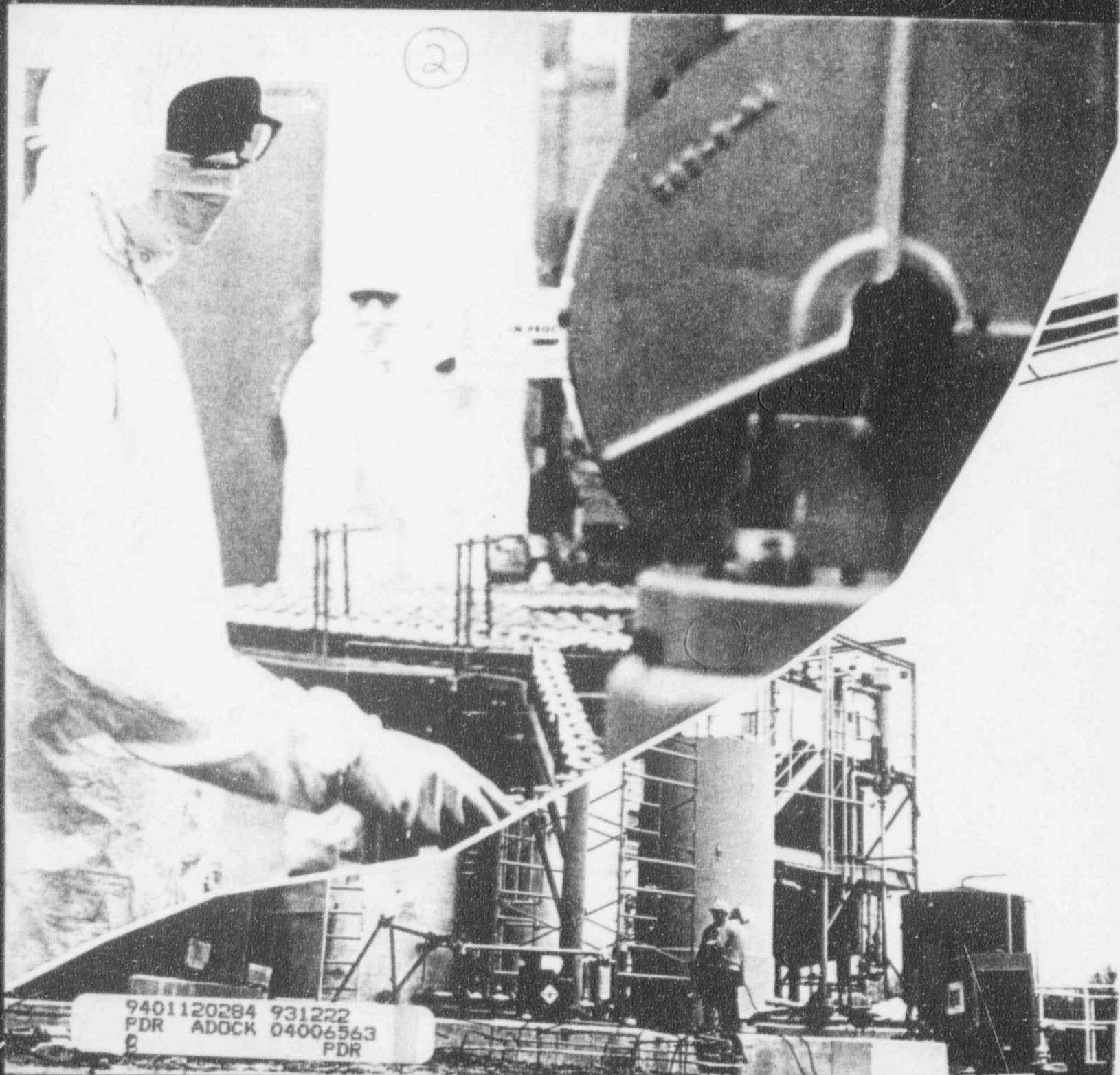


Mallinckrodt

# Mallinckrodt, Inc. 1974 Annual Report

Building a Base  
for Future Growth



# Highlights

Results of Operations	1974	1973	Increase
Net sales	\$207,120,000	\$165,269,000	25.3%
Net income	\$ 16,506,000	\$ 11,857,000	39.2%
Earnings per share	\$ 1.87	\$ 1.36	37.5%

## Directors

**Harold E. Thayer** Chairman of the Board and Chief Executive Officer of the Company

**Stanley H. Anonsen** President and Chief Operating Officer of the Company

**Harold A. Brinner** Vice Chairman of the Board and Treasurer; Chief Financial and Administrative Officer of the Company

**William L. Davis** Business Consultant, St. Louis, Mo.

**August H. Homeyer** Former Vice President and current consultant to the Company

**Harry W. Kroeger** Attorney at Law, St. Louis, Mo.

**Laurence E. Mallinckrodt** Business Consultant, St. Louis, Mo.

**Warren F. Michener** Vice President of the Company

**Ethan A. H. Shepley** Attorney at Law of Counsel—Bryan, Cave, McPheeters and McRoberts, St. Louis, Mo.

**M. Frederik Smith** Consultant, Rockefeller Family and Associates, New York, N.Y.

**Shields Warren** Physician, New England Deaconess Hospital, Boston, Mass.



### The Cover

The cover shows Mallinckrodt's new parenteral plant at Raleigh, N.C. and expansion of PAP manufacturing facilities at Raleigh (lower right). The curve dividing the pictures represents Mallinckrodt's income from ordinary operations for the years, 1964-1974.

# Officers and Executives

## Office of the Chairman

**Harold E. Thayer\***  
Chairman of the Board  
and Chief Executive Officer

**Stanley H. Anonsen\***  
President and Chief Operating Officer

**Harold A. Brinner\***  
Vice Chairman of the Board and Treasurer;  
Chief Financial and Administrative Officer

## Operating and Administrative Executives

**Fletcher N. Anderson\***

Vice President, Food, Drug and Cosmetic Chemicals Group

**Robert G. Fries, Jr.**  
President, Fries & Fries Division

**Richard E. Kelly\***  
Vice President and General Manager, Food Products Division

**Raymond J. Stratmeyer**  
General Manager, Special Projects Division

**Gerard Weinstock**  
President, Basic Foods Division

**Warren F. Michener\***  
Vice President, International Group

**Thomas C. Boersig**  
General Manager, International

**Raymond Gallardo**  
General Manager, Latin American Area

**Frank A. Schottelkorb\***  
Vice President, Pharmaceutical and Science Products Group

**Norman E. Drissell**  
General Manager, Diagnostic Products Division

**Floyd P. Hallett\***  
Vice President and General Manager, Pharmaceutical Research and Development Division

**Kenneth R. Monroe, Jr.**  
General Manager, Pharmaceutical Products Division

**David S. Sheridan**  
President, National Catheter Corp.

**B. H. Ware**  
General Manager, Science Products Division

**J. Harold Yeager\***  
Vice President, Industrial Specialty Chemicals Group

**Sherman O. Lyon**  
General Manager, Calsicat Division

**Earl I. Miller\***  
Vice President and General Manager, Industrial Chemicals Division

**Melvin A. Pfaelzer**  
President, Bowers Printing Ink Division

**Arnold Stern**  
General Manager, Washine Division

**Raymond M. Asher\***

Vice President and Secretary; General Counsel and General Manager, Legal Division

**Raymond F. Bentele\***  
Vice President and Controller; General Manager, Controller's Division

**Donald M. Davis\***  
Assistant Secretary

**Lester O. Gluesenkamp\***  
Assistant Treasurer

**Roger A. Hebrank\***  
Vice President and General Manager, Management Information Services Division

**John W. Jacobi**  
General Manager, Purchasing Division

**Charles W. Swartout\***  
Vice President and General Manager, Personnel Division

# To Our Shareholders:



Harold E. Thayer



Stanley H. Anonsen



Harold A. Brinner

The performance of Mallinckrodt in 1974 marked:

twelve consecutive years of profit improvement;

eleven consecutive years of sales gains;

a period spanning 48 quarters, during which earnings per share from ordinary operations have equaled or exceeded earnings per share for the comparable quarter of the preceding year 46 times.

This record is a source of satisfaction to the management and a tribute to the efforts of Mallinckrodt's employees. Following is more detailed information concerning the Company's performance in the most recent ten of the past twelve years.

**Earnings**—Per share earnings for 1974 were \$1.87, an increase of 37.5 percent in comparison with 1973 earnings of \$1.36 per share. In the period 1964-1974, the Company's profits per share have grown at a compound rate of 21.4 percent per year.

**Net income** increased to \$16,506,000 in 1974, up 39.2 percent over 1973 net income of \$11,857,000. Net income has grown at a compound rate of 28.1 percent per year over the last ten years.

**Sales**—Net sales in 1974 were \$207,120,000, which is an improvement of 25.3 percent over sales of \$165,269,000 in 1973. The compound growth rate of sales over the past ten years is 17.3 percent per year.

The Company's revenues in 1974 came from the Chemical Group, the Pharmaceutical and Science Products Group, and the International Group. All three parts of the business showed appreciable gains in 1974 over 1973.

**Net Sales**

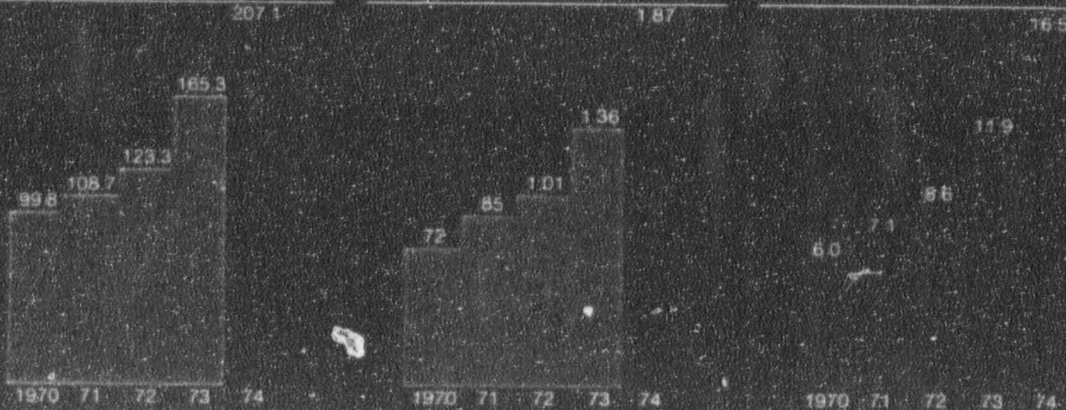
(millions of dollars)

**Earnings per Share <sup>(1)</sup>**

(dollars)

**Income <sup>(1)</sup>**

(millions of dollars)

**(1) From Ordinary Operations**

Sales of the Chemical Group in 1974 were \$123,179,000, a gain of 26.6 percent over 1973 sales of \$97,306,000. In the ten-year period, 1964-1974, sales of the Chemical Group have increased at a compound rate of 18.0 percent per year.

The Pharmaceutical and Science Products Group had sales of \$64,640,000 in 1974, up 22.2 percent over sales for the preceding year of \$52,915,000. The ten-year compound growth rate of sales of this group is 16.0 percent per year.

Sales of the International Group in 1974 were \$19,301,000, which is 28.3 percent greater than 1973 sales of \$15,048,000. The ten-year compound growth rate of this group's sales is 18.0 percent per year.

**Dividends**—Dividends per share of common stock for 1974 amount to \$.36. 1974 is the tenth consecutive year in which the dividend rate has been increased.

**Capitalization and Corporate Name**—At the 1974 Annual Meeting, Mallinckrodt shareholders approved proposals to reclassify and reaggregate the two classes of the Company's common stock into a single class of common stock, cancel the Company's authorized but unissued shares of preference stock, and increase the number of authorized shares of common stock from 12,880,000 to 15,000,000.

In another action, the shareholders approved a proposal to change the corporate name from Mallinckrodt Chemical Works to Mallinckrodt, Inc.

**National Catheter Corp.**—On July 29, 1974, Mallinckrodt acquired National Catheter Corp., Argyle, New York, and certain patents for 552,500 shares of Mallinckrodt, Inc. common stock. This transaction was accounted for as a pooling of interests.

**Capital Expenditures**—Capital investments in 1974 reached an all-time Mallinckrodt high for any year with the completion of several projects which were under construction at the beginning of the year and the start of a number of significant new projects. The Company's investment in capital improvements in 1974 was \$15,036,000. A discussion of some of the recent projects is included in the section of this report which begins on Page 6.

**Organization**—Three general managers were promoted to vice presidents in 1974. They are: Mr. Raymond M. Asher, Secretary and General Counsel; Mr. Raymond F. Bentele, Controller; and Mr. Roger A. Hebrank, General Manager, Management Information Services Division.

**Employee Relations**—The Company's EEO and Affirmative Action programs were enlarged and strengthened in 1974 by appointing corporate supervisors for Equal Opportunity Affairs and the Equal Opportunity for Women Program; retaining a consulting firm

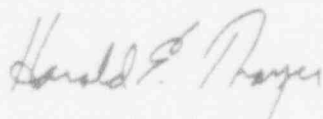
to implement an equal employment program for women at all corporate facilities; and actively recruiting minority group employees and women. Management believes that steady progress is being made in these programs.

A work stoppage at the Company's St. Louis plants started on February 10, 1975, after efforts to negotiate a new contract were unsuccessful.

**Outlook for 1975**—Mallinckrodt's growth in 1974 in both sales and profits was substantial. With the exception of some softening of industrial chemicals and international sales, business continued strong through the end of the fourth quarter. Markets for health care products and food additives are less sensitive to economic downturns than are markets for industrial chemicals. Still, toward the end of 1974, management shared the concern of many of the nation's business leaders and economists regarding the prospect of a serious downturn in the general economy in 1975.

To protect future earnings, several precautionary steps have been taken. Among them was the development of a contingency plan for 1975, involving two additional expense budgets, each related to a different projected level of sales. Some steps in this plan were implemented late in 1974, and depending on business developments, additional parts may be implemented early in 1975. Also, additional financial controls were established to monitor the plan.

Mallinckrodt's business grew substantially in 1974 over 1973 and considerably above its twelve-year trend line. The Company's plans for 1975 have been made with the current economic situation in mind. Management looks forward to the year with caution, but with the expectation of continuing on a course of profit improvement.



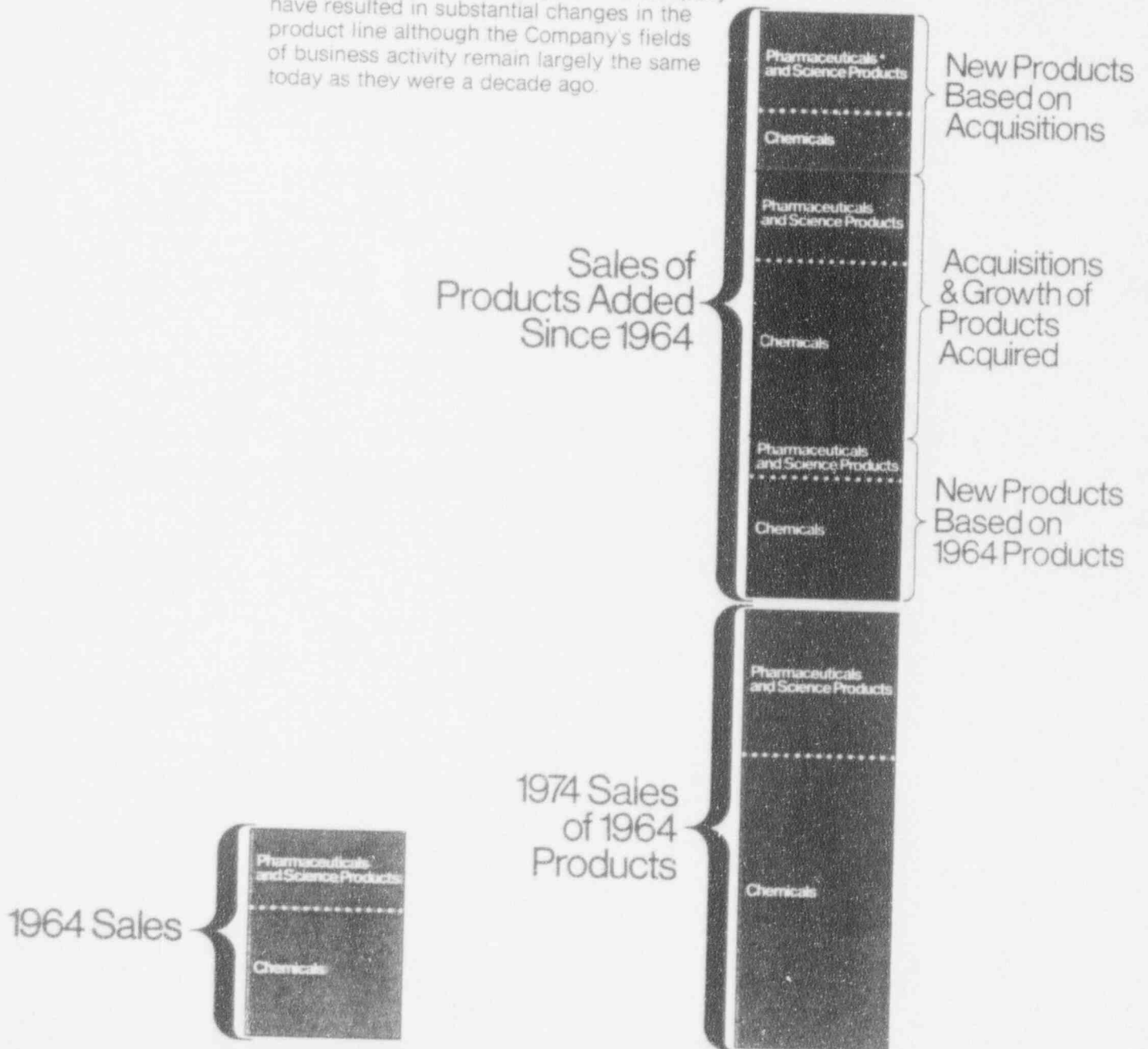
Harold E. Thayer

February 11, 1975

# Building a Base for Future Growth

## Sales

Efforts to expand and strengthen the company have resulted in substantial changes in the product line although the Company's fields of business activity remain largely the same today as they were a decade ago.



# Building a Base for Future Growth

## Strengthening the Business Base

For the past ten years, Mallinckrodt's base for future growth has been steadily improved. A determined effort has been made to strengthen the Company's people by training and development programs for all levels of management and supervision; the planning process has been improved by experience; and financial controls have been created as the Company has grown in size. Perhaps most significant has been the strengthening of Mallinckrodt's business positions in various markets as a result of research and development, acquisitions, and improved marketing.

The Company expects to continue to grow in much the same manner as it has grown in the past: Primarily through internal developments based on the Company's present product line and, secondarily, through acquisitions and the subsequent growth of these acquisitions. Because of the improvement which has taken place in the Company's business positions, it is far better able to grow internally today than was the case in 1964.

## Sales Growth

As the chart on Page 5 shows, more than half of Mallinckrodt's 1974 business came from products not in the line in 1964.

Development of the Company's business, in addition to better marketing, has involved many product improvements, as well as the introduction of new chemical entities and the elimination of some products as they became obsolete. New products are based on changing customer needs, and the growth of the Company's business depends on its ability to meet these changing needs, not only from the standpoint of research and development, but also that of manufacturing and process development.

## Financial Planning and Control

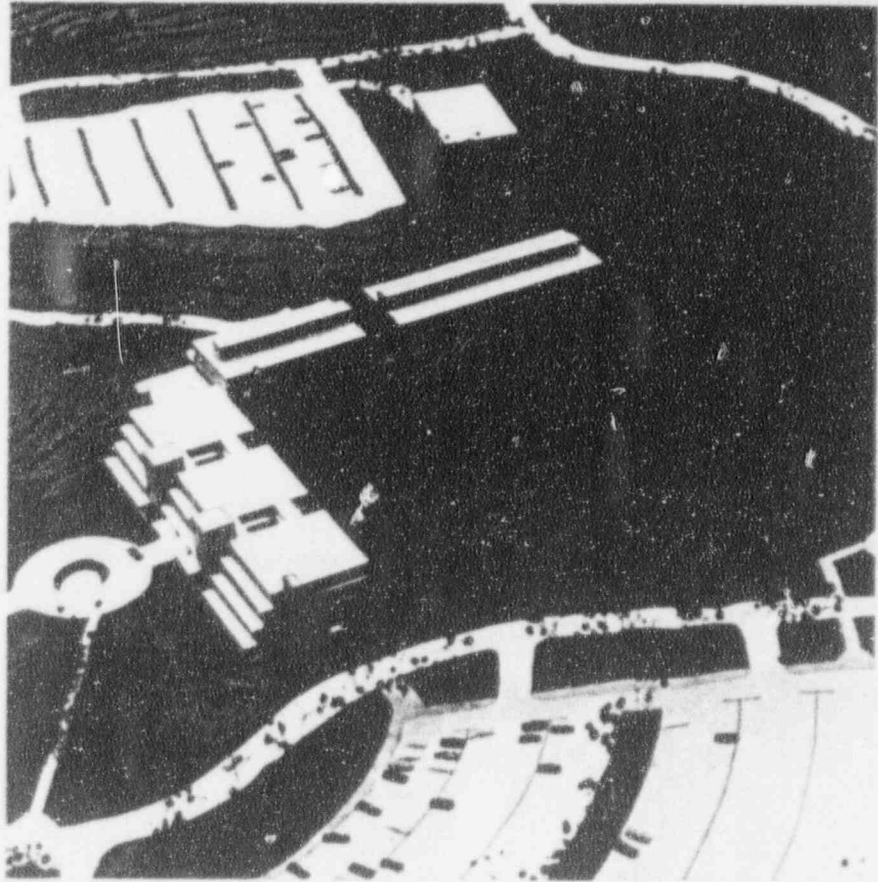
Although not a product or marketing base, one of the most important bases which the Company expects to use to grow profitably will be the continuation and refinement of its systems of financial planning and control. Mallinckrodt will continue to rely heavily on these management tools which have been used successfully in the past. The quarter-to-comparable-quarter and year-to-year gains which characterize the Company's growth record for the past twelve years are due in large part to the use of these tools. They have enabled management to keep abreast of current business developments and to take timely corrective action when necessary.

Personnel concerned with financial planning and control endeavor to anticipate changes in the general economy and changes in the industries which the Company serves, and then assess the impact of such changes on the business. The purpose of this is to permit quick action to preserve the Company's earnings growth in the event of a foreseeable downturn in any segment of the business.



In the past, management has been able to implement expense controls and other business programs quickly prior to periods of business slowdown, which has enabled the Company to continue to grow in profits. These programs, which have worked well in the past, will continue to be used in the future.

Some of the specific ways in which the Company has strengthened its business positions and the steps it is taking today...to build an improved base for future growth...are discussed in the following section.



Architect's scale model of proposed new corporate headquarters in St. Louis County.

# Building in Chemical Markets

The Company develops, produces, and markets a wide variety of organic and inorganic chemicals for use in such industries as the pharmaceutical, food, cosmetics, paper, plastics, synthetic textile, reprographic, printing, electronics, chemical process, and specialty agricultural industries.

Sales of chemical products in 1974 amounted to \$131,304,000, of which \$8,125,000 came from sales in foreign countries. This compares with sales of chemical products in 1964 of \$25,794,000.

Information is given below on the markets served and the products managed by the Chemical Group.

## Drug Chemicals

Mallinckrodt's sales of chemicals to the drug industry form the oldest and one of the largest parts of the business. Products in this line include analgesics, hematinics, drug excipients, antacids, and chemical intermediates. The growth of this segment of the business has been largely from internal programs.

Marketing management has been improved by fostering a closer relationship with customers in order to understand their needs and then develop products to meet

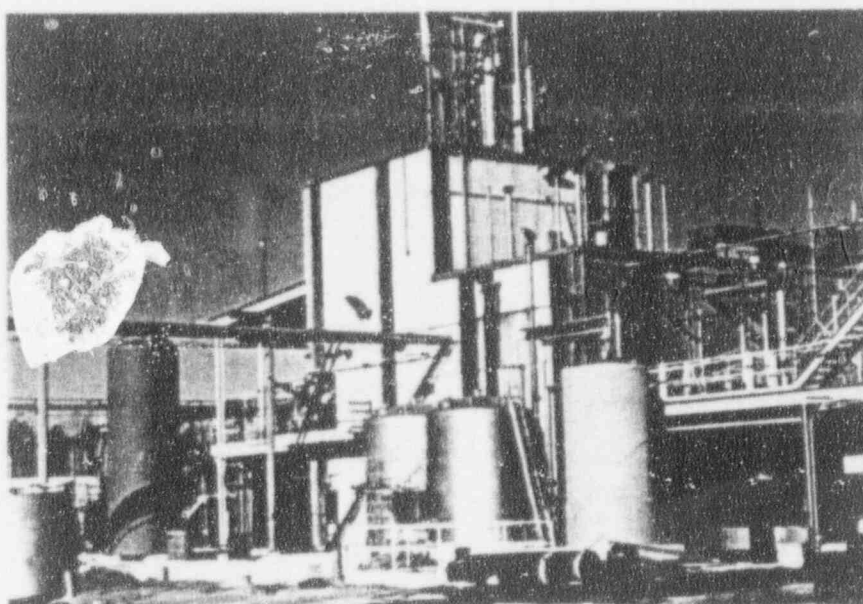
such needs. Some of these products, such as chemical intermediates, are developed to meet specific requirements of individual customers; others are developed to meet a widespread demand in the marketplace.

PAP and APAP (para-aminophenol and acetaminophen, respectively) illustrate the Company's new product development efforts to meet a general demand. In 1970, Mallinckrodt brought on stream a new plant in Raleigh, North Carolina, for production of PAP, which is the starting material for APAP, a drug that reduces pain

and fever. Production of APAP began in 1971, and sales have exceeded the Company's expectations.

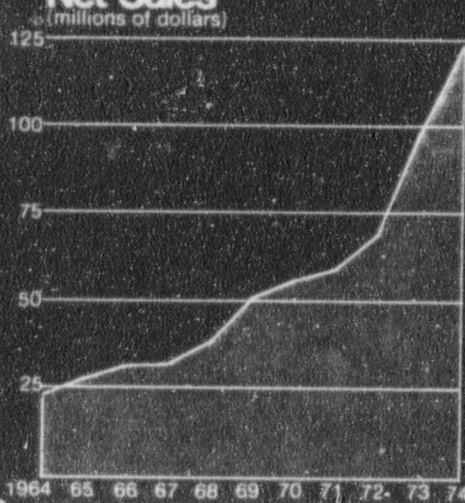
In 1974, Mallinckrodt began a multimillion dollar project at its Raleigh Chemicals Plant to increase production capacity for both PAP and APAP to meet expected future demand for these products.

Another example of research and development work to meet requirements in the marketplace is Mallinckrodt's current project to domesticate a species of poppy (scientific name: *Papaver bracteatum*) as a new source of



New processing tanks are installed as part of the expansion of PAP manufacturing facilities at Raleigh, North Carolina.

## Net Sales



codeine for medical use. This project was started in recent years as the result of a rapidly developing shortage of licit opium, from which Mallinckrodt has manufactured codeine in the United States for more than 75 years. A lengthy research program still lies ahead to determine whether bracteatum may eventually be a significant factor in the availability of adequate medical supplies of codeine in this country.

## Food Additives

Mallinckrodt's expansion in the food industry markets

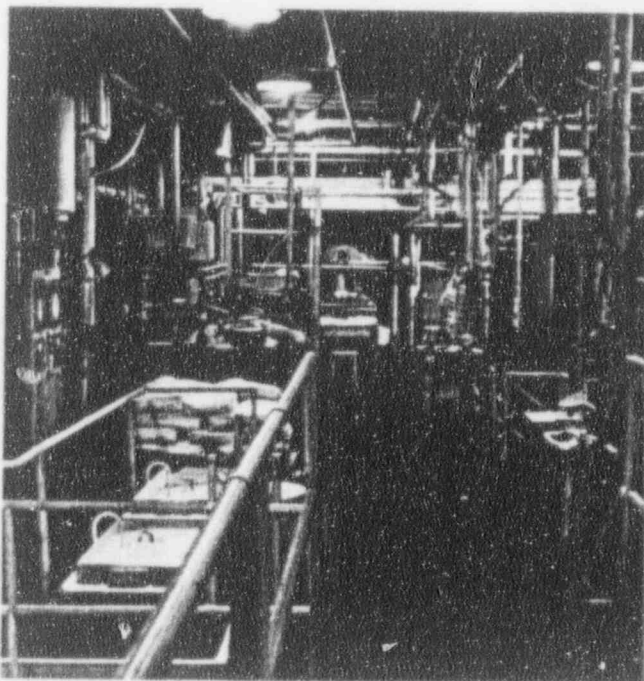
began in 1968 with the acquisition of Washine Chemical Company, which was a manufacturer and distributor of preservatives for foods, drugs, and cosmetics, and of industrial chemicals. Sodium benzoate solutions, calcium and sodium propionates, and several parabens (derivatives of parahydroxybenzoic acid) are among Mallinckrodt's important food preservatives. These products are used widely in protecting baked goods and other foods and beverages against attack by microorganisms.

In 1970, Mallinckrodt ac-

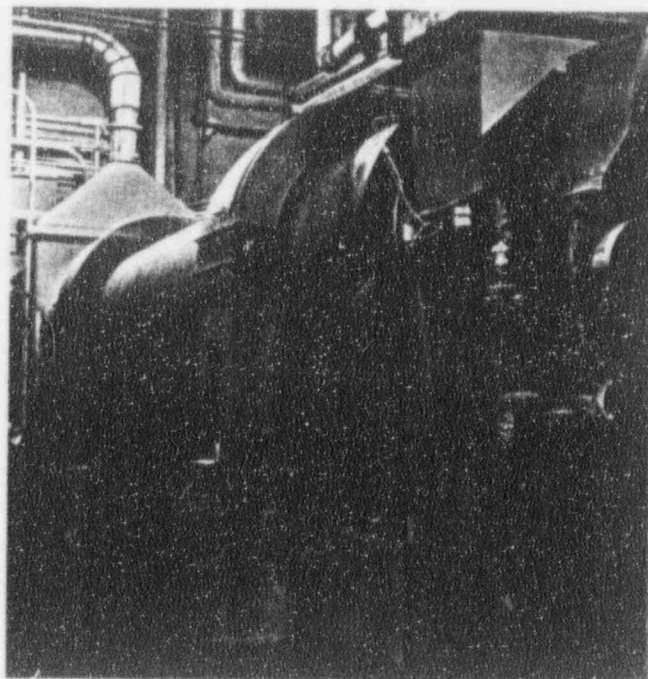
quired Fries & Fries, Inc., which develops, manufactures, and markets flavors and fragrances. The major part of the business is in flavors. This division has grown in sales each year over the preceding year since its acquisition.

Fries & Fries' flavors are used in soft drinks and other beverage products, pies, cake mixes, ice creams, pharmaceuticals, and tobacco. In recent years, the Division has introduced new meat flavors, spray-dried fruit flavors, and natural wine flavors.

Basic Foods, Inc., was acquired by Mallinckrodt in



A new plant for one of the Company's tannin processes was completed in 1974, and construction of a manufacturing unit for another is scheduled for completion in 1975.



A view of production equipment for potassium metabisulfite, which is used as an antioxidant and preservative in foods and beverages, and in photographic film developing formulations.

# Building in Chemical Markets

—continued

February, 1973, adding a line of high-quality specialty ingredients for the baking industry.

The products, which are sold under the trade name, FROST-O-FAST\*, include icing stabilizers, dough concentrates, glazes, fillings, jellies, and fudges. In its first full year with Mallinckrodt, Basic Foods' sales volume grew appreciably over the preceding year.

New products introduced by Basic Foods in 1974 included an icing sugar stabilizer for use in sweet goods, Danish pastries, and cupcakes; an especially processed starch for frozen pie fillings; and a coating concentrate to lengthen shelf life of biscuits and crackers.

For many years Mallinckrodt has manufactured high-purity inorganic chemicals which are used by the food industry to improve taste and provide mineral fortification. Potassium chloride and ferrous sulfate are typical examples of the food additives line of TAC\* products. Potassium chloride is widely used as a salt substitute and as a replacement for salt in low-sodium foods. Ferrous sulfate is used for nutritional fortification of bread and other foods with iron. The Company also produces tannic acid for use in clarifying wines and malt beverages.

Sales of food additives have grown steadily, and the Company is making substantial capital investments to ensure that

capacity is available to meet future demand in the marketplace. At the St. Louis plant, Mallinckrodt had projects totaling \$1.6 million under way at the end of 1974 to increase production capacity for several food additives.

## Industrial Chemicals

Mallinckrodt has supplied a wide variety of fine chemicals to the process industries for many years. The ability to produce bulk quantities of high-purity chemicals has led to several of the Company's new business products. Specialty stearates, for example, are the basis for the FLC\* coating additives for high-quality printing papers and the POLYAD\* products used in the plastics industry. POLYAD RVP400 is a new product for the vinyl pipe industry and combines four additives in a single product. The Company's stearate production facility is currently undergoing its third major expansion in recent years.

N-butyl perchloro-crotonate, a custom ethylene-propylene dimer rubber catalyst promoter, is now being offered industry-wide. The use of Inhibitor NPH\*, a specialty rubber polymerization inhibitor, has been expanded to other monomer-polymer systems.

Specialty agricultural products make up a small but fast growing part of Mallinckrodt's

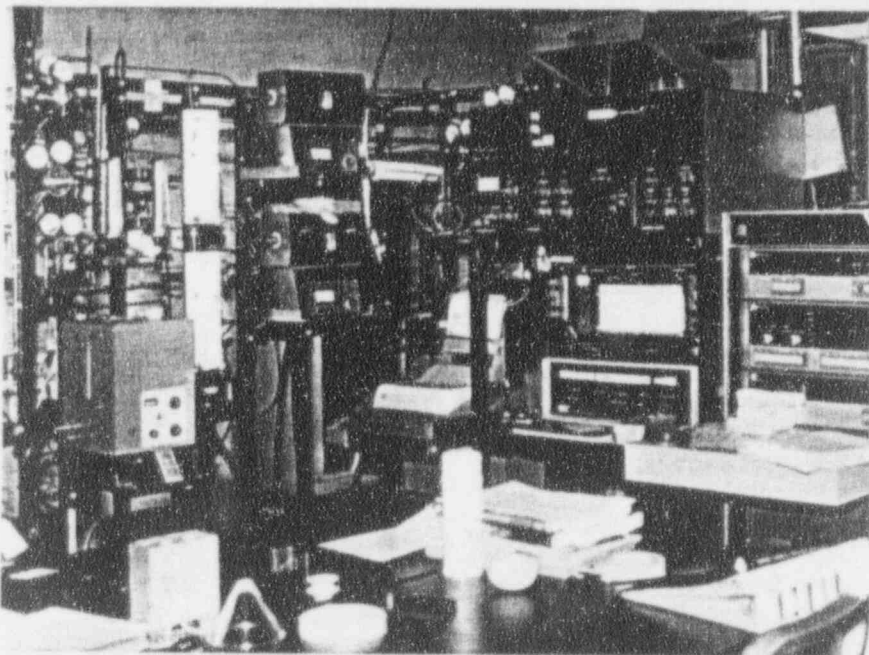
business. Originally based largely on fungicides and herbicides for use on golf courses, the product group now includes products for horticultural use. TRUBAN\* and BANROT\* are gaining rapid acceptance in the marketplace for controlling various root disease problems.

Mallinckrodt is one of the foremost producers of high-purity tantalum and columbium compounds. Tantalum and columbium are used by the electronic and metallurgical industries.

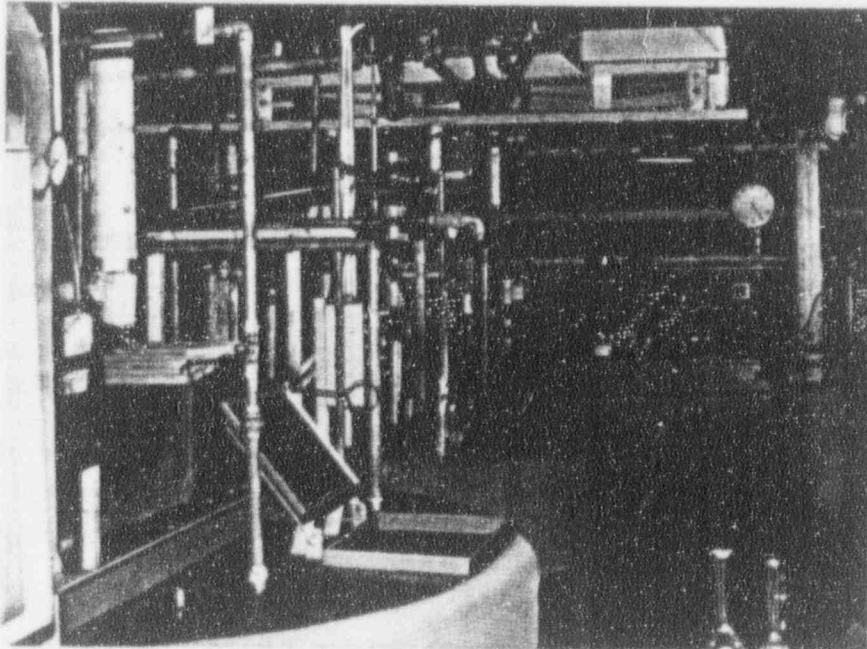
## Catalysts

The Company's plan to expand in specialty chemicals was put into effect in 1964 with the acquisition of Calsicat, a small, catalyst manufacturing concern in Erie, Pennsylvania. This acquisition, supported by an energetic research and development program and substantial capital investments in manufacturing capabilities, has grown rapidly. The Company's family of catalysts currently includes copper chromite, supported platinum, palladium, and nickel catalysts, other proprietary catalysts, and custom catalysts manufactured under secrecy agreements for individual customers.

Copper chromite was added to the Company's catalyst product group in 1966, and sales have grown steadily since then. The copper chromite plant was



A new evaluation laboratory at Calsicat Division, where catalyst performance is tested.



Major expansions were completed in 1974 of facilities to manufacture specialty chemicals.

expanded in 1970 and operated at capacity from 1972 until a second major expansion was completed in 1974.

The Company began construction last year of a manufacturing unit for a new catalyst. Mallinckrodt's gross investment in Calsicat increased in 1974 by 50 percent.

## Printing Inks

Mallinckrodt acquired the Bowers Printing Ink Company, Chicago, Illinois, in 1972. Bowers manufactures and markets high-quality lithographic inks for use in printing commercial material, packaging, magazines, maps, brochures, books, catalogs, and folding cartons.

Bowers originated the in-plant concept for large printing plants. Under this plan, Bowers operates the equivalent of a miniature ink manufacturing plant in the customer's shop, owning the equipment and inventory, and providing the services of its own technicians. The Division leads all other ink manufacturers in total number of in-plant operations.

# Building in Pharmaceutical and Science Products Markets

As a supplier to the health care industry and laboratory market, Mallinckrodt develops, produces, and sells radiopharmaceuticals and x-ray contrast media for medical diagnostic applications, ethical pharmaceuticals and prescription chemicals, catheters, and ultrapure chemicals and plasticware for laboratory applications in analysis and research.

Sales of pharmaceuticals and science products in 1974 were \$75,816,000, which includes \$11,176,000 of foreign sales. Sales of pharmaceuticals and science products in 1964 were \$16,142,000.

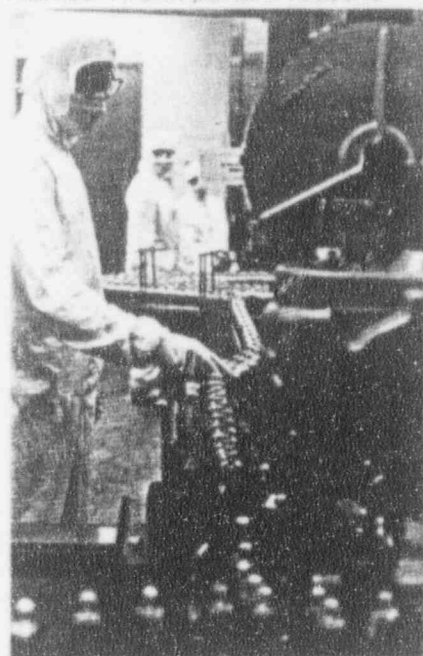
Acquisitions have played an important part in the growth of sales of pharmaceuticals and science products. Radiopharmaceuticals, ethical pharmaceuticals, catheters, and clinical diagnostics were added by acquisition. The growth of the acquisitions after purchase reflects the expansion and strengthening of sales forces, the development of a marketing research program, and the commitment to an active research and development program.

A central pharmaceutical research and development division is responsible for worldwide coordination of Mallinckrodt's development work on new pharmaceutical and diagnostic products. Separate development programs in the fields of catheters and science products are conducted at the manufacturing sites of these products.

Following is information on Mallinckrodt's pharmaceuticals and science products:

## Diagnostic Products

Mallinckrodt entered the radiopharmaceuticals market in 1966 with the acquisition of Nuclear Consultants Corporation. The business fit well with the Company's existing x-ray contrast media business, and it offered promise of becoming a fast-growing segment of total revenues. This potential has been realized, and Mallinckrodt is currently one of the major factors in the world radiopharmaceutical market. Two important reasons



A view of production facilities in Mallinckrodt's new parenteral plant at Raleigh, North Carolina.

for the success of the business are an active research and development program, which has resulted in a number of new products, and the development of a highly trained, specialized sales force.

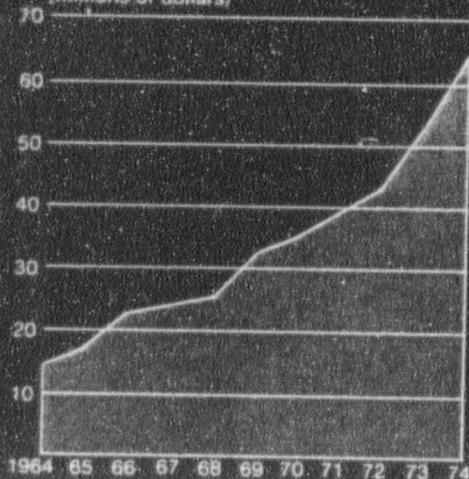
In 1974, the Company introduced two new scanning kits; TECHNESCAN\* MAA kit, which is used in lung scanning, and TECHNESCAN PYP kit, used in bone scanning. Mallinckrodt also marketed two new radioimmunoassay kits: The RIA-MAT\* Circulating T3 I125 kit for determination of one of the thyroid hormones in blood serum; and the RIA-MAT Angiotensin I I125 kit, which is used in the differential diagnosis of hypertension. Radioimmunoassay tests are based on the same kind of reaction between an antigen (the biological substance to be determined) and an antibody, as occurs in immune reactions in the body.

The Company expects its sales of radiopharmaceuticals to continue to grow, and plans are under way to increase manufacturing capacity. Construction will begin in the near future on a new radiopharmaceutical production facility to expand operations in the St. Louis area. The Company also has radiopharmaceutical plants, wholly or jointly owned, in New Jersey, West Germany, and Japan.

Mallinckrodt's x-ray contrast media line is headed by CONRAY\* brand of meglumine

## Net Sales

(millions of dollars)



lothalamate for use in x-ray studies of the brain, urinary tract, and other soft tissues of the body, and BAROSPERSER\* formulation of barium sulfate, which is used to visualize the gastrointestinal tract. These products are sold nationally and internationally by Mallinckrodt sales forces in the U.S. and abroad and by foreign licensees.

The CONRAY line has been expanded by the addition of ANGIO-CONRAY, CONRAY 400, and VASCORAY\* for studies of the heart and urinary tract, and Cysto-CONRAY and CONRAY 30 for the visualization of the urinary tract. CHOLEBRINE\*\* brand of iocetamic acid was marketed in 1973 for radiographic examination of the gallbladder.

In 1974, the Company completed a \$2.8 million plant at Raleigh, North Carolina, to increase capacity for parenterally injected x-ray contrast media.

## Pharmaceutical Products

Mallinckrodt's expansion in the ethical pharmaceutical market began in 1962 when the Company acquired Van Pelt & Brown, Inc. This added a line of ethical pharmaceuticals and brought a trained force of field representatives to the Company. In 1965, Mallinckrodt purchased Dumas-Wilson, and in 1969, the major acquisition of Neisler Laboratories further expanded the Company's ethical pharmaceutical line and provided an

even larger cadre of well-trained field representatives.

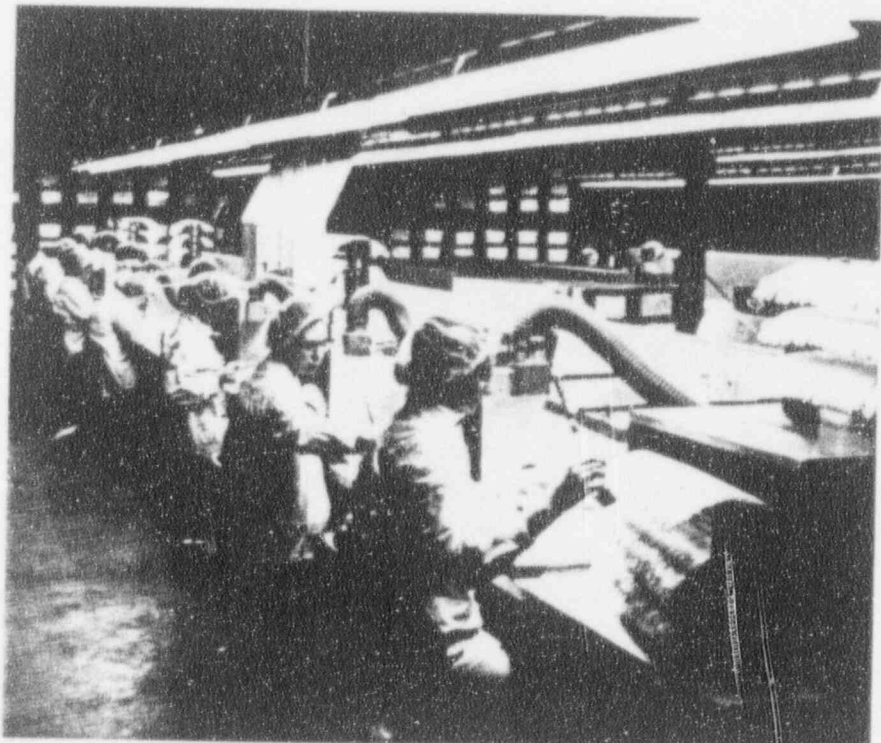
The recent growth in the Company's ethical pharmaceuticals, has been led by LUFYLLIN\* and LUFYLLIN-GG, two effective and widely prescribed bronchodilators. Other successful products contributing to the Company's growth are RYNATUSS\* and RYNATAN\*, which are cough and cold medications, respectively; and DIUTENSEN-R\*, DIUTENSEN\*, and UNITENSEN\*, antihypertensives.

## Catheters

The Company took another

significant step in its expansion in the health care market in 1974 when it acquired National Catheter Corp., Argyle, New York. The new subsidiary will broaden Mallinckrodt's business base in the hospital market and allow penetration of the new sector of disposable medical devices.

The firm's major product lines include endotracheal, tracheostomy, and suction catheters; and oxygen cannulas, catheters, and connecting tubes. In addition, National Catheter manufactures conductive tubing, esophageal stethoscopes, thoracic and trocar catheters, intestinal decompression

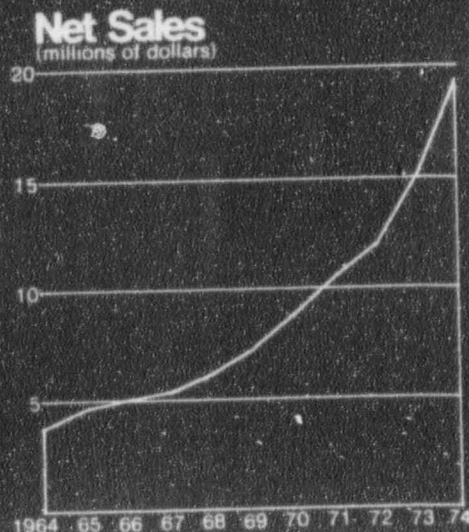


Catheters are assembled by hand at National Catheter Corp. to meet strict specifications.

\*\*Trademark licensed to Mallinckrodt.

## Building in Pharmaceutical and Science Products Markets —continued

# Building in International Markets



tubes, and infant feeding tubes.

National Catheter presently occupies a new 55,000-square-foot plant, laboratory, and office complex, and an additional 27,000 square feet is under construction for increasing the manufacturing, research and development, and quality control areas.

## Science Products and Clinical Diagnostics

The Company's science products include ultra high-purity chemicals and laboratory plasticware for research and analytical applications. The AR\* brand chemicals, introduced many years ago, formed the base for this segment of the business; they are among the best known and most widely used of Mallinckrodt's products.

Mallinckrodt extended its business into the clinical diagnostic sector of the health care market when it acquired Serosonic Laboratories, Inc., and Diagnostic Sciences, Inc., in 1971. The product line includes pre-measured reagents for testing samples of body fluids, an instrument for making the measurements, and associated equipment and supplies. The market for these products is composed of physicians and hospital and clinical laboratories.

The Company's international sales are based on many of the same products as have been described earlier in this section. In 1974, international sales totaled \$19,301,000 which is the sum of \$8,125,000 reported on Page 8 for foreign sales of chemical products and \$11,176,000 given on Page 12 for pharmaceuticals and science products. International sales in 1964 were \$3,700,000.

Mallinckrodt's foreign revenues come from exports, royalties, the operations of foreign subsidiaries, and the earnings of joint ventures. The Company has manufacturing and/or marketing subsidiaries in Canada, Mexico, Brazil, the United Kingdom, and the Far East; joint ventures are located in West Germany, Japan, and Spain. The Canadian and Mexican subsidiaries manufacture and market chemicals and pharmaceuticals, and the others market Mallinckrodt products, principally diagnostics and pharmaceuticals. The West German joint venture is engaged in manufacturing and marketing radiopharmaceuticals and paint additives, and, in addition, sells other Mallinckrodt products. The Japanese partnership manufactures and markets radiopharmaceuticals, while the Spanish joint venture markets diagnostic products.

The international segment is one of the fastest growing parts of the Company's business. This rapid growth is due to the expansion and strengthening of marketing operations, which has been under way since the early nineteen sixties; to the products, mostly specialty items, which the Company has selected for sale overseas; and to the technology which Mallinckrodt has contributed to its manufacturing operations abroad.

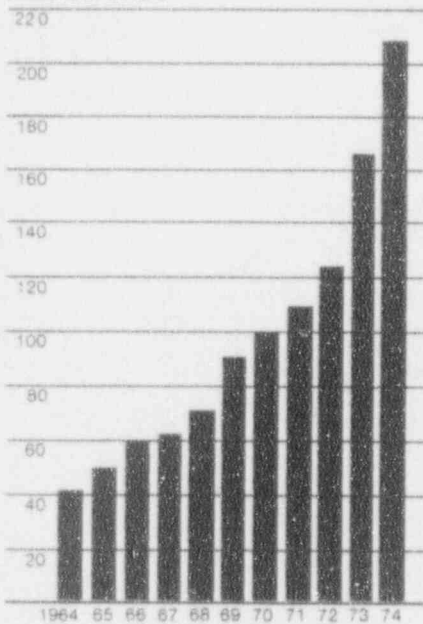
In 1974, international activities were expanded by the establishment of marketing and warehousing operations in the United Kingdom for flavors and fragrances; the introduction of several clinical diagnostic products in Europe, Latin America, and the Far East; an increase in the numbers of distributors and licensed manufacturers of Mallinckrodt products abroad; and greater penetration of the United Kingdom, French, and Scandinavian cosmetic chemicals markets.



# The Record, 1964-1974

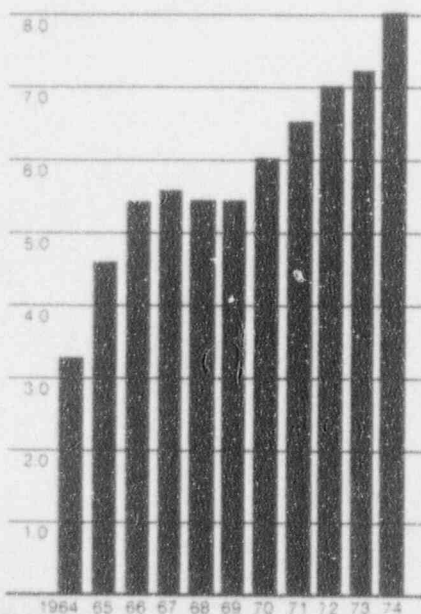
**Net Sales** have increased from \$41.9 million in 1964 to \$207.1 million in 1974.

**Net Sales**  
(millions of dollars)



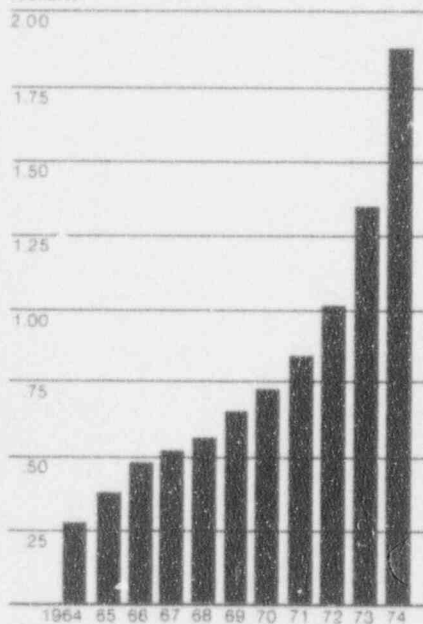
**% Earned on Net Sales** has more than doubled, rising from 3.3 percent in 1964 to 8.0 percent in 1974.

**% Earned on Net Sales**



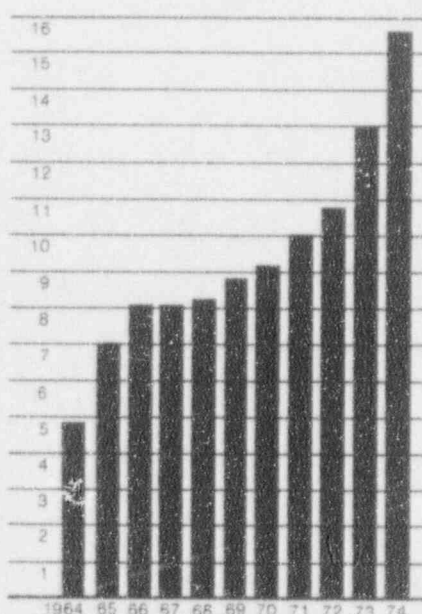
**Earnings per Share** have grown nearly sevenfold, from \$.27 in 1964 to \$1.87 in 1974.

**Earnings per Share**<sup>(1)</sup>  
(dollars)



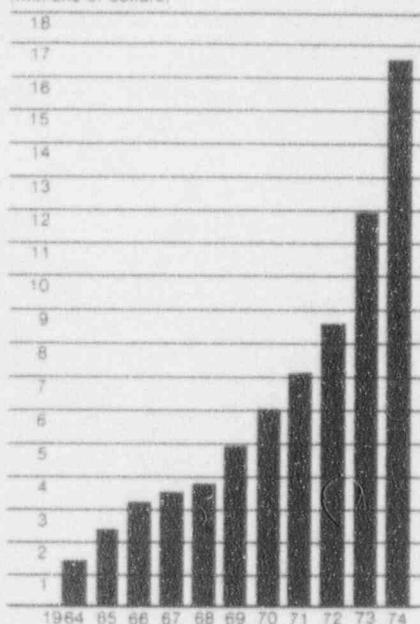
**Return on Average Shareholders' Investment** in 1974 was 15.6 percent, more than three times the 1964 figure of 4.9 percent.

**% Return on Average Shareholders' Investment**



**Income** from ordinary operations reached \$16.5 million in 1974, an elevenfold gain over income from ordinary operations of \$1.4 million in 1964.

**Income**<sup>(1)</sup>  
(millions of dollars)



(1) From Ordinary Operations

# Financial Review

## Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, after elimination of material intercompany accounts and transactions. All subsidiary companies are wholly-owned except the Mexican subsidiaries which are 75 percent owned.

Current assets and current liabilities of foreign subsidiaries are translated into U.S. dollars at year end exchange rates; other assets and liabilities and depreciation at historical rates; and operating accounts, other than depreciation, at the average rates of exchange during the year. Net unrealized exchange losses are included in net income and net unrealized gains are deferred. Unrealized exchange gains and losses were not significant in 1974 and 1973.

Investments in 50 percent owned foreign companies are recorded at cost plus equity in undistributed earnings since acquisition.

### Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on the first-in, first-out basis.

### Income Taxes

Federal income taxes are provided based on income reported for financial reporting purposes. Deferred federal income taxes, arising from the use of accelerated methods of depreciation for tax purposes and other timing differences, have been included in income taxes charged against income and in the deferred tax liability.

Federal income taxes have been reduced by the full amount of available investment tax credit.

Deferred federal income taxes have not been provided on the undistributed earnings of a Domestic International Sales Corporation (DISC) subsidiary as these earnings are expected to be reinvested for an indefinite period of time.

### Pensions

Pension costs, which include current service costs and amortization of prior service costs, are funded as accrued using the unit credit actuarial cost method. Prior service costs resulting from improvements in pension benefits are being amortized over periods ranging from 18 to 22 years.

### Earnings Per Share

Primary earnings per share are computed based on the weighted average number of shares of common stock outstanding during the year. Fully diluted earnings per share computations are based on the shares included in the primary earnings per share calculation plus common shares which would have been outstanding from the beginning of the period or date of issuance, if later, assuming exercise of outstanding stock options and warrants and conversion of convertible notes and debentures. In the fully diluted calculation, net income is increased by the elimination of related interest and debt expenses, net of income taxes.

### Property and Depreciation

Property is carried at cost. Expenditures for new facilities and major renewals and betterments which increase the useful lives of the respective assets are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Upon normal retirement or disposal of assets, the cost of the asset less salvage is charged to accumulated depreciation and gains or losses are reflected in earnings through future depreciation charges. When abnormal retirement or disposition of assets occurs, the cost and related accumulated depreciation are removed from the respective accounts and the gain or loss on disposal is included in income.

Depreciation is provided on the straight-line method at rates based on the expected useful life of the property (buildings 2-1/2% to 5%, machinery and equipment 6% to 25%).

### Intangible Assets

Patents, licenses and compounds are amortized for financial reporting and tax purposes on the straight-line method over their legal lives. Formulae are amortized on the straight-line method over their estimated useful lives (none of which exceeds 40 years) for financial reporting and are written off when abandoned for tax purposes.

The excess of purchase cost over underlying net assets of businesses acquired after 1970 is initially recorded as an intangible asset and subsequently allocated to the assets acquired on the pro rata basis of their fair value as determined by appraisal and management analysis. The excess purchase cost relating to acquisitions prior to 1970 is not material.

## Notes to Consolidated Financial Statements

### Property and Depreciation

Expenditures for property, plant and equipment were \$15,036,000 in 1974 as compared to \$8,679,000 in 1973. At December 31, 1974 projects requiring approximately \$11,673,000 to complete were in progress. The provision for depreciation and amortization was \$4,640,000 in 1974 and \$4,075,000 in 1973.

### Investments and Advances

Included in the Company's investments are \$1,716,000 in 1974 and \$1,515,000 in 1973 representing the cost of capital stock and advances and the Company's share of undistributed income or loss of 50 percent owned foreign companies.

### Intangible Assets

Intangible assets at December 31, 1974 and 1973 are comprised of the following:

	1974	1973
Patents and Licenses . . . . .	\$ 6,030,000	\$ 6,030,000
Compounds . . . . .	6,248,000	6,248,000
Formulae . . . . .	6,294,000	2,960,000
Unallocated excess of purchase cost over underlying net assets of acquisitions . . . . .	420,000	4,451,000
	<u>18,992,000</u>	<u>19,689,000</u>
Accumulated amortization . . . . .	4,215,000	3,307,000
	<u>\$14,777,000</u>	<u>\$16,382,000</u>

In 1974 the excess of purchase cost over underlying net assets of Bowers Printing Ink Company was allocated to the assets acquired. Amortization of intangibles was \$908,000 in 1974 and \$988,000 in 1973.

### Long-Term Debt

The 5-3/4% Convertible Subordinated Debentures due April 1, 1995 are convertible into common stock at \$19.00 per share, subject to certain adjustments as provided in the Indenture. The Debentures are redeemable anytime at the Company's option, in whole or in part, at 105-3/4% of the principal amount, decreasing ratably over the term of the Debentures to 100% in the second year prior to maturity, plus accrued interest. Under the Indenture, the Company is required to provide a sinking fund for the redemption and retirement of \$750,000 principal amount of Debentures on April 1 each year beginning in 1980.

Under the terms of a credit agreement with five banks, the Company may borrow as needed through December 31, 1975 up to \$15,000,000 at the prevailing prime interest rate. Thereafter, the outstanding loan balance will be converted into installment notes bearing interest at 1/4% to 1/2% in excess of the prevailing prime rate, which are repayable at specified dates through December 31, 1979. The Company is obligated to pay annually through December 31, 1975 a 1/2% commitment fee on the average daily unused available balance. Under the credit agreement the maximum outstanding loan balance was \$2,000,000 in 1974 and \$2,500,000 in 1973.

The Indenture and the credit agreement contain certain restrictions on the payment of cash dividends and require not less than \$35,000,000 in net current assets. At December 31, 1974 and 1973, earnings invested in the business of \$25,846,000 and \$16,450,000, respectively, were unrestricted.

## Notes to Consolidated Financial Statements (Continued)

### Income Taxes

A comparative summary of income tax expense for the years ended December 31, 1974 and 1973 is shown below:

	1974	1973
U.S. Current .....	\$11,469,000	\$ 8,587,000
U.S. Deferred .....	1,545,000	497,000
State .....	1,231,000	855,000
Foreign .....	1,512,000	1,098,000
Investment Tax Credit .....	(550,000)	(393,000)
	<u>\$15,207,000</u>	<u>\$10,644,000</u>

The deferred income tax provision results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each follow:

Source	1974	1973
Excess of tax over book depreciation .....	\$ 827,000	\$720,000
Insurance proceeds used to reduce tax basis of new property .....	801,000	
Amortization of non-patent intangibles .....	(64,000)	(134,000)
Other-net .....	(19,000)	(89,000)
	<u>\$1,545,000</u>	<u>\$497,000</u>

The Company has not provided deferred income taxes on the undistributed earnings of a Domestic International Sales Corporation aggregating \$738,000 at December 31, 1974 and \$408,000 at December 31, 1973.

### Shareholders' Equity

The Company on April 23, 1974 reclassified and reaggregated the Class A and Class B Common Stock into a single class of Common Stock, par value \$1, cancelled the authorized but unissued shares of preferred stock, and increased the number of authorized shares of Common Stock from 12,880,000 to 15,000,000.

On April 24, 1973 the shareholders approved a decrease in the par value of the Common Stock from \$1-2/3 to \$1 per share and approved a two-for-one stock split.

Of the 6,140,871 shares of Common Stock authorized but unissued at December 31, 1974, 83,750 shares were reserved for the possible conversion of the 5% Convertible Notes; 441,421 shares were reserved for the possible conversion of the 5-3/4% Convertible Debentures; 340,000 shares were reserved for Warrants issued as a result of acquisitions, and 150,000 shares were reserved for stock options granted and future grants.

A summary of changes in shares reserved under stock options granted for the years ended December 31, 1974 and 1973 is shown below:

	1974	1973
Outstanding at beginning of year .....	69,650	44,000
Granted .....	56,700	48,050
Exercised .....	(5,000)	(22,400)
Expired .....	(1,300)	
Outstanding at end of year	<u>120,050</u>	<u>69,650</u>
Exercisable at end of year	<u>82,250</u>	<u>26,550</u>

The option price of the 5,000 shares exercised in 1974 was \$11.25. The exercise price of 120,050 option shares outstanding at December 31, 1974 ranged from \$31.125 to \$43.00 per share, aggregating \$4,343,000. Shares available for the granting of options at January 1, 1974 and December 31, 1974 were 85,350 and 29,950, respectively.

## Pensions

The Company has several contributory and non-contributory pension plans covering substantially all full time employees. Total pension expense was \$1,467,000 in 1974 and \$1,248,000 in 1973.

The actuarially computed value of vested benefits of the pension plan for hourly paid employees exceeded the assets of the pension fund by approximately \$1,700,000 at December 31, 1974. The excess is attributable to the improvements in pension benefits provided in recent years and the decline in market value of equity securities in the pension fund. The total assets of the salaried employee plan exceed the amount of actuarially computed vested benefits at December 31, 1974.

The Company does not expect that pension costs will be significantly increased as a result of the Pension Reform Act of 1974.

## Acquisition

On July 29, 1974 the Company acquired all of the outstanding capital stock of National Catheter Corp. and certain related patent rights in exchange for 552,500 shares of its common stock. The transaction has been accounted for as a pooling of interests. Accordingly, the Company's 1973 consolidated financial statements have been restated and the Company's 1974 results of operations include National Catheter Corp. for the entire year.

The effect on the Company's consolidated net sales and net income of the inclusion of National Catheter Corp. in the 1973 results of operations is as follows:

	<u>Net Sales</u>	<u>Net Income</u>
Mallinckrodt, Inc., as previously reported .....	\$160,667,000	\$10,684,000
National Catheter Corp. ....	<u>4,602,000</u>	<u>1,173,000</u>
As restated .....	<u>\$165,269,000</u>	<u>\$11,857,000</u>

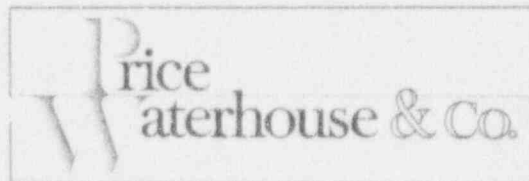
The unaudited net sales and net income of the Company and National Catheter Corp. separately stated for the 1974 interim period ended nearest the acquisition date are shown below:

	<u>Net Sales</u>	<u>Net Income</u>
Mallinckrodt, Inc. ....	\$95,340,000	\$6,746,000
National Catheter Corp. ....	3,409,000	943,000

## Other Matters

Included in net income is \$453,000 after providing for income taxes of \$449,000, resulting from insurance proceeds in excess of the net book value of property destroyed and abandoned plus related expenses from the 1973 explosion and fire which occurred at the Washine Division plant.

# Report of Independent Accountants



ONE MEMORIAL DRIVE, ST. LOUIS, MISSOURI 63102 314-436-7800

To the Shareholders  
and the Board of Directors  
of Mallinckrodt, Inc.

February 4, 1975

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and changes in financial position present fairly the financial position of Mallinckrodt, Inc. and its subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements 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.

*Price Waterhouse & Co.*

Mallinckrodt, Inc.

## Consolidated Statements of Income

Year Ended December 31,	1974	1973
<b>Net Sales</b> .....	<b>\$207,120,000</b>	<b>\$165,269,000</b>
Cost of goods sold .....	<b>133,463,000</b>	<b>106,714,000</b>
<b>Gross profit</b> .....	<b>73,657,000</b>	<b>58,555,000</b>
Selling, general and administrative expenses .....	<b>35,672,000</b>	<b>30,143,000</b>
Research and development expenses .....	<b>6,339,000</b>	<b>5,610,000</b>
	<b>42,011,000</b>	<b>35,753,000</b>
<b>Income from operations</b> .....	<b>31,646,000</b>	<b>22,802,000</b>
Interest expense .....	<b>(979,000)</b>	<b>(872,000)</b>
Other income, net .....	<b>1,046,000</b>	<b>571,000</b>
<b>Income before income taxes</b> .....	<b>31,713,000</b>	<b>22,501,000</b>
Income taxes .....	<b>15,207,000</b>	<b>10,644,000</b>
<b>Net income</b> .....	<b>\$ 16,506,000</b>	<b>\$ 11,857,000</b>
Weighted average number of shares outstanding during the year .....	<b>8,832,428</b>	<b>8,716,998</b>
<b>Earnings per share</b>		
Primary .....	<b>\$1.87</b>	<b>\$1.36</b>
Fully diluted .....	<b>1.75</b>	<b>1.30</b>

The summary of significant accounting policies and notes to consolidated financial statements on pages 16 through 19 are an integral part of these statements.

Mallinckrodt, Inc.

## Consolidated Balance Sheets

Assets	December 31,	1974	1973
<b>Current Assets</b>			
Cash .....		\$ 1,787,000	\$ 3,302,000
Marketable securities, at cost which approximates market .....		1,033,000	2,014,000
Accounts receivable, less allowance for doubtful accounts of \$228,000 in 1974 and \$236,000 in 1973 .....		33,946,000	27,191,000
Inventories			
Raw materials .....		12,008,000	8,724,000
Work in process .....		6,601,000	5,623,000
Finished products .....		22,071,000	18,066,000
Mechanical and laboratory supplies .....		1,599,000	1,106,000
Other assets .....		1,694,000	1,488,000
<b>Total Current Assets</b> .....		<u>80,739,000</u>	<u>67,514,000</u>
Investments and Other Assets .....		<u>1,984,000</u>	<u>1,807,000</u>
<b>Property</b>			
Buildings and improvements .....		22,484,000	19,118,000
Machinery and equipment .....		61,181,000	53,047,000
		<u>83,665,000</u>	<u>72,165,000</u>
Less—Accumulated depreciation and amortization .....		33,126,000	31,464,000
		<u>50,539,000</u>	<u>40,701,000</u>
Land .....		3,451,000	3,057,000
Construction in progress .....		3,493,000	2,469,000
<b>Net Property</b> .....		<u>57,483,000</u>	<u>46,227,000</u>
Intangible Assets .....		<u>14,777,000</u>	<u>16,382,000</u>
		<u>\$154,983,000</u>	<u>\$131,930,000</u>

The summary of significant accounting policies and notes to consolidated financial statements on pages 16 through 19 are an integral part of these statements.



Liabilities and Shareholders' Equity	December 31,	1974	1973
<b>Current Liabilities</b>			
Current maturities of long-term debt .....	\$ 1,471,000	\$ 558,000	
Accounts payable .....	15,073,000	11,029,000	
Salaries and wages .....	832,000	800,000	
Income taxes .....	4,410,000	1,207,000	
Other liabilities .....	2,055,000	2,194,000	
<b>Total Current Liabilities</b> .....	<u>23,841,000</u>	<u>15,788,000</u>	
 <b>Long-Term Debt</b>			
5% Convertible Notes due in annual installments of \$375,000 in 1976 and \$600,000 in 1977 and 1978 .....	1,575,000	1,675,000	
5-3/4% Convertible Subordinated Debentures, due April 1, 1995 .....	8,387,000	9,294,000	
Other, due in installments through 1996 .....	684,000	634,000	
<b>Total Long-Term Debt</b> .....	<u>10,646,000</u>	<u>11,603,000</u>	
 Minority Interests in Consolidated Subsidiaries .....	342,000	319,000	
Deferred Income Taxes .....	6,079,000	4,534,000	
Other Deferred Liabilities .....	1,365,000	1,324,000	
 <b>Shareholders' Equity</b>			
Common Stock, \$1 par value— authorized 15,000,000 shares; issued 8,859,129 shares in 1974 and 8,806,407 shares in 1973 .....	8,859,000	8,806,000	
Capital in excess of par value .....	27,663,000	26,781,000	
Earnings invested in the business .....	76,188,000	62,775,000	
<b>Total Shareholders' Equity</b> .....	<u>112,710,000</u>	<u>98,362,000</u>	
	<u>\$154,983,000</u>	<u>\$131,930,000</u>	

Mallinckrodt, Inc.

## Consolidated Statements of Changes in Financial Position

Year ended December 31,	1974	1973
<b>Working Capital was provided by</b>		
Net income .....	\$16,506,000	\$11,857,000
Charges (credits) to income not affecting working capital—		
Depreciation .....	4,640,000	4,075,000
Deferred income taxes .....	1,545,000	497,000
Amortization of intangibles .....	908,000	995,000
Equity in earnings of affiliated companies .....	(161,000)	(244,000)
Working capital provided by operations ..	23,438,000	17,180,000
Conversion of long-term debt .....	879,000	2,817,000
Disposal and retirement of property .....	58,000	1,438,000
Stock options exercised .....	56,000	310,000
Allocation of excess cost of acquisition to current assets .....	201,000	
<b>Total</b> .....	<b>24,632,000</b>	<b>21,745,000</b>
<b>Working Capital was used for</b>		
Expansion and improvement of property .....	15,036,000	8,679,000
Reduction of long-term debt .....	957,000	2,490,000
Cash dividends .....	3,093,000	1,896,000
Purchase of company, net of working capital acquired of \$1,672,000 .....		1,349,000
Other-net .....	374,000	138,000
<b>Total</b> .....	<b>19,460,000</b>	<b>14,552,000</b>
<b>Increase in Working Capital</b> .....	<b>\$ 5,172,000</b>	<b>\$ 7,193,000</b>
<b>Analysis of Changes in Working Capital</b>		
Increase (decrease) in Current Assets		
Cash .....	\$ (1,515,000)	\$ (593,000)
Marketable securities .....	(981,000)	(4,994,000)
Accounts receivable .....	6,755,000	6,791,000
Inventories .....	8,267,000	3,063,000
Supplies and other assets .....	699,000	566,000
<b>Total</b> .....	<b>13,225,000</b>	<b>4,833,000</b>
(Increase) decrease in Current Liabilities		
Current maturities of long-term debt .....	(913,000)	400,000
Accounts payable .....	(4,044,000)	1,748,000
Salaries and wages .....	(32,000)	460,000
Income taxes .....	(3,203,000)	410,000
Other liabilities .....	139,000	(658,000)
<b>Total</b> .....	<b>(8,053,000)</b>	<b>2,360,000</b>
<b>Increase in Working Capital</b> .....	<b>\$ 5,172,000</b>	<b>\$ 7,193,000</b>

The summary of significant accounting policies and notes to consolidated financial statements on pages 16 through 19 are an integral part of these statements.

# Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 1974 and 1973

	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Earnings Invested in the Business</u>
	<u>Shares</u>	<u>Amount</u>		
Balance at December 31, 1972	4,043,646	\$6,740,000	\$25,689,000	\$51,467,000
Restatement due to Pooling of interests	<u>276,250</u>	<u>460,000</u>	<u>(405,000)</u>	<u>1,347,000</u>
As restated, December 31, 1972	4,319,896	7,200,000	25,284,000	52,814,000
Change in par value and Stock split 2 for 1	4,319,896	1,440,000	(1,440,000)	
Exercise of stock options	22,400	22,000	288,000	
Conversion of 5-3/4% debentures	67,965	68,000	1,200,000	
Conversion of 5% notes	76,250	76,000	1,449,000	
Net income				11,857,000
Dividends				<u>(1,896,000)</u>
Balance at December 31, 1973	8,806,407	8,806,000	26,781,000	62,775,000
Exercise of stock options	5,000	5,000	51,000	
Conversion of 5-3/4% debentures	47,722	48,000	831,000	
Net income				16,506,000
Dividends				<u>(3,093,000)</u>
Balance at December 31, 1974	<u>8,859,129</u>	<u>\$8,859,000</u>	<u>\$27,663,000</u>	<u>\$76,188,000</u>

The summary of significant accounting policies and notes to consolidated financial statements on pages 16 through 19 are an integral part of these statements.

## Description of Business

The business of Mallinckrodt, Inc. is the development, manufacture, distribution and marketing of fine chemicals, drugs, and allied products, based primarily on fine chemical technology, which serve the health care, laboratory, and other industries requiring such products.

The Company's operations are managed through the Chemical Group, Pharmaceutical and Science Products Group, and International Group. Administrative, executive, and financial functions are centrally managed. Market and product management responsibilities of the operating groups are outlined in pages 6 to 14 of this report.

The following table shows the approximate net sales, and percentage of total Company net sales of the groups for the past five years (with dollar amounts in thousands):

	1974	1973	1972	1971	1970
Chemical .....	\$123,179	\$97,306	\$67,960	\$58,839	\$55,586
	59.5%	58.9%	55.1%	54.1%	55.7%
Pharmaceutical and Science Products .....	\$ 64,640	\$52,915	\$43,287	\$39,183	\$35,338
	31.2%	32.0%	35.1%	36.1%	35.4%
International .....	\$ 19,301	\$15,048	\$12,039	\$10,629	\$ 8,891
	9.3%	9.1%	9.8%	9.8%	8.9%

## Common Stock Data

Quarter	1974				1973				Dividends Paid	
	Bid		Asked		Bid		Asked		1974	1973
	High	Low	High	Low	High	Low	High	Low		
First .....	43½	34½	44½	35½	46	39	46¾	39¾	\$ .08	\$ .052
Second .....	41¾	33¾	42¾	34¾	42½	36	43½	37	.08	.06
Third .....	40¾	25	41	25¾	46¾	37½	47¾	38½	.10	.06
Fourth .....	37	22¾	37¾	23¾	49	35½	50	36¾	.10	.06

Common stock (TICKER SYMBOL—MALL) is traded in the over-the-counter market and listed on NASDAQ. Quotations were compiled from published sources and do not include retail mark-up, mark-down or commissions and do not necessarily represent actual transactions.

# Management Discussion and Analysis of Operations

## 1974-1973

The increase of 25 percent in both net sales and cost of sales in 1974 is principally attributable to a significantly greater volume of business in all Operating Groups. Net sales and cost of sales also increased due to price and cost increases, primarily related to Chemical Group products, resulting from the pass-through of higher raw material costs and expenses. The percentage of cost of sales to sales declined slightly during the year due to the greater volume without proportionate increases in costs and to improved selling prices.

Selling, general and administrative expenses increased 18 percent over the prior year as a result of growth in employment due to the increased level of business activity, expansion of staff functions to provide for management of the company's growth and increases in costs.

Expenditures for research and development increased 13 percent in 1974 over 1973 representing primarily increased operating costs.

The 43 percent increase in 1974 income tax expense resulted from higher pre-tax income, as the effective tax rates were relatively stable.

During 1974 the Company acquired National Catheter Corp. which has been accounted for on a pooling of interests basis. (See acquisition note on page 19.)

## 1973-1972

In 1973 net sales increased 34 percent while cost of sales increased 37 percent. The increase in 1973 net sales was due to greater volume in all Operating Groups and the acquisition of Bowers Printing Ink Co. and Basic Foods, Inc., which were accounted for as purchases. Excluding the net sales of these two acquisitions, the Company's net sales increased 23 percent over 1972.

The cost of sales increase to 65 percent in relation to net sales as compared with 63 percent in 1972 resulted primarily from the inability to raise prices to pass through increased costs because of profit margin restraints imposed by the Economic Stabilization Program.

Selling, general and administrative expenses increased 27 percent in 1973 over the prior year. The increase was principally a result of expanded selling and marketing activities, expenses of the acquisitions and increased operating costs.

The 13 percent increase in 1973 research and development expense was attributable to additional programs and increased operating costs.

The increase in 1973 income tax expense was due to higher pre-tax income, as the effective tax rates were relatively stable.

# Consolidated Ten-Year Summary of Operations and Financial Statistics

(In Thousands of Dollars Except Per Share Amounts)

	1974	1973 (d)	1972 (d)
<b>Operations</b>			
Net sales	\$207,120	\$165,269	\$123,286
Cost of goods sold	133,463	106,714	78,030
Gross profit	73,657	58,555	45,256
Selling, general and administrative expenses	35,672	30,143	23,827
Research and development expenses	6,339	5,610	4,973
	42,011	35,753	28,800
Income from operations	31,646	22,802	16,456
Other income (deductions), net	67	(301)	(196)
Income before income taxes	31,713	22,501	16,260
Income taxes	15,207	10,644	7,639
<b>Income from ordinary operations</b>	<b>\$ 16,506</b>	<b>\$ 11,857</b>	<b>\$ 8,621</b>
Nonrecurring items net of related taxes			
Net income	\$ 16,506	\$ 11,857	\$ 8,621
Cash dividends paid			
Preferred			
Common	\$ 3,093	\$ 1,896	\$ 1,619
Earnings invested in the business	\$ 13,413	\$ 9,961	\$ 7,002
Income from ordinary operations			
% Earned on net sales	8.0%	7.2%	7.0%
% Return on average shareholders' investment	15.6%	12.9%	10.8%
<b>Financial</b>			
Working capital	\$ 56,898	\$ 51,726	\$ 44,533
Working capital ratio	3.4 to 1	4.3 to 1	3.5 to 1
Expansion and improvement of property	\$ 15,036	\$ 8,679	\$ 5,699
Depreciation and amortization	4,640	4,075	3,758
Net investment in property	57,483	46,227	42,336
Long-term debt	10,646	11,603	14,093
Shareholders' investment	112,710	98,362	85,298
<b>Per share data (a)</b>			
Earnings			
<b>Income from ordinary operations</b>	<b>\$ 1.87</b>	<b>\$ 1.36</b>	<b>\$ 1.01</b>
Net income	1.87	1.36	1.01
Earnings—assuming full dilution			
Income from ordinary operations	1.75	1.30	.97
Net income	1.75	1.30	.97
Dividends	.36	.232	.202
Shareholders' investment	12.72	11.17	9.87
<b>Other information</b>			
Shares outstanding at year end (a)	8,859,129	8,806,407	8,639,792
Weighted average number of shares outstanding during the year (a)	8,832,428	8,716,998	8,547,276
Number of shareholders	3,743	3,349	2,923

**Notes:**

(a) Common shares outstanding and per share amounts restated to reflect 2-for-1 stock split in 1973, 2-for-1 stock split in 1971 and 3-for-1 stock split in 1967.

(b) Extraordinary write-down of securities.

<u>1971</u> (d)	<u>1970</u> (d)	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>
\$108,651	\$99,815	\$90,127	\$70,209	\$62,134	\$58,964	\$49,191
<u>68,401</u>	<u>64,717</u>	<u>58,937</u>	<u>47,183</u>	<u>42,347</u>	<u>40,160</u>	<u>34,733</u>
40,250	35,098	31,190	23,026	19,787	18,804	14,458
21,238	19,121	17,521	13,243	11,552	11,442	8,625
<u>4,725</u>	<u>3,916</u>	<u>3,209</u>	<u>2,641</u>	<u>2,160</u>	<u>2,009</u>	<u>1,836</u>
25,963	23,037	20,730	15,884	13,712	13,451	10,461
14,287	12,061	10,460	7,142	6,075	5,353	3,997
<u>(864)</u>	<u>(555)</u>	<u>(645)</u>	<u>68</u>	<u>(29)</u>	<u>32</u>	<u>37</u>
13,423	11,506	9,815	7,210	6,046	5,385	4,034
<u>6,348</u>	<u>5,487</u>	<u>4,956</u>	<u>3,386</u>	<u>2,556</u>	<u>2,224</u>	<u>1,766</u>
\$ 7,075	\$ 6,019	\$ 4,859	\$ 3,824	\$ 3,490	\$ 3,161	\$ 2,268
<u>336(c)</u>	<u>(762)(b)</u>			<u>202(c)</u>	<u>464(c)</u>	
\$ 7,411	\$ 5,257	\$ 4,859	\$ 3,824	\$ 3,692	\$ 3,625	\$ 2,268
						\$ 5
\$ 1,467	\$ 1,357	\$ 1,126	\$ 888	\$ 813	\$ 702	\$ 507
<u>\$ 5,944</u>	<u>\$ 3,900</u>	<u>\$ 3,733</u>	<u>\$ 2,936</u>	<u>\$ 2,879</u>	<u>\$ 2,923</u>	<u>\$ 1,756</u>
6.5%	6.0%	5.4%	5.4%	5.6%	5.4%	4.6%
10.0%	9.3%	8.8%	8.3%	8.1%	8.1%	7.0%
\$ 44,042	\$37,982	\$32,748	\$30,577	\$24,983	\$21,964	\$21,055
<u>5.7 to 1</u>	<u>4.3 to 1</u>	<u>3.7 to 1</u>	<u>4.5 to 1</u>	<u>5.6 to 1</u>	<u>3.9 to 1</u>	<u>5.0 to 1</u>
\$ 3,935	\$ 7,436	\$ 9,047	\$ 6,117	\$ 4,533	\$ 9,791	\$ 3,663
<u>3,531</u>	<u>3,437</u>	<u>3,079</u>	<u>2,385</u>	<u>1,992</u>	<u>1,516</u>	<u>1,405</u>
40,586	40,297	36,235	30,267	26,535	23,994	15,719
<u>19,471</u>	<u>20,376</u>	<u>13,029</u>	<u>14,369</u>	<u>7,247</u>	<u>6,052</u>	<u>2,161</u>
73,899	67,142	62,961	47,797	44,577	41,476	36,621
\$ .85	\$ .72	\$ .65	\$ .56	\$ .52	\$ .47	\$ .39
<u>.89</u>	<u>.63</u>	<u>.65</u>	<u>.56</u>	<u>.54</u>	<u>.54</u>	<u>.39</u>
.81	.71					
<u>.85</u>	<u>.63</u>					
.188	.175	.15	.13	.12	.105	.088
<u>8.80</u>	<u>8.07</u>	<u>8.12</u>	<u>6.96</u>	<u>6.56</u>	<u>6.15</u>	<u>5.73</u>
8,396,958	8,323,556	7,751,056	6,869,056	6,799,368	6,739,524	6,393,972
8,370,306	8,306,332	7,441,224	6,837,076	6,769,444	6,732,004	5,779,623
<u>2,843</u>	<u>2,922</u>	<u>2,925</u>	<u>2,643</u>	<u>2,536</u>	<u>2,196</u>	<u>1,902</u>

(c) Extraordinary gain on sale of securities.

(d) Restated to include acquired company accounted for as a pooling of interests; except, dividends per share are as previously reported.

# Mallinckrodt

## General Offices

Mallinckrodt, Inc.  
Mallinckrodt and Second Streets  
St. Louis, Missouri 63147

## Plants

Argyle, New York  
Bohemia, New York  
Carlstadt, New Jersey  
Chicago, Illinois  
Cincinnati, Ohio  
Decatur, Illinois  
Englewood, New Jersey  
Erie, Pennsylvania  
Hawthorne, California  
Jersey City, New Jersey  
Lodi, New Jersey  
Maryland Heights, Missouri  
Mexico, D.F., Mexico  
Montreal, Quebec, Canada  
Pointe Claire, Quebec, Canada  
Raleigh, North Carolina  
St. Louis, Missouri  
Toronto, Ontario, Canada

## Sales Offices

Argyle; Carlstadt; Chicago;  
Cincinnati; Elmsford, New York;  
Englewood; Erie; Jersey City;  
Lodi; London, England;  
Los Angeles, California; Mexico,  
D.F.; Montreal; Pointe Claire;  
Raleigh; Rio de Janeiro, Brazil;  
St. Louis; Toronto

## Subsidiaries

Bowers Printing Ink Company of  
Canada, Ltd., Montreal, Quebec,  
and Toronto, Ontario, Canada  
Fries & Fries International de  
Mexico, S.A., Mexico, D.F.,  
Mexico  
Mallinckrodt Canada Limited,  
Pointe Claire, Quebec, Canada  
Mallinckrodt Far East Corporation,  
Tokyo, Japan  
Mallinckrodt International Sales  
Corporation, St. Louis, Missouri  
Mallinckrodt Produtos  
Diagnosticos e Quimicos,  
Ltda., Rio de Janeiro, Brazil  
Mallinckrodt (U.K.) Limited,  
London, England  
National Catheter Corp.,  
Argyle, New York  
Rey-Mol, S.A. de C.V., Mexico,  
D.F., Mexico  
Serosonic Laboratories, Inc.,  
Bohemia, New York

## Affiliated Companies

Byk-Mallinckrodt Chemische  
Produkte GmbH, Dietzenbach-  
Steinberg, and Wesel,  
West Germany  
Daiichi Radioisotope  
Laboratories, Limited,  
Tokyo, Japan  
Mallinckrodt—Iberica, S.A.,  
Madrid, Spain

## Independent Accountants

Price Waterhouse & Co.,  
St. Louis

## Dividend Disbursing Agent

St. Louis Union Trust Company,  
St. Louis

## Transfer Agents

St. Louis Union Trust Company,  
St. Louis  
Morgan Guaranty Trust Company,  
New York

## Registrars

The Boatmen's National Bank of  
St. Louis, St. Louis  
Manufacturers Hanover Trust  
Company, New York

## Trustee & Paying Agent

Manufacturers Hanover Trust  
Company, New York, for 5-3/4%  
Convertible Debentures Due 1995

## 10-K Report Availability

Shareholders may obtain  
additional financial information  
from the Company's 1974 Form  
10-K filed with the Securities and  
Exchange Commission. A copy of  
the Form 10-K will be sent to any  
shareholder upon written request  
to the Secretary, Mallinckrodt,  
Inc., Mallinckrodt and Second  
Streets, St. Louis, Missouri 63147.