

ANNUAL REPORT

ANNUAL REPORTS

Todd Shipyards Corporation 1965
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TODD SHIPYARDS CORPORATION

YEAR ENDED MARCH 31,

Annual Report 1965



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Annual Report 1965

YEAR ENDED MARCH 31,

TODD SHIPYARDS CORPORATION

One Broadway, New York, N. Y. 10004

TRANSFER AGENT

Manufacturers Hanover
Trust Company, New York, N. Y.

REGISTRAR

First National City Bank, New York, N. Y.

AUDITORS

Arthur Young & Company, New York, N. Y.

COUNSEL

Cullen and Dykman, Brooklyn, N. Y.

The Corporation's stock is traded on the
American Stock Exchange, New York, N. Y.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Wednesday, June 16, 1965, at 12 noon, E.D.S.T., at the Auditorium of the Chase Manhattan Bank, One Chase Manhattan Plaza, New York City. You are cordially invited to attend.

TODD SHIPYARDS CORPORATION

SIGNIFICANT FACTS

	Fiscal Year Ended March 31	
	1965	1964
Sales	\$100,167,488	\$99,455,632
Net Income Including Extraordinary Item in 1965	\$ 2,065,889	\$ 1,200,174
Dividends Paid	\$ 1,022,209	\$ 1,023,922
Total Taxes	\$ 4,074,112	\$ 4,369,599
Working Capital	\$ 30,537,941	\$24,981,203
Current Ratio	2.71	2.40
Fixed Assets—Net	\$ 19,546,972	\$17,112,001
Stockholders' Equity	\$ 44,944,863	\$43,923,757
Number of Shares Outstanding	729,884	730,674
Number of Stockholders	2,696	2,557

DATA ON A PER SHARE BASIS

Net Income Including Extraordinary Item in 1965	\$ 2.83	\$ 1.64
Dividends Paid	\$ 1.40	\$ 1.40
Total Taxes	\$ 5.58	\$ 5.98
Stockholders' Equity	\$ 61.58	\$ 60.11

May 20, 1965

TO THE STOCKHOLDERS:

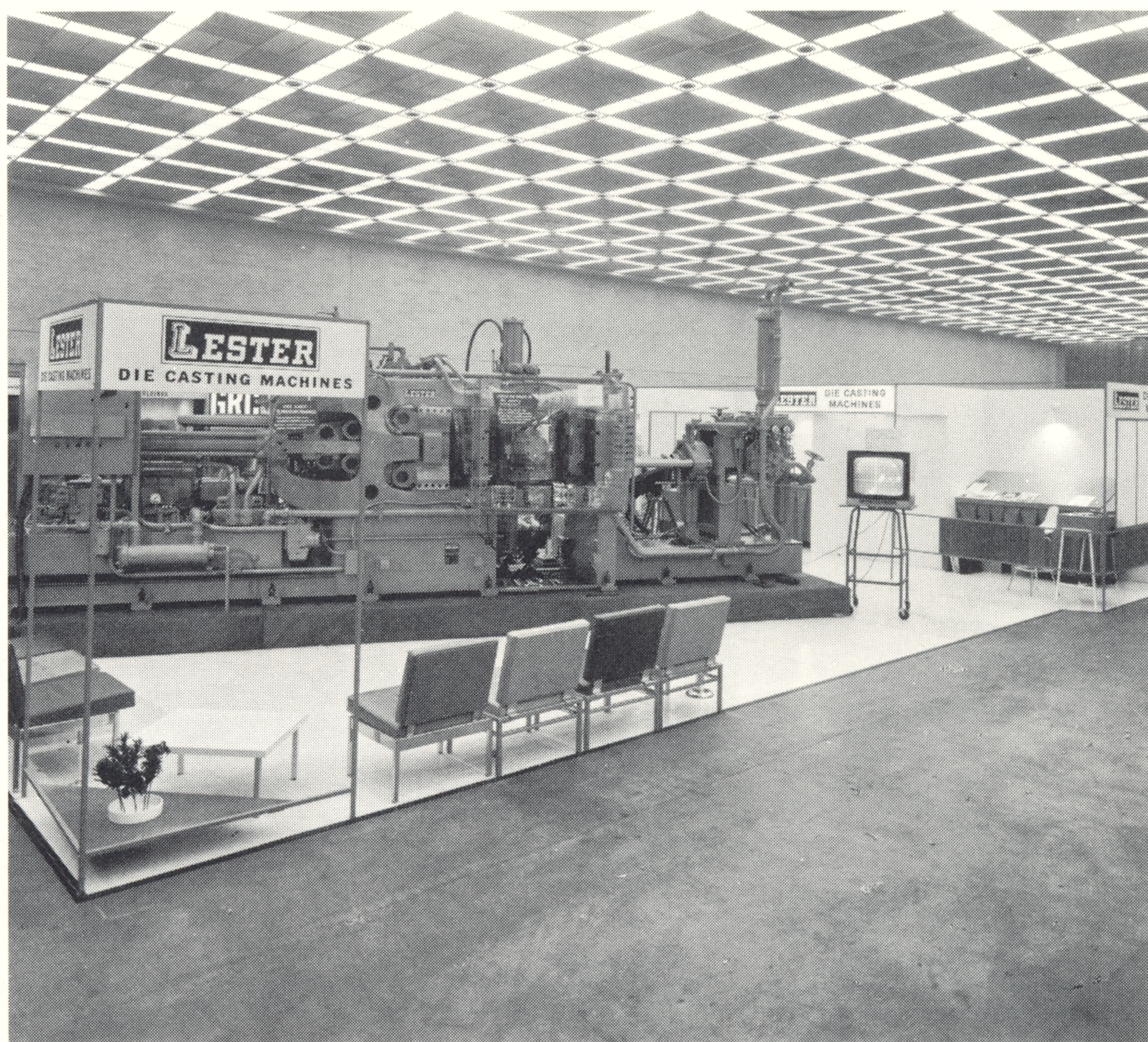
This has been a year of progress for your Company toward the objectives which we announced in last year's Annual Report and at the 1964 Annual Meeting. The highlights for the year include disposition of Seattle Plant A; finalizing contracts totaling \$151,000,000 for the construction of fourteen destroyer escort vessels for the United States Navy; the acquisition of Lester Engineering Company; the decision and public announcement to close the Hoboken Division, and the completion of the Company's long-term financing. We think you will agree that these and other developments have made this a year of accomplishment.

The accompanying balance sheet and income statement have been prepared on a consolidated basis to include Lester Engineering Company. The operations of this subsidiary have been included in the income statement since its acquisition in July 1964. On this consolidated basis, sales for the year ended March 31, 1965, totaled \$100,167,488, which includes \$6,653,494 for Lester Engineering Company for the nine months since acquisition. Consolidated net income, including extraordinary item, amounted to \$2,065,889 equivalent to \$2.83 per share of capital stock issued and outstanding at March 31, 1965. The item of \$2,071,377, classified as "extraordinary", represents gain on disposition of properties, principally land in the Seattle area.

During the fiscal year Seattle Plant A was sold to the Port of Seattle. The land on which this plant was located had been owned by the Company since 1941; the improvements, such as piers and buildings, were initially owned by the Government, having been built during World War II. Because of the increase in land values in that area the Company acquired the Government interest in 1961 as the only feasible means of realizing on this increase in value. Todd Properties Corporation, the subsidiary which had managed this property, was liquidated and its assets taken over by the Company.

On July 22, 1964, the Company received contracts totaling \$151,000,000 for the construction of fourteen destroyer escort vessels, seven to be built at the Seattle Division and seven at

New 600-ton aluminum die casting machine shown as it was introduced by Lester Engineering Company to the trade in November.



the Los Angeles Division. The Seattle Division was designated by the Navy as the lead yard in this new and hopefully continuing program. Work under these contracts will extend over a five year period and is now in the planning, engineering and material procurement stage with the keel laying for the first vessels scheduled in July 1965 at Seattle and December 1965 at Los Angeles. In addition, the Company received from the United States Navy, under date of April 7, 1965, a contract in the amount of \$17,700,000 for the modification, renovation and conversion of a Fleet Oil Tanker at the Los Angeles Division. As a result of these contracts and other commercial contracts, your Company's backlog of \$185,000,000 is the largest in its peace time history.

Our programs for diversification and modernization of shiprepair and shipbuilding facilities required long-term financing. This was negotiated during the year in the amount of \$15,000,000, of which \$5,000,000 has been appropriated for Lester Engineering Company and \$10,000,000 for Todd's modernization program. At March 31, 1965, \$6,685,503 of these funds had been expended for the purposes intended, leaving an unexpended balance of \$8,314,497 invested principally in interest bearing certificates of deposit. It is contemplated that substantially all of these funds will be expended within this fiscal year.

The \$15,000,000 loan was arranged through private placement of the Company's 5 1/2% Notes due 1985. These notes require annual payments of \$1,000,000 beginning February 1, 1971 and contain various restrictions usual to this type of financing. At March 31, 1965, retained earnings of approximately \$2,250,000 were not subject to the limitation of dividend payments and purchase of Company stock.

At March 31, 1965, the Company held a 99% interest in Lester Engineering Company through the purchase of its outstanding stock and convertible subordinated debentures at a cost of \$3,000,000. An additional \$2,000,000 was appropriated for the payment of Lester's outstanding long-term debt and expansion of manufacturing facilities.

Artist's conception of the Destroyer Escort, Class 1052, fourteen of which are being constructed at the Seattle and Los Angeles Divisions.

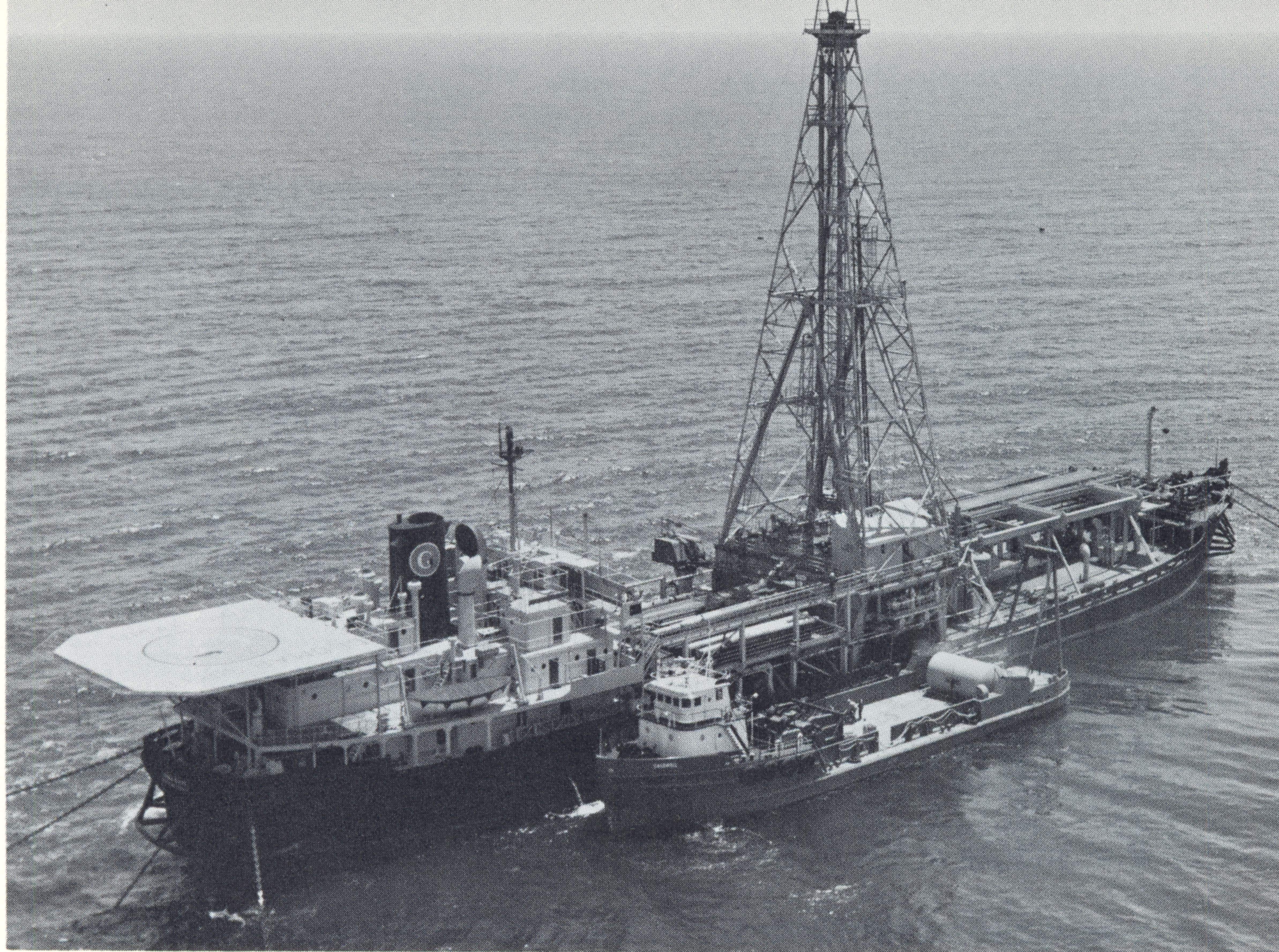


The Company's \$10,000,000 modernization program is well under way with extensive work either completed or in progress at six of the Company's divisions. This program contemplates the acquisition of certain Navy-owned facilities that are considered necessary to the Company's shiprepair and shipbuilding operations. Such facilities at the Galveston Division were acquired prior to March 31, 1965, at a cost of \$625,000. Negotiations are in process to arrange for the acquisition or continued leasing of the Navy-owned facilities at the Brooklyn and New Orleans Divisions.

The volume of work available to your Company in the Port of New York is insufficient to support two shipyards, consequently it has been decided to modernize and upgrade the shipyard facilities of the Brooklyn Division and cease operations at the Hoboken Division. It is expected that the phasing out at the latter division will be completed by the end of calendar year 1965. During the interim, such of the Company-owned facilities, machinery and equipment as can be economically used by other divisions and subsidiaries will be transferred to them, and the balance sold to the Company's best advantage. The final disposition of our Hoboken Division facilities should have no significant effect on the Company's financial position.

It is our belief that Lester Engineering Company forms a good base for our program of expanding through diversification. With many other companies having similar objectives, it is becoming increasingly difficult to find companies that meet our specifications as to product, price and size; however, our efforts continue in this connection.

Considerable time has been devoted to our English subsidiary, Todd Combustion Limited, formerly Todd Oil Burners Limited. We have agreed to increase our investment and have made the necessary arrangements to assume the active management of this company. We believe that splendid growth potential exists for the marketing of our many combustion products in Western Europe.



Left: 380 foot self-propelled drilling ship GLOMAR SIRTE converted from an ore carrier by the Galveston Division, shown drilling on her first assignment off the Texas coast.

Despite disturbing suggestions emanating from Washington concerning the future of the American Merchant Marine, your management is convinced that the shipbuilding and shiprepair industry has a future in which a closely-knit, economically-run company, with modern facilities and sufficient financial resources, can operate profitably.

Increasingly, the present depressed state of the American Merchant Marine is being brought to the attention of the public in newspapers, magazines and other news media, and while some of the panaceas advanced seem designed to kill rather than cure the patient, the publicity is putting before the people the present plight of the fourth arm of our nation's defense. It is also directing to the attention of those most concerned with the national well-being, the tremendous sea power build-up of the Iron Curtain countries, both in naval vessels and merchant ships.

A comparatively recent operation of the Navy called "Steel Pike" illustrated how necessary merchant ships were in amphibious landings, where ten modern merchant ships chartered from private owners took part in a full-scale naval maneuver that landed the Marines on the coast of Spain. At a hearing before a subcommittee of the House Committee on Merchant Marine and Fisheries, the operation was called a complete success by those who directed it, and their testimony was to the effect that without ships of the type chartered from the private owners, the operation could not have been accomplished. This, and other statements of our military, must bear fruit in a larger, better-designed and healthier Merchant Marine, and, when this hoped-for result is realized, those companies which form the hard core of the industry, of which your Company is one, will certainly benefit.

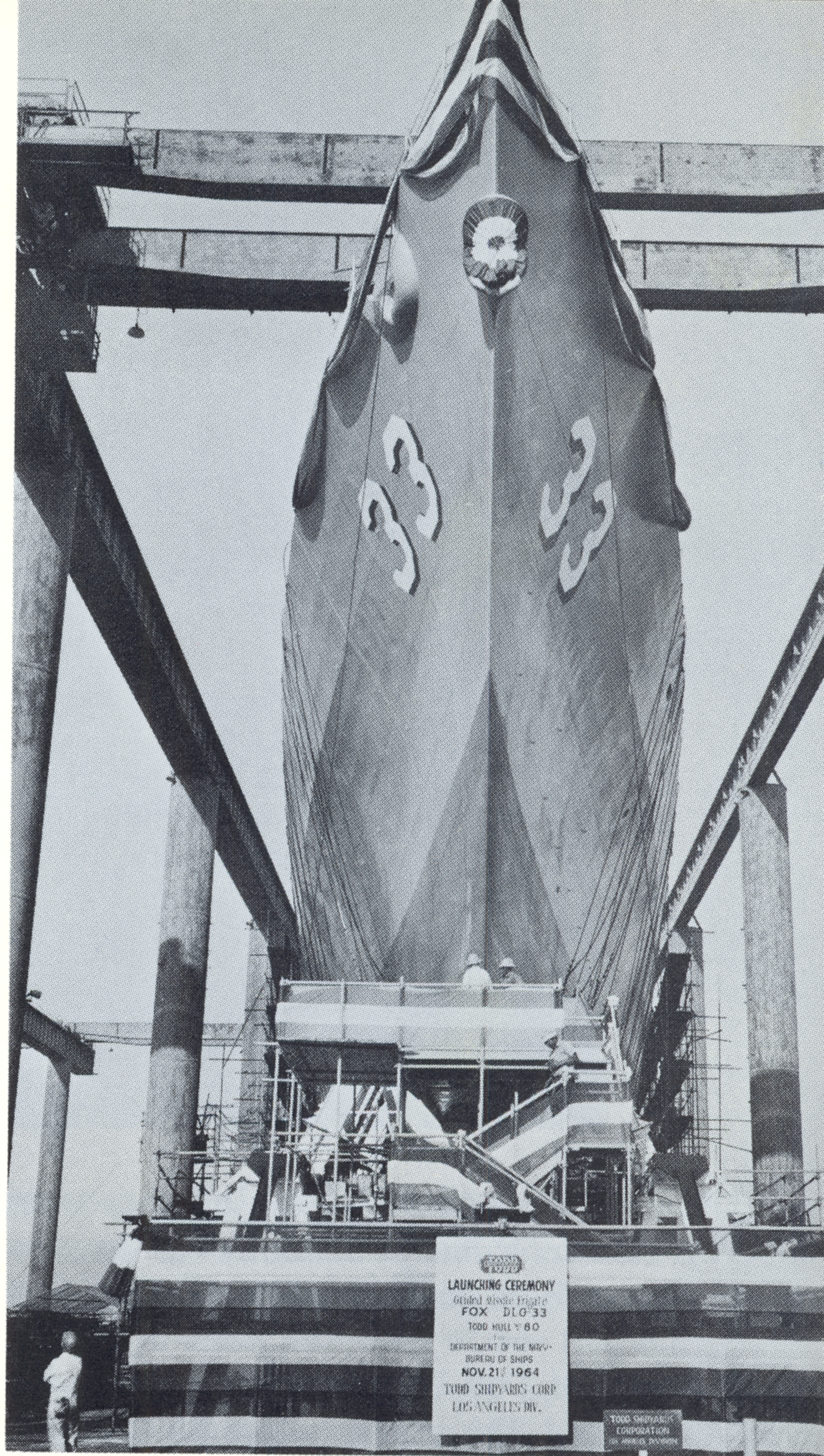
There are, of course, reasons other than national apathy from the executive and legislative branches of Government down to the civilian population, which have contributed to the

decline of our Merchant Marine. The uncertainties generated in the minds of shippers and travelers alike by strikes of ships' crews, longshoremen and other segments of marine industry employees have contributed in no small degree to the decline of the Merchant Marine. Within this past year, a disastrous strike of longshoremen which affected particularly our plants on the East and Gulf Coasts, is an example of one of the major problems with which the industry is faced. This situation must be corrected before an image of the industry can be projected that will remove the uncertainties which naturally exist in the minds of those whose goods must be delivered abroad or whose travel plans must be accomplished at a definite time. Some constructive action in this direction between the unions involved and the vessel owners and operators has already been taken.

The provision that 35% of the funds made available to the Navy for repair and conversion of its vessels be used to procure such work from private yards is not included in this year's budget for the Navy Department. The experience with this provision has not been as expected. We believe there is recognition by the Navy that a fair share of this work should be made available to the hard core private yards and hence the elimination of the budget provision is not of significance.

To meet the requirements of profitable participation as a part of the maritime industry, the all-out economy program of your Company has continued during the past year. This, coupled with the changing nature of the marine business, has permitted further reduction in personnel and expenses. Our betterment program of upgrading and modernizing yard facilities, which will result in the handling of work more economically and expeditiously, is another example of the efforts to reduce operating costs.

Launching of Guided Missile Frigate FOX (DLG-33)
November 21, 1964 at the Los Angeles Division.



On February 6, 1965, Francis J. Smyth, a Vice President and Director, died. His death was completely unexpected as he was a comparatively young man, although an employee of the Company for over forty-five years. He was an effective executive, and his loss in the Company's councils will be felt. We who knew him mourn his passing.

The developments of the last year, the improvements to plant and facilities, the economies in operations already accomplished and contemplated, the contracts received and the increasing awareness of the vital role played by the Merchant Marine and our Navy in the defense and economic well-being of the nation, all lead your management to face the future with optimism.

To all who have contributed to the Company's progress in the last year, including customers, employees and stockholders, we extend our grateful thanks.

Respectfully submitted,

John J. Heilger
Chairman

J. T. Gilbride
President

TODD SHIPYARDS CORPORATION

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended March 31, 1965

Sales		\$100,167,488
Operating expenses:		
Labor, material and other expenses	\$94,119,164	
Taxes, other than federal taxes on income	3,549,112	
Depreciation	1,722,675	
Contributions to retirement and pension plans	479,887	99,870,838
Profit from operations		296,650
Other income (deductions):		
Interest and debt expense, less		
\$87,521 interest income	(472,752)	
Miscellaneous	70,614	(402,138)
		(105,488)
Federal taxes on income, including \$50,000		
of deferred taxes, less investment tax credit of \$35,000 ..	525,000	
Less federal taxes applicable to extraordinary item	625,000	(100,000)
Net income (loss)		(5,488)
Extraordinary item:		
Gain on disposition of fixed assets, principally		
from sale of land, less \$625,000 federal taxes		2,071,377
Net income including extraordinary item		2,065,889
Retained earnings at March 31, 1964		29,508,647
		31,574,536
Dividends paid—\$1.40 per share		1,022,209
Retained earnings at March 31, 1965 (Note 2)		\$ 30,552,327

See notes to financial statements.

CONSOLIDATED BALANCE SHEET

March 31, 1965

ASSETS

Current assets:

Cash		\$ 2,295,614
Accounts and notes receivable, including amounts un- billed of \$9,156,537 (Note 1):		
U. S. Government Departments	\$ 6,626,893	
Other	<u>18,487,049</u>	25,113,942
Work in progress, less progress billings (Note 1)		13,471,210
Materials and supplies, at lower of cost or replacement market		5,647,787
Prepaid insurance and other expenses		<u>1,890,188</u>
Total current assets		48,418,741

Funds—principally certificates of deposit—segregated for plant betterment program		8,314,497
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Tools and tool parts, at depreciated value		1,580,443
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Fixed assets, at cost:

Plant, dry docks and equipment	44,452,314	
Less accumulated depreciation	<u>29,833,751</u>	
	14,618,563	
Land	3,939,134	
Leasehold improvements, less amortization	<u>989,275</u>	19,546,972

Other assets		<u>1,240,010</u>
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\$79,100,663

TODD SHIPYARDS CORPORATION

LIABILITIES

Current liabilities:

Notes payable to banks	\$ 3,500,000
Accounts payable	10,064,406
Payrolls and vacations	2,194,876
Taxes, other than federal taxes on income	1,064,616
Federal taxes on income	<u>1,056,902</u>
Total current liabilities	17,880,800
5½% Notes due 1985, payable \$1,000,000 annually commencing February 1, 1971 (Note 2)	15,000,000
Deferred federal taxes on income	1,275,000

STOCKHOLDERS' EQUITY

Common stock, \$20 par value:		
Authorized, 1,000,000 shares		
Issued, 746,709 shares	\$14,934,180	
Retained earnings (Note 2)	<u>30,552,327</u>	
	45,486,507	
Less 16,825 shares of common stock held in treasury, at cost	<u>541,644</u>	<u>44,944,863</u>
		<u><u>\$79,100,663</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—REPAIR AND CONSTRUCTION CONTRACTS

Contracts completed at March 31, 1965 are included in accounts receivable at estimated cash realization value. Contracts not completed at March 31, 1965 are carried in work in progress at the lower of (a) cost, plus, in the case of contracts requiring a construction period in excess of twelve months, a portion of estimated profits based on percentage of completion, or (b) estimated final realizable value reduced by estimated costs to complete.

NOTE 2—NOTES DUE 1985

The 5½% notes limit the payment of cash dividends and the purchase of the Company's common stock. At March 31, 1965 retained earnings of approximately \$2,250,000 were not subject to this limitation.

ACCOUNTANTS' REPORT

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Stockholders
Todd Shipyards Corporation

We have examined the accompanying consolidated balance sheet of Todd Shipyards Corporation and subsidiary at March 31, 1965 and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Todd Shipyards Corporation and subsidiary at March 31, 1965 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

May 3, 1965

Arthur Young & Company



Directors and Officers

*JOHN D. REILLY

Chairman of the Board of Directors

*JOHN T. GILBRIDE

President

*JOHN D. REILLY, JR.

Executive Vice President

*HARRY G. HILL

Executive Vice President and Counsel

*CLIFFORD A. SHELDRAKE

Vice President—Finance and Comptroller

*JOHN H. BAKER

Vice President—Sales

*FRANCIS J. SMYTH†

Vice-President—Public Relations

*ROBERT FREEBAIRN

Retired Vice President

HENRY D. OBST

Vice President—Industrial Relations

J. THOMAS EDGE

Treasurer

EDWIN K. LINEN

Secretary

LANGDON S. GODDARD

Assistant to the President

ROBERT J. FARRINGTON

Assistant to the President

*Directors

†Deceased February 6, 1965

General Managers

ANGEL GARATE—Brooklyn

Brooklyn, New York

THOMAS H. GALLAGHER—Hoboken

Hoboken, New Jersey

BERT L. HALE—New Orleans

Algiers, Louisiana

RALPH F. ANSELM—Galveston

Galveston, Texas

LOWRY E. GILBREATH—Houston

Houston, Texas

CARL M. LIPPINCOTT—Los Angeles

San Pedro, California

AUSTIN D. SHEAN—San Francisco

Alameda, California

ROBERT G. ZENER—Seattle

Seattle, Washington

WILLIAM H. BOHN—Products

Brooklyn, New York

Subsidiaries

LESTER ENGINEERING COMPANY

Cleveland, Ohio

David J. Sloane, *Vice President*

TODD COMBUSTION LIMITED

(Formerly Todd Oil Burners Ltd.)

London, England

R. Bishop, *General Manager*



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