICHLER CLAIM PAYMENT

Continued from 12th Page

The company also said the settlements would not affect its corporate and municipal bond activities or its over-the-counter trading operation.

In addition to the $1 million it must [pay] claims, Bateman Eichler has [also] suffered losses of $4.5 mil[lion], according to the [SEC] ... Times,

eyeglass lenses; Vernitron is a Great Neck, N.Y., maker of medical products, and Logicon is a Torrance-based high technology contractor for the Navy, the Air Force and the U.S. Postal Service.

Frigitronics is listed on the Big Board, while the other two are listed on the Amex.

The SEC staff's allegations, detailed in the administrative proceeding, described a complex and allegedly fraud[ulent] scheme which the agency said [benefited] ... ith from at

customers, but they did not order the customer accounts liquidated.

The SEC also alleged that Bateman Eichler profited from the fraudulent scheme through commissions.

Both the firm and Smith allegedly effected trades which involved no change in beneficial ownership, for the purpose of creating a false and misleading appearance of active trad[ing] in the stocks of Frigitroni[cs], nitron and Logicon, the a[ctions]

The SEC al[so] ... Eichl[er]

Admin 203

Clawson's Mgmt. criticism.

1. Excessive inventory, land & timber

$206 land
206 timber. (Half of U.S. softwood timber)

$126. is excess.
Invisible cost. $46/yr.

Not in budget.

Internalize K -- the bureaucratic disease.
Immune from "Zero-base budgeting".

2. Cash flow eaten up by expenses.
Parkinson's Law.

3. Slow growth. Res. so much held stagnant
Virgin -- Hanzlik formula.

4. Slow replanting -- no hurry.

5. Inadequate thinning

6. No effort to measure ~~other non~~ but only to magnify — water & recreat. outputs -- hence ~~the~~ no effort to work out tradeoffs.

7. Over decentralize — cf. Mineral leasing.
More mgmt. spending on low-value than high-value timber.
Spending is equal by adm. units — i.e., "Nat. Forests" — regardless of cash receipts.

Waste K in roads.
a little of everything, everywhere.

8. Closed society.

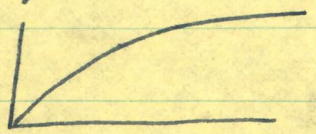
Macro policy implies.

Flow to fund ratio is very low.

May 17, 1978

Maximizing the wealth of a firm, (DCF, or PV)

1. $PV = a\frac{1-e^{-in}}{i}$



Stretch out n forever?

No: a higher $a_2 > a_1$ comes along.
And a_1 decays.

2. How to compare alts. thru time.

$$PV = a\frac{1-e^{-in}}{i} + Se^{-in}$$

$n = 10$
$i = .01$

	A	B
a	2,000	10,000
S	200,000	100,000

Citrus A. $2,000 \times 7.0 + \frac{200,000}{2} = 114,000$

Office B. $10,000 \times 7.0 + \frac{100,000}{2} = 120,000$

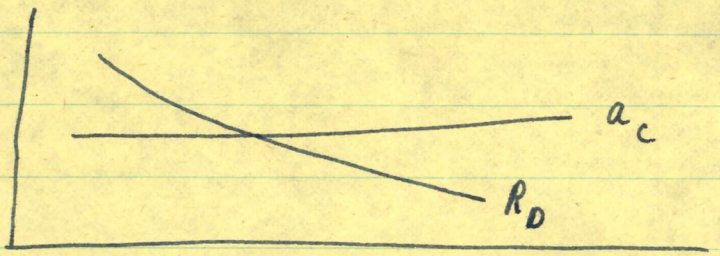
(Citrus more sensitive to Δi)

3. (2) is crude, because we selected n arbitrarily.

To max. wealth, must select replacement time right.

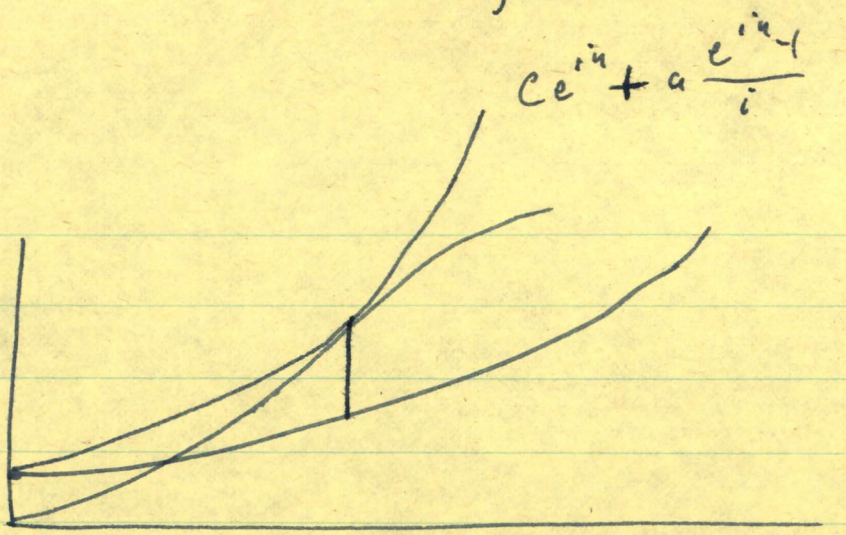
2 kinds of assets.

4. Depreiz, decaying



$$a = PV \frac{i}{1 - e^{-in}}$$

$$PV = \sum_{1}^{n} \left[(R_{xy} - C_y) e^{-ij} \right]$$



$g - Ce^{in}$

Make annuity,

$$a = (g - Ce^{in})\frac{i}{e^{in}-1}$$

Find n to max. $\underline{a}$, by rotating curve upward.

Differentiate, $= Cie^{in} + \underline{a}\,/e^{in} = i\left(Ce^{in} + Se^{in}\right)$

$$= i(C+S)e^{in}$$

But $(C+S)e^{in} = Ce^{in} + S(e^{in}-1) + S = g + S$

far as airlines are concerned," gloats Marc N. Klee, co-manager of the fund. National Aviation's performance was the second-best of any fund, exceeded only by the Merrill Lynch Pacific Fund, whose Class A and Class B shares gained 29.59% and 29.27%, respectively (the Class B shares have a different fee structure than Class A shares and a higher expense ratio that penalizes performance).

MARKET MALAISE. For Merrill Lynch Pacific and other funds investing in Japanese stocks, the third quarter's gains were a refreshing turnabout from the second quarter, when Japanese stocks performed listlessly. Such funds have benefited from the yen's strength against the dollar and advances among Japanese small-capitalization stocks. But for some Japanese funds, year-to-date numbers are dreary because of the first-half market malaise in Tokyo. Merrill Lynch Pacific Fund declined 8.9% during the second quarter, and despite its third-quarter advance has risen a subpar 18.1% this year. By contrast, the G. T. Japan Growth Fund has risen 43.5% in 1989. That's something G. T. Capital in-

'I'm knocking on wood, because I remember being up 40% in August, 1987, and I finished the year up 1%'

stment manager Soraya Betterton dits partly to an emphasis on smaller panies. Hedging currency risk, she s, boosted 1989 results by five to six centage points.

ut in contrast to the superior perfor-nce of small-capitalization Japanese ocks, which proved more resistant to economic and political ill winds than did large-capitalization stocks, U. S. small-company stocks and funds did not do too well. Among the exceptions were the Alger Small Capitalization Portfolio and the Kaufmann Fund, both of which were among the top performers early in the year. In the third quarter, too, both funds were among the leaders. Overall, however, small company funds lagged behind the market, gaining 9.7%.

The cloudy mutual fund picture does have one silver lining: While few investors made a bundle, there were only seven funds that lost money and just a handful that didn't easily outperform money-market funds. Food for thought, perhaps, for investors ready to utter the word that reverberates through fund managers' nightmares—"redeem."

By Gary Weiss in New York, with Laura Jereski in Boston

EQUITY MUTUAL FUNDS: THE BEST AND WORST OF THE THIRD QUARTER

LEADERS

Fund	Total return*
Merrill Lynch Pacific A	29.59%
National Aviation & Technology	27.84
Janus Twenty	27.10
G.T. Japan Growth	25.16
T. Rowe Price International Discovery	25.02
Financial Strategic Health Sciences	24.76
Steadman Ocean. Technology & Growth	24.06
Investors Research	23.17
First Investors International	23.13
One Hundred	22.43
Twentieth Century Giftrust Investors	22.40
Environmental Awareness	21.59
DFA Japanese Small Company	20.91
Twentieth Century Vista Investors	20.67
IDEX II	20.54
IDEX	20.43
Founders Frontier	20.23
AIM Constellation	20.09
IDEX 3	20.06
Fidelity Select Medical Delivery	19.77
G.T. Pacific Growth	19.57
Nomura Pacific Basin	19.16
Alger Small Capitalization Portfolio	19.14
Kaufmann	19.01
Fidelity Select Biotechnology	18.15
Vanguard World International Growth	17.94
Emerging Medical Technology	17.81
Hartwell Emerging Growth	17.79
AMEV Growth	17.76
Founders Growth	17.72
Trustees' Commingled Intl. Equity	17.64
Pacific Horizon Aggressive Growth	17.42
International Equity	17.33
John Hancock World Pacific Basin Eq.	17.28
Freedom Global	17.13
Loomis-Sayles Capital Development	17.10
Mutual of Omaha Growth	17.09
Janus	17.02
PBHG Growth	17.01
DFA Continental Small Company	17.00
ABT Investment Emerging Growth	16.86
MFS Managed Sectors	16.80
Integrated Equity Growth	16.66
AMEV Special	16.61
Twentieth Century Growth Investors	16.58
AIM Weingarten	16.54
Financial Strategic Technology	16.53
Japan	16.53
Seligman Capital	16.46
Financial Industrial	16.44

LAGGARDS

Fund	Total return*
Strategic Gold/Minerals	-5.73%
Dreyfus Capital Value	-1.40
Strong Total Return	-0.53
Merrill Lynch Special Value B	-0.40
National Real Estate Income	-0.32
Reserve Equity Contrarian	-0.07
Mathers	0.18
Royce Fund Total Return	0.20
Investment Portfolios Divers. Income	0.23
Kemper Diversified Income	0.29
IDS Progressive	0.42
United Services LoCap	0.78
American Heritage	0.89
National Premium Income	1.17
Prudent Speculator Leveraged	1.22
Dean Witter Managed Assets Trust	1.38
Franklin Income	1.64
Cumberland Growth	1.66
Oppenheimer Ninety-Ten	1.76
United Services Real Estate	1.77
Primary Trend	1.92
Seligman Income	1.95
Rochester Growth	1.95
Permanent Portfolio	2.09
Parnassus	2.17
Steadman Investment	2.17
Triflex	2.35
Freedom Gold & Government	2.40
Rea-Graham Balanced	2.62
National Real Estate Stock	2.73
Mutual of Omaha Income	2.89
SLH Utilities	2.96
Oppenheimer Premium Income	2.96
Bascom Hill Balanced	3.02
Greenspring	3.12
Federated Stock & Bond	3.15
MIMLIC Asset Allocation	3.15
Fidelity Asset Manager	3.17
Wells Fargo Invstmt. Small Co. Stock	3.26
Lindner Dividend	3.26
Colonial Diversified Income	3.30
Unified Income	3.35
Landmark Growth & Income	3.36
Wellesley Income	3.44
USAA Investment Trust Balanced	3.45
Wealth Monitors	3.46
Bailard Biehl & Kaiser Diversa	3.49
Fidelity Select Software & Computer	3.51
Neuwirth	3.52
PaineWebber Asset Allocation	3.56

S&P 500-STOCK INDEX 10.70%
EQUITY FUND AVERAGE 9.48%

*Includes reinvested dividends and capital gains

DATA: MORNINGSTAR INC.

BY GENE G. MARCIAL

IS THERE A LINE AROUND THE BLOCK FOR PARAMOUNT?

Paramount Communications, which was in the limelight when it made a $12.2 billion bid for Time, faded into the background after losing that battle last summer. But with Columbia Pictures agreeing to be acquired by Sony, Paramount is again the focus of attention.

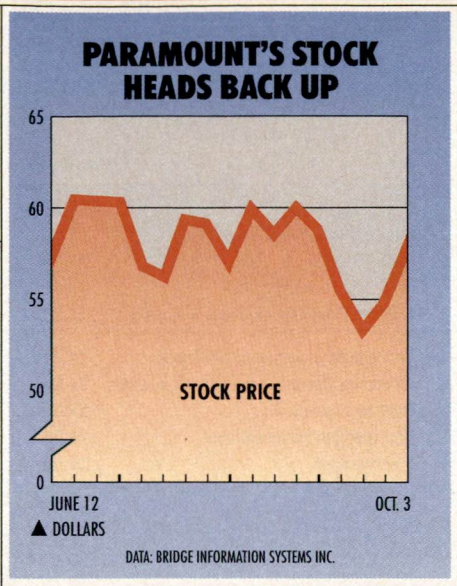
Analysts are practically unanimous in the belief that Paramount Chairman and CEO Martin Davis isn't ready to launch an attack on a new target just yet. Nor do they believe that anyone is stalking the film, entertainment, and publishing giant, formerly named Gulf & Western Industries. But some investment managers who have started buying Paramount shares again think those analysts are dead wrong. They believe that smart takeover investors are accumulating the stock, which has bounced back to 58 (chart).

One group is said to be led by John Kluge, whose Metromedia agreed on Oct. 3 to sell its interest in a New York City cellular franchise to McCaw Cellular Communications for $1.9 billion. Other whispers have Herbert Allen, a Columbia Pictures board member and the president and CEO of investment banker Allen & Co., also heading a group in pursuit of Paramount stock. Kluge and Allen couldn't be reached for comment.

CASH-RICH. Matsushita Electric Industrial, a rival of Sony's in the fiercely competitive consumer-electronics business, is also rumored to be keenly interested in acquiring or merging with Paramount, says one New York investment manager. Paramount spokesman Jerry Sherman declined comment.

Even without a takeover, Paramount is one of the least expensive entertainment stocks, says analyst Mara Balsbaugh of Smith Barney, Harris Upham. Based on assets and other yardsticks, she values Paramount at $92 to $102 a share. And as of Oct. 31, Paramount will be cash-rich, making it an even more alluring target.

That's when Paramount will collect $3.3 billion from Ford Motor for the sale of Associates First Capital, a consumer- and commercial-finance company that contributed 46% of Paramount's earnings in 1988. So about $30 of the stock's current price is cash, leaving only a $28 price tag for the rest of the company—including Paramount Pictures and publishers Prentice Hall and Simon & Schuster.



The "scarcity value" of Paramount's entertainment business, which includes a huge library of movies, puts a big premium on the company's assets, according to Hal Vogel, an entertainment analyst at Merrill Lynch. The stock is undervalued, he says, and quite a buy.

CASHING IN ON COMPUTER SMARTS

The promise of widespread use of artificial intelligence in computers fizzled in 1984, mainly because of the high cost. But that's changing now, according to some big investors who are betting on AI issues.

One company they're putting their money on is Intellicorp, which introduced a system called Knowledge Engineering Environment (KEE) in 1983. That was the first commercially available AI software system designed to solve specific business and technical problems in such industries as aerospace, energy, and telecommunications.

Then, two years ago, Intellicorp started to shift its software toward general-purpose computers for wider applications. In June, the Mountain View (Calif.) company introduced a low-cost-delivery version of its KEE software that can be used by more personal computers and workstations.

As a result, "business is improving quarter to quarter," says William Welty of Volpe, Covington & Welty in San Francisco, an investment firm that has acquired a 9% stake. Sales are expected to rise to nearly $22 million this year and to $26 million in 1990, vs. $20.5 million last year. After posting a loss of 21¢ a share last year, the company should be in the black starting this year, earning 6¢ a share, says Welty. Next year, he sees earnings rising to 22¢ a share as revenues improve and expenses stay under control.

Intellicorp management owns 20% of the stock, which has climbed from 3½ in late July to 4¾. Welty notes that with no debt and cash of nearly $3 a share, Intellicorp could see earnings growth of about 40% a year over the next five years. And the stock could easily triple over the next two years, he says.

ACRES OF ASSETS IN TEXAS

If you're looking for a company with a low price-earnings ratio, Texas Pacific Land Trust isn't for you. Based on 1988 earnings of 63¢ a share, the stock sports a stratospheric p-e of 57. Even so, some smart-money investors believe it's a bargain—and they're snapping up shares. Why? The company is rolling in assets. Scott Black, president of Delphi Management in Boston, says that based mainly on its landholdings in west Texas, which produce oil and gas, the Big Board-listed company is worth $92 a share. The stock now trades at $36 a share.

Texas Pacific Land owns 1.1 million acres in 21 counties of west Texas. The bulk of revenues come from oil-and-gas royalties, cattle-grazing fees, and occasional land sales. The proceeds from the land sales are used to buy back shares. Last year, the company retired more than 47,000 shares at an average cost of $29.55 apiece. And it's expected to repurchase more of the 3.5 million shares outstanding.

A tightly run operation manned by just eight employees in New York and Dallas, Texas Pacific Land sells big blocks of acreage every year. The entire company may therefore be an attractive target to some of the major oil companies. About 27% of Texas Pacific Land's oil-and-gas leases are operated by Texaco, which pays a royalty.

Delphi Management already owns 2.5% of the stock and intends to increase its position to nearly 5%. But it isn't the only big investor in Texas Pacific Land. Fireman's Fund, the insurance company, has a 19% stake. Fireman's Fund and Texas Pacific Land declined to comment.

CHART BY ERIC HOFFMANN/BW