

1970 ANNUAL REPORT



THE FRANKLIN MINT, INC. 1970 ANNUAL REPORT

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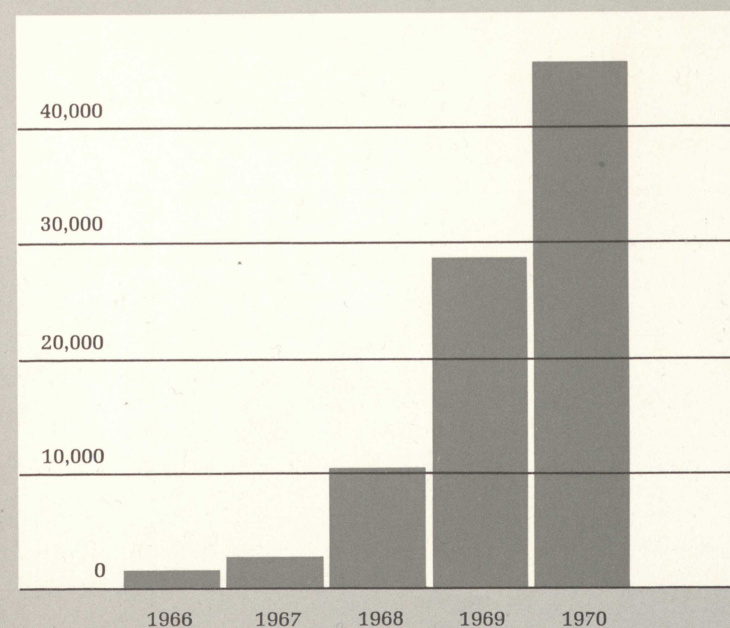
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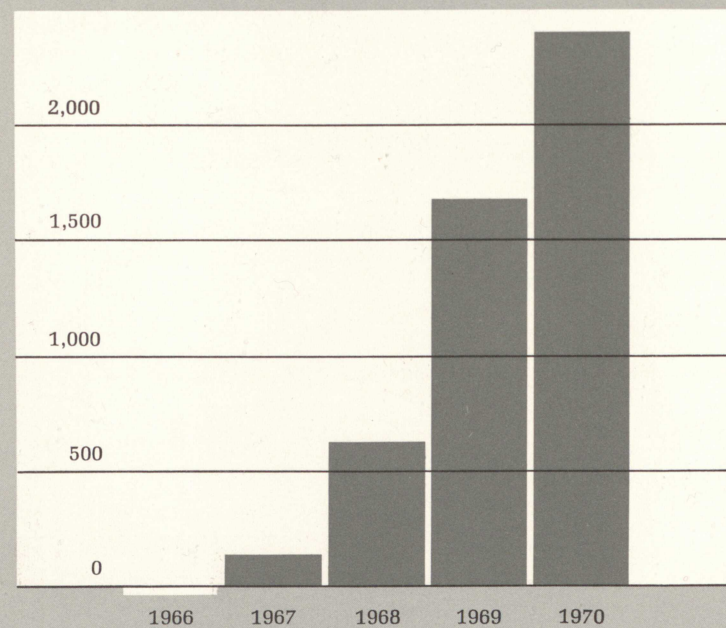
## FINANCIAL HIGHLIGHTS

	1970	1969	Percentage Change
Net sales	<b>\$45,885,000</b>	\$28,618,000	+60 %
Net income	<b>2,413,000</b>	1,689,000	+43 %
Per share earnings	<b>\$1.03</b>	\$ .75	+37 %
Net investment in property, plant and equipment	<b>11,439,000</b>	9,060,000	+26 %
Shareholders' equity	<b>9,986,000</b>	7,116,000	+40 %

**NET SALES**  
(Dollars in thousands)



**NET INCOME**  
(Dollars in thousands)



## A GOOD START INTO THE SEVENTIES

1970 was the fifth consecutive year in which we established new sales and earnings records.

Rather than let the generally depressed condition of the economy affect us, we forged ahead with a steady flow of new programs and promotions. And our positive approach worked.

Sales rose 60 per cent from 1969. Earnings were up 43 per cent.

But there was more to 1970 than just breaking sales and earnings records.

## THE BIG MOVE

During the early part of the year, we completed the big move into our new building at Franklin Center, Pa. It was quite a project—involving the installation of some 350 pieces of manufacturing equipment and the relocation of nearly 1000 people previously working in 15 different locations. But it was well worthwhile.

The shakedown period extended over several months, and during that period of time we charged off all the expenses of the move. By early fall, we started showing significant production gains, and we ended up the year with a substantially more efficient operation than we ever had before.

It's no exaggeration to say that this new 200,000 square foot facility is one of the finest mints in existence, if not the finest. Much larger than any other private mint—and even larger than all but a few of the government mints around the world—the new Franklin Mint has already become a significant tourist attraction. We host as many as a thousand visitors a week, and many of these visitors turn into regular customers.

The new facility has enabled us to lower operating costs in many departments, and to establish much better coordination and control, greater flexibility and the capacity to handle substantially increased sales.



Franklin Mint Engraving Department houses largest collection of automatic engraving machines in any mint anywhere in the world.



New vibratory burnishing system automates blank processing.



Automated continuous silver casting equipment, the first of its type in any mint, enables The Franklin Mint to melt, cast and roll millions of ounces of silver per year.



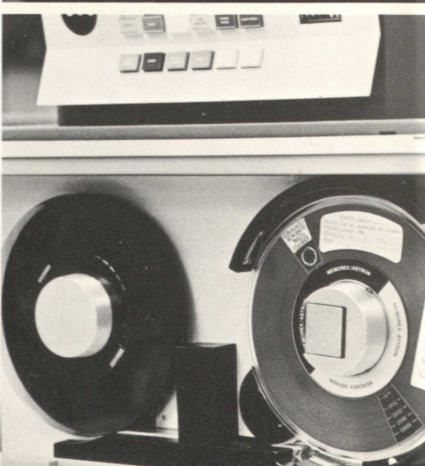
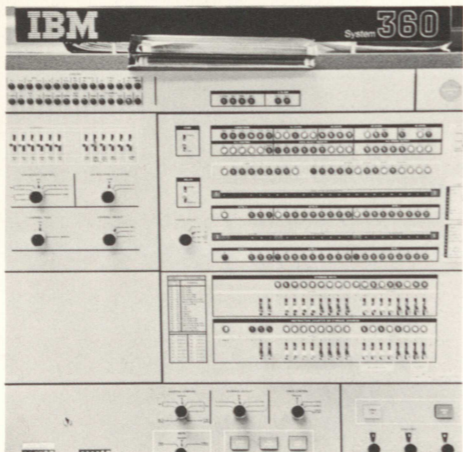
As many as a thousand visitors per week take guided tours through our glass-enclosed visitors gallery.



Partial view of office area at The Franklin Mint's world headquarters, Franklin Center, Pa.

Franklin Mint proof quality coins and medals are minted in this special "clean room," where air is changed completely every 90 seconds. Personnel must wear lint-free uniforms, and anyone coming in contact with the coins must wear plastic gloves.





## NEW FACES AND NEW SYSTEMS

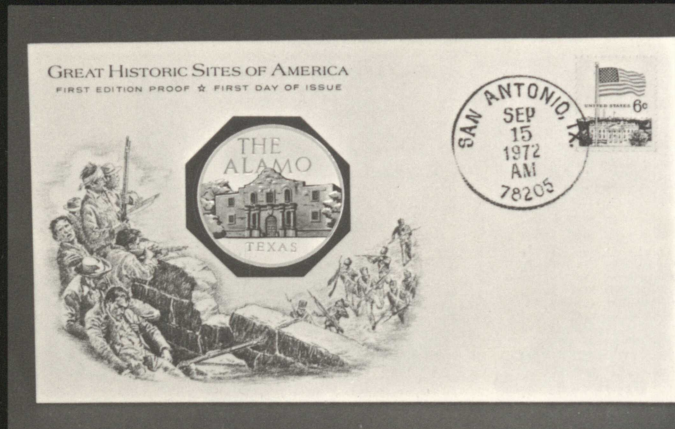
To keep up with our current growth and to lay groundwork for the future, we continued throughout 1970 to recruit and place top professionals in key positions.

Yet, despite the increased work level and substantial hiring throughout the year, we managed to maintain a relatively constant number of employees. This was accomplished by simplifying our organizational structure and constantly upgrading the level of personnel, while at the same time generally increasing our efficiency.

The most dramatic change in effec-

tiveness came in the Finance and Administration area. There, a new financial team completely revamped our accounting procedures — making good use of our IBM 360-40 computer installation — and today we have a financial planning, control and reporting system that any company would be proud of.

It is a constant goal of Franklin Mint management to achieve the highest possible levels of professionalism and cost effectiveness. These goals will continue to guide our personnel and systems activities throughout the '70s.



"Great Historic Sites of America" was our first subscription series of medals in "first day covers"—an idea combining numismatics with philately. Engraved cachets are postmarked at the post office serving the site depicted, on the medal's first day of issue. Fifty sites are represented, one in each state.

"Bringing Home the Tree," first in a series of six sterling silver Christmas plates etched with an original design by Norman Rockwell. A new plate in this series will be offered each year through 1976.



All products shown one-half actual size.



The Franklin Mint's first line of medallic jewelry features Gilroy Roberts' "Signs of the Zodiac." This is also our first product line offered as open stock rather than limited edition.

"Roberts Birds," sculptured by Gilroy Roberts, introduced a new, larger size art medal (two inches in diameter) and brought Franklin Mint medal collecting to the attention of members of the National Geographic Society for the first time. Five new birds in this series are offered quarterly.



One of our most popular new products: Bank ingots, coined with the emblems of different banks. Sold individually by sponsoring banks, the ingots are also distributed directly by The Franklin Mint in the form of 50-piece sets.



Will Rogers was one of the first 12 Great Americans selected by public balloting to be honored in the *Gallery of Great Americans* at Franklin Center. Twelve additional Great Americans will be selected each year through 1976. Each will be honored with displays in our Gallery—and will be the subject of a commemorative medal.



We were chosen in 1970 as official minters and distributors of two United Nations commemoratives. On the left is the UN 25th Anniversary Medal, which we designed, struck and distributed in many countries around the world. On the right is the UN "Youth for Peace" medal.



A special edition of our 50-medal States of the Union series, offered through American Express Company, introduced a new type of premium quality medal to collectors—24KT gold on sterling.



Now being minted in eight countries and collected in ten, "The Genius of Michelangelo" was our first series of art medals to be produced in several different languages. Shown here is "The Creation of Adam," the first issue in the 60-medal series.

## PRODUCTS: AN EXPANDING VARIETY

In the past, most of our products could be broadly classified as coins or medals.

But in reality, our basic product is the collector's item. And our basic business is recognizing, stimulating and satisfying collector instincts.

1970 was the year in which we started flexing our product development muscle. In addition to developing and producing a number of unusual variations of coins and medals, we also began producing other types of limited edition collector's items.

Each of these new product variations met with considerable marketing success—both in terms of satisfying our established customers and in bringing in new customers.

## 100,000 NEW COLLECTORS

Today, the vast majority of our customers are people who had relatively little interest in coins or medals before being attracted by one of our collecting programs.

In fact, we have created a new hobby: the collecting—specifically—of Franklin Mint creations.

We gained approximately 100,000 new customers in 1970. That brought the number of established Franklin Mint collectors, after computerized “list cleaning,” to more than 300,000. Of these, nearly 90,000 have also joined the new Franklin Mint Collectors Society, which is now the largest numismatic organization in the world.

Underlying this marketing success is the important contributing factor of company image: Franklin Mint products are generally considered superior to

others of their kind—in artistry, quality and limited edition integrity. We are quite conscious of the importance of maintaining this reputation and making it even more widely known.

In 1970, we also successfully introduced the concept of large-scale marketing of special editions of our products to established customers of other companies. Our first cooperative marketing program was with American Express Company, and we have since embarked upon additional programs with several other prestigious organizations.

Our expanded family of collectors not only produced more business for us in 1970 than in 1969 but also increased our subscription backlog (for fulfillment through 1976) from approximately \$30,000,000 at the end of 1969 to nearly \$50,000,000 at the end of 1970.



## INTERNATIONAL: A KEY MARKET OF THE SEVENTIES

We laid the groundwork for an international thrust in 1969, when we acquired operating subsidiaries in England and Canada.

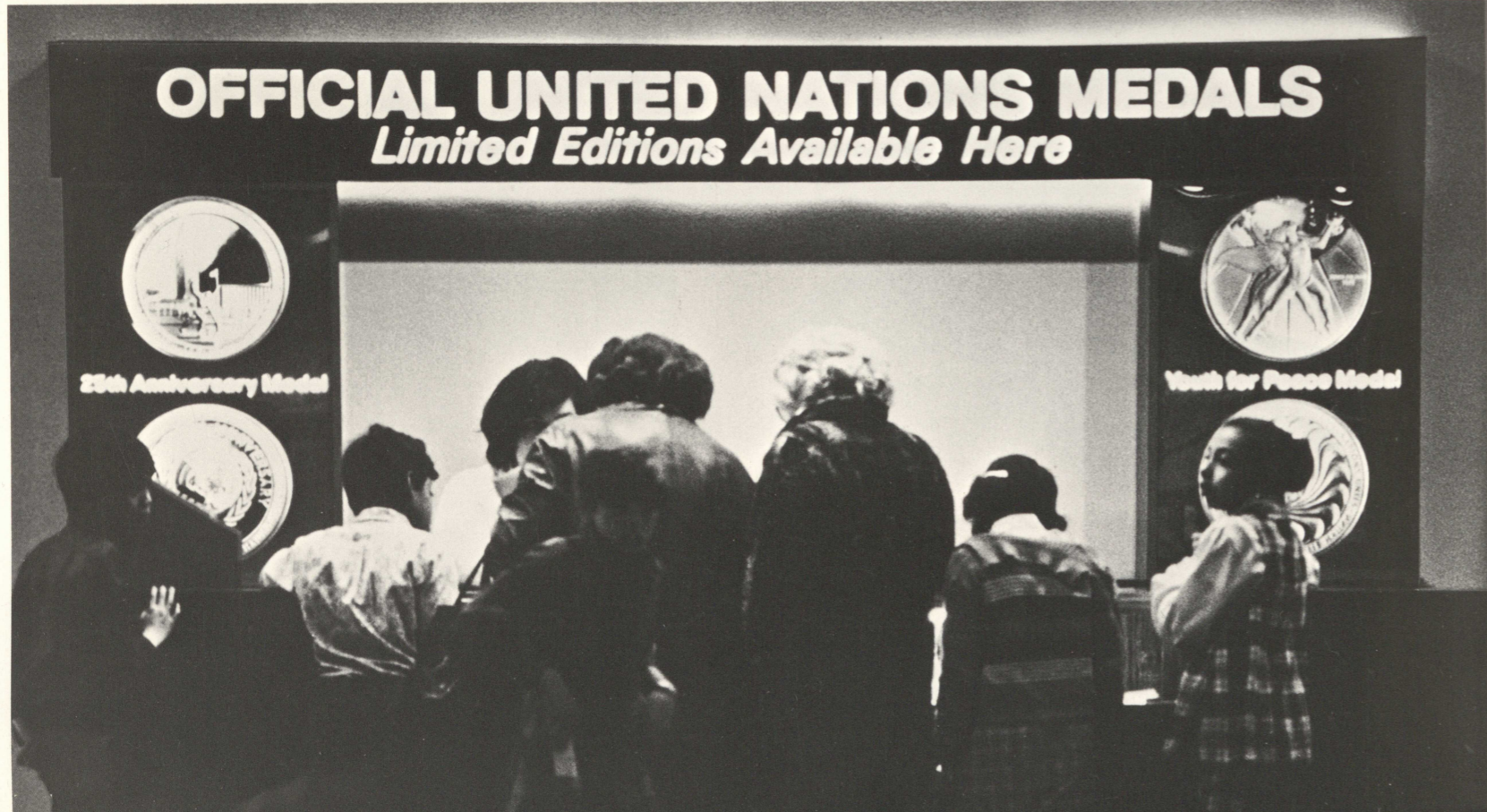
But it was in 1970, through actual sales of subscription series, that we began developing collector markets in ten foreign countries. We also acquired a third foreign subsidiary—Le Medaillier, S.A., of Paris, France—a small company that plays an especially important role in the minting industry. The firm is the sole producer of the Janvier automatic reduction engraving machine, the basic machine used to engrave master hubs and dies in mints around the world.

Franklin Mint programs have now been successfully transplanted to England, Canada, France, Germany, Spain, Italy, Austria, Australia, Mexico and Japan. This embryonic international activity rang up more than \$2 million in sales last year for our unconsolidated international subsidiaries—plus establishing an additional backlog of unfulfilled subscriptions totaling more than \$4.5 million.

Considering what was accomplished in our first full year of international marketing, we see the world market as potentially the fastest growing part of our business in the '70s.



Three foreign affiliates give us minting and marketing bases abroad. Clockwise, from lower left, are scenes from Wellings Mint, Ltd., Rexdale, Ontario, Canada; Le Medaillier, S.A., Paris, France; and John Pinches (Medallists), Ltd., London, England.



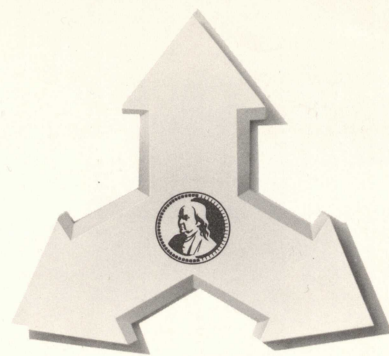
## ACROSS THE COUNTER, A NEW OPPORTUNITY

Just as the seeds of our international expansion, sown in 1969, sprouted the following year, similar groundwork was laid in 1970 for future expansion into the retail market. This new activity holds promise both domestically and internationally, and has already generated a wealth of new product ideas.

The first product we developed principally for retailer distribution—the Norman Rockwell Christmas Plate—was a resounding success. More than 250 high quality stores were selected to participate in this program, and they quickly sold out their limited allocations. Today, only a few months later, the 1970 Christmas Plate is widely sought after

by collectors, and is now being bought and sold by both collectors and dealers for substantially more than the original issue price.

The Christmas Plate's success prompted us to explore retail merchandising in greater depth. As a result, we are now planning to establish several experimental retail shops and counters of our own. These pilot operations will present various types of limited edition and fine art products in different merchandising environments. From this testing, we plan to develop a broader retail merchandising program for introduction in a number of different retail marketing areas.



## A LOOK TO THE FUTURE

By producing interesting products for collectors, and merchandising them in innovative ways, we have grown rapidly over the past six years.

And by taking a venture approach to new business—while building on our established strengths—we expect to keep on growing, well into the '70s.

Our growth so far has developed in three clear directions—each contributing to the other two and all securely anchored to the solid core of our basic business.

First, we have been growing in terms of what we market. We can call this PRODUCT GROWTH.

Second, we have been growing in terms of how we market. We can call this MERCHANDISING GROWTH.

Third, we have been growing in terms of where we market. We call this MARKET GROWTH.

A step in any one of these three directions can usually be multiplied by the other two. A new product can be sold in more than one way and in more than one market. A new merchandising plan can often be applied to different products and different markets. And, when we develop a new market or start marketing in another country, we expand the opportunities across the board.

This three-directional pattern points the way ahead. We look to the future with continued confidence.

## OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
and Shareholders of

THE FRANKLIN MINT, INC.

In our opinion, the accompanying consolidated balance sheets, the related consolidated statements of income, retained earnings and source and application of funds present fairly the financial position of THE FRANKLIN MINT, INC. and its subsidiary at December 31, 1970 and 1969, the results of their operations and the source and application of funds 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.  
Independence Mall West  
Philadelphia, Pennsylvania 19106  
March 23, 1971

## FIVE-YEAR COMPARATIVE FINANCIAL STATISTICS

For the year	1970	1969	1968	1967	1966
Net sales	<b>\$ 45,885,000</b>	\$28,618,000	\$10,258,000	\$2,672,000	\$1,491,000
Income (loss) before income taxes	<b>4,943,000</b>	3,401,000	1,224,000	158,000	(12,000)
Provision for income taxes	<b>2,530,000</b>	1,712,000	594,000	22,000 <sup>(3)</sup>	
Net income (loss)	<b>2,413,000</b>	1,689,000	630,000	136,000	(12,000)
Per share earnings <sup>(1)(2)</sup>	<b>1.03</b>	.75	.33	.09 <sup>(3)</sup>	(.01)
Cash dividends paid	<b>195,000</b>	153,000	37,000		
Per share common dividends <sup>(2)</sup>	<b>.083</b>	.067	.016		
Cash flow—net income (loss), depreciation and amortization and deferred taxes	<b>4,092,000</b>	2,349,000	1,165,000	281,000	72,000
Net additions to property, plant and equipment	<b>3,366,000</b>	6,846,000	2,152,000	321,000	244,000
Market price range of common shares <sup>(2)</sup>	<b>9<sup>3</sup>/<sub>8</sub>—38</b>	21 <sup>3</sup> / <sub>8</sub> —41 <sup>1</sup> / <sub>8</sub>	3—29 <sup>1</sup> / <sub>8</sub>	7 <sup>7</sup> / <sub>8</sub> —5 <sup>5</sup> / <sub>8</sub>	3 <sup>3</sup> / <sub>4</sub> —2 <sup>1</sup> / <sub>4</sub>
<b>At year end</b>					
Working capital	<b>3,002,000</b>	4,168,000	2,559,000	539,000	105,000
Net investment in property, plant and equipment	<b>11,439,000</b>	9,060,000	2,684,000	753,000	520,000
Total assets	<b>31,245,000</b>	21,237,000	12,892,000	1,797,000	983,000
Long-term debt	<b>6,562,000</b>	6,997,000		95,000	100,000
Shareholders' equity	<b>9,986,000</b>	7,116,000	5,310,000	1,177,000	516,000
Number of shareholders	<b>5,657</b>	4,450	2,550	2,179	2,080
Common shares outstanding <sup>(2)</sup>	<b>2,347,510</b>	2,304,054	2,224,068	1,679,376	1,455,936

(1) Based on the weighted average common and common equivalent shares outstanding during the year.

(2) Adjusted to give retroactive effect to a three-for-two stock split in December, 1970, and to two-for-one stock splits in August, 1969, and December, 1968.

(3) Includes \$17,000 (1¢ per share) of tax loss carryforward benefit as a reduction of provision for income taxes. This amount previously reported as an extraordinary tax benefit.

## CONSOLIDATED BALANCE SHEET

ASSETS	December 31,	
	1970	1969
<b>Current Assets:</b>		
Cash	\$ 1,508,000	\$ 1,029,000
Marketable securities, at cost which approximates market		1,251,000
Accounts receivable, less reserve for doubtful accounts and allowances of \$475,000 in 1970 and \$70,000 in 1969	5,610,000	697,000
Inventories	6,981,000	7,332,000
Prepaid expenses	2,398,000	473,000
	<u>16,497,000</u>	<u>10,782,000</u>
<b>Property, Plant and Equipment</b> , at cost less accumulated depreciation and amortization	11,439,000	9,060,000
<b>Investments in and Advances to Unconsolidated Foreign Subsidiaries</b> , at cost	1,494,000	677,000
<b>Deferred Charges and Other Assets</b> , at cost less amortization	1,815,000	718,000
	<u>\$31,245,000</u>	<u>\$21,237,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Notes payable to banks—7 to 7 $\frac{3}{4}$ %	\$ 5,300,000	
Current maturities of long-term debt	214,000	\$ 135,000
Accounts payable and accrued expenses	2,913,000	2,466,000
Accrued pension and profit sharing	733,000	407,000
Federal and state income taxes payable		1,469,000
Deferred income taxes	2,225,000	198,000
Unearned subscription revenue	2,110,000	1,939,000
	<u>13,495,000</u>	<u>6,614,000</u>
<b>Long-Term Debt</b> , less current maturities	6,562,000	6,997,000
<b>Deferred Income Taxes</b>	1,202,000	510,000
	<u>21,259,000</u>	<u>14,121,000</u>
<b>Commitments and Contingencies (Note 11)</b>		
<b>Shareholders' Equity:</b>		
Preferred stock, without par value, authorized— 2,000,000 shares; issued—none		
Common stock, without par value, authorized—6,000,000 shares in 1970, and 3,000,000 shares in 1969; issued and outstanding 2,347,510 shares in 1970 and 2,304,054 shares in 1969; stated at	156,000	102,000
Capital in excess of stated value	5,557,000	4,896,000
Retained earnings	4,273,000	2,118,000
	<u>9,986,000</u>	<u>7,116,000</u>
	<u>\$31,245,000</u>	<u>\$21,237,000</u>

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

## CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31,	
	1970	1969
<b>Net sales</b>	\$45,885,000	\$28,618,000
Costs and expenses:		
Cost of products sold	25,070,000	17,090,000
Selling, general and administrative expenses	14,311,000	7,311,000
Profit sharing and pension costs	994,000	680,000
Interest, net	567,000	136,000
	<u>40,942,000</u>	<u>25,217,000</u>
Income before income taxes	4,943,000	3,401,000
Provision for income taxes:		
Currently payable (refund receivable)	(189,000)	1,522,000
Deferred	2,719,000	190,000
	<u>2,530,000</u>	<u>1,712,000</u>
<b>Net income</b>	\$ 2,413,000	\$ 1,689,000
<b>Per share earnings:</b>		
Per common and common equivalent share	\$1.03	\$ .75
Per common share assuming full dilution	\$ .97	\$ .71

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31,	
	1970	1969
Retained earnings at beginning of year	\$ 2,118,000	\$ 633,000
Net income	2,413,000	1,689,000
Stated value of shares issued in connection with stock splits (three-for-two in 1970 and two-for-one in 1969), including \$11,000 cash in lieu of fractional shares in 1970	(63,000)	(51,000)
Cash dividends equivalent to \$.083 per share in 1970 and \$.067 per share in 1969, after giving effect to the aforementioned stock splits	(195,000)	(153,000)
Retained earnings at end of year	<u>\$ 4,273,000</u>	<u>\$ 2,118,000</u>

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

# CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS	Year ended December 31,	
	1970	1969
Net income	\$ 2,413,000	\$ 1,689,000
Add—charges against operations not involving an outlay of funds:		
Depreciation and amortization	987,000	470,000
Non-current portion of provision for deferred income taxes	692,000	190,000
Total from operations	4,092,000	2,349,000
Net proceeds from:		
Exercise of stock options (1970 and 1969) and warrants (1969) and conversion of subordinated debentures (1970)	694,000	270,000
Issuance of 6% convertible subordinated debentures		4,000,000
Other long-term debt, net	194,000	2,997,000
	<u>4,980,000</u>	<u>9,616,000</u>
<b>APPLICATION OF FUNDS</b>		
Net additions to property, plant and equipment	3,366,000	6,846,000
Reduction of long-term debt resulting from conversion of subordinated debentures	629,000	
Increase in deferred charges and other assets	1,128,000	331,000
Investments in and advances to unconsolidated foreign subsidiaries	817,000	677,000
Cash dividends, including \$11,000 cash in lieu of fractional shares in connection with three-for-two stock split in 1970	206,000	153,000
	<u>6,146,000</u>	<u>8,007,000</u>
Increase (decrease) in working capital	(1,166,000)	1,609,000
Working capital at beginning of year	4,168,000	2,559,000
Working capital at end of year	<u>\$ 3,002,000</u>	<u>\$ 4,168,000</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1—BUSINESS OPERATIONS AND PRINCIPLES OF CONSOLIDATION

The company is engaged in the design, manufacture and sale of privately issued coins, medals, ingots and other medallic items, which are produced from precious and non-precious metals. The company solicits such business through direct mail and publication advertising, and often requires payment from its collector customers prior to shipment.

The consolidated financial statements include the accounts of the company and its wholly-owned, domestic subsidiary, Precious Metals Corporation of America, organized in June, 1970, to manage the company's silver futures contracts. All other subsidiaries are not consolidated and investments and advances therein are carried at cost. (See Note 4.)

### NOTE 2—INVENTORIES

The company hedges precious metal requirements (principally silver) needed to fulfill sales commitments for its major programs in order to minimize risks due to market price fluctuation. To properly charge material costs against income, commencing in 1969, precious metals are relieved from inventory at average program acquisition cost, including cost of undelivered futures contracts. Under this method of accounting, gains or losses resulting from sale and repurchase of futures contracts are deferred in inventory until deliveries are taken under the applicable futures contracts for specific programs. The inventory quantities of precious metals for such programs are accordingly valued at the resulting residual cost. This change in accounting method from the lower of first-in, first-out cost or market used in prior years has no material effect on the 1969 financial statements. Average acquisition cost, together with related production and other direct costs for all bullion and futures contracts at December 31, 1970 and 1969, are lower than amounts to be realized from customers' sales commitments as of these same dates. All other inventories, which comprise approximately 21% of the total inventory at December 31, 1970, are valued at standard cost, which approximates the lower of first-in, first-out cost or market. Similarly, at December 31, 1969, approximately 30% of inventories were valued at the lower of first-in, first-out cost or market. In 1970, the company improved and refined its cost accounting procedures and methods. The effect of this change in the costing of inventories was to reduce net income for the year by \$102,000 or \$.04 a share. Inventories at December 31 comprised:

	1970	1969
Raw material, including margin deposits on futures contracts	\$3,050,000	\$4,373,000
Goods finished and in process	3,931,000	2,959,000
	<u>\$6,981,000</u>	<u>\$7,332,000</u>

### NOTE 3—PROPERTY, PLANT AND EQUIPMENT

	December 31,	
	1970	1969
Assets, at cost		
Land	\$ 579,000	\$ 543,000
Building and improvements (under construction in 1969)	5,851,000	4,772,000
Equipment not fully installed	426,000	559,000
Machinery and equipment	4,521,000	3,311,000
Furniture and fixtures	1,393,000	406,000
Leasehold improvements		301,000
	<u>12,770,000</u>	<u>9,892,000</u>
Less—Accumulated depreciation and amortization	1,331,000	832,000
	<u>\$11,439,000</u>	<u>\$9,060,000</u>

Fixed assets are depreciated over their estimated useful lives using the straight-line method. The lives used in computing depreciation are as follows: building and improvements—32 years; machinery and equipment—4-10 years; furniture and fixtures—10 years. Leasehold improvements to the facilities formerly occupied by the company were amortized over the term of the lease (six months or less at December 31, 1969). Depreciation and amortization of fixed assets charged to costs and expenses in 1970 and 1969, was \$987,000 and \$470,000, respectively. The company occupied a new plant and general office building early in 1970, at which time depreciation for these facilities began. Costs incurred as a result of the move from the company's former, leased locations were charged to operations in 1970.

Under the terms of a December, 1968, lease-purchase agreement to finance the construction of its new plant and general office building, the company assigned, as collateral, legal title to land (cost—\$464,000). Legal title to the land and building will revert to the company at the end of the term of the lease (May, 1990) or earlier, upon certain conditions, and accordingly, the transaction has been accounted for as a purchase. (See Note 8 for further information relating to monthly payments under the lease-purchase agreement.)

### NOTE 4—INVESTMENT IN UNCONSOLIDATED FOREIGN SUBSIDIARIES, AT COST

In 1969, the company formed a wholly-owned subsidiary, International Minting and Metalarts Corporation (IMM), whose principal business activity to date has been to purchase and control several foreign companies. In 1969, IMM purchased all of the outstanding capital stock of John Pinches (Medallists) Limited, London, England, and Wellings Mint, Ltd., Toronto, Canada. The aggregate costs for these two companies consisted of: a cash payment of \$488,000; a minimum additional cash payment of \$120,000 and a contingent cash payment of up to \$120,000 payable in installments over a ten-year period; a \$178,000, 6% note due in 1976; and a warrant to purchase 7,500 common shares of The Franklin Mint, Inc. The note and warrant were repurchased and cancelled in March, 1971.

In May, 1970, IMM acquired 80 per cent of the outstanding common stock of Le Medaillier, S.A., Paris, France, for \$100,000 with an option to purchase the remaining 20 per cent of the common stock at a price of \$20,000.

Net sales and net income of all foreign subsidiaries for their fiscal years ended November 30, 1970, were \$2,240,000 and \$60,000, respectively. Net sales and net loss of these subsidiaries from date of acquisition in 1969 through November 30, 1969, amounted to \$318,000 and \$4,000, respectively. The excess of purchase price over underlying net assets at the date of acquisition of the foreign subsidiaries approximated \$429,000 and \$337,000 at December 31, 1970 and 1969, respectively. Since, in the opinion of management, this excess cost has continuing value, no amortization is currently contemplated.

### NOTE 5—DEFERRED CHARGES AND OTHER ASSETS/PREPAID EXPENSES

Promotion expenses, normally incurred at the inception of sales programs, are charged against income over the shorter of the program shipment period or fifty months. During 1970, the company changed the balance sheet classification of promotion expenses to reflect as a prepaid expense that portion of promotion expenses which is expected to be amortized within the next twelve months. The balance sheet at December 31, 1969, has been reclassified for comparative purposes to the new reporting basis. The amount of deferred promotion expenses included in prepaid expenses was \$1,548,000 and \$313,000 at December 31, 1970 and 1969, respectively.

Deferred charges and other assets, less amortization, comprised:

	December 31,	
	1970	1969
Promotion expenses	\$1,111,000	\$318,000
Accounts receivable due after one year	455,000	
Debenture issue expenses	166,000	210,000
Other	83,000	190,000
	<u>\$1,815,000</u>	<u>\$718,000</u>

#### NOTE 6—PROFIT SHARING AND PENSION PLANS

The profit sharing plan in effect during 1970 and 1969 provided for a company contribution equal to 20% of the company's annual income before taxes, after a return to the company of 10% of average invested capital, less the company's annual pension contribution (calculated at 5% of the annual base salaries of employees for such years), but before deduction for profit sharing and pension expense. Profit sharing is distributed in December based on the results of interim operations, and a final adjusted payment is made subsequent to the year-end audit.

Pension expense was \$300,000 in 1970 and \$267,000 in 1969. The company funds pension costs accrued. Under the company's trustee pension plan, the pension liability is limited to the contributions paid to the fund. There were no prior service costs or vested benefits under the pension plan as of either year end.

#### NOTE 7—INCOME TAXES

The provision for income taxes is calculated on the basis of income reported in the financial statements. In computing estimated income taxes, the company has provided for deferred taxes which may be payable should timing differences for certain items of income and expense reverse in future years. The provisions for deferred taxes totaled \$2,719,000 in 1970 and \$190,000 in 1969. Items which give rise to deferred taxes include: tax basis deduction of promotion expenses in the period incurred; recognition of revenue from installment sales on a cash collection basis for income tax purposes; recognition of gains or losses resulting from sales and purchase of futures contracts in the period incurred for income tax purposes; depreciation timing differences, resulting principally from the use of accelerated depreciation methods for tax purposes and straight-line method for financial reporting.

Deferred tax liabilities relating to items classified as current assets, principally installment receivables, inventory and prepaid expenses, have been classified as current liabilities.

Federal income tax provisions have been reduced by \$200,000 and \$102,000 in 1970 and 1969, respectively, to reflect full utilization of available investment tax credits.

#### NOTE 8—LONG-TERM DEBT

	December 31,	
	1970	1969
6% convertible subordinated debentures	\$3,371,000	\$4,000,000
Lease-purchase commitments, secured by land and building	3,405,000	
Construction loan on plant and general office building		3,132,000
	<u>6,776,000</u>	<u>7,132,000</u>
Less—Current maturities	214,000	135,000
	<u>\$6,562,000</u>	<u>\$6,997,000</u>

The 6% subordinated debentures issued as of April 15, 1969, are convertible into common stock prior to April 15, 1984, at a price of

\$29.33 per common share as adjusted for anti-dilution provisions. The debentures are redeemable, in whole or in part, at the option of the company on thirty days' notice, at declining annual prices (from 109% of the principal amount thereof at April 15, 1970, to 100% of the principal amount at or after April 15, 1979) together with accrued interest to the date fixed for redemption. The debentures are redeemable through the operation of a sinking fund on April 15, 1975, and on April 15 in each year thereafter to and including April 15, 1983, at a redemption price equal to 100% of the principal amount thereof and interest accrued thereon to the redemption date. Prior to April 15 of each of the years 1975 to 1983, inclusive, the company will pay into a sinking fund, cash sufficient to redeem on such April 15, debentures in an aggregate principal amount equal to 10% of the aggregate principal amount of debentures outstanding on March 1, 1975. The company may at its option, reduce sinking fund payments by the principal amount of debentures purchased at any time, or by the principal amount redeemed or converted after March 1, 1975. The debenture terms restrict the amount of earnings available for cash dividends or purchase of the company's common stock. Retained earnings available for cash dividends approximated \$2,112,000 at December 31, 1970.

The company's commitments under a lease-purchase agreement for its principal facility (see Note 3) are repayable monthly until May, 1990. Monthly payments, including interest at an average rate of 5%, approximate: \$35,000 until May, 1975; \$24,000 thereafter until May, 1985; and \$5,000 thereafter.

#### NOTE 9—SHAREHOLDERS' EQUITY

Changes in common stock and capital in excess of par or stated value are summarized as follows:

	Common stock		Capital in excess of par or stated value
	Shares	Amount	
Balance January 1, 1969	741,356	\$ 74,000	\$4,603,000
Change from \$.10 par value stock to no par stock with stated value of \$.06 <sup>2</sup> / <sub>3</sub>		(25,000)	25,000
Exercise of:			
Stock options	17,575	1,000	160,000
Warrants	9,087	1,000	108,000
Stated value of shares issued in two-for-one stock split in form of stock dividend	768,018	51,000	
Balance December 31, 1969	1,536,036	102,000	4,896,000
Exercise of stock options	14,950	1,000	64,000
Conversion of 6% subordinated debentures, less applicable issue costs	14,287	1,000	597,000
Stated value of shares issued in three-for-two stock split	782,237	52,000	
Balance December 31, 1970	<u>2,347,510</u>	<u>\$156,000</u>	<u>\$5,557,000</u>

The shareholders approved the following amendments to the Articles of Incorporation at their annual meetings in May, 1969, and May, 1970: In 1969—an increase of authorized common stock from 1,000,000 shares at \$.10 par value to 3,000,000 shares without par value at \$.06<sup>2</sup>/<sub>3</sub> stated value per share, and an authorization of 2,000,000 shares of preferred stock without par value at \$.05 stated value per share; in 1970—an increase of authorized common stock to 6,000,000 shares. The Board of Directors approved a two-for-one stock split in May, 1969, and a three-for-two stock split in November, 1970. Cash in lieu of fractional shares in the amount of \$11,000 was charged against retained earnings for the 1970 split. All

common stock information hereafter gives retroactive effect to both stock splits.

At the annual meetings in 1964 and 1970, shareholders approved Qualified Stock Option Plans for officers and key employees. Under the 1964 Plan, 300,000 shares were made available, and under the 1970 Plan, 75,000 shares. The terms of the plans are similar in all significant respects. Options may be granted during a period of ten years (until September 9, 1974, and February 16, 1980, respectively) at prices not less than fair market value on the date of grant. The options may not be exercised during the first year following the date the option is granted, and, thereafter, options may be exercised for not more than 25 per cent of the shares subject to the option in each of the following four years on a cumulative basis. An option may not be exercised while the optionee has outstanding previously granted qualified options at a higher price.

The following summary reflects option transactions for shares under option for both plans:

	1970 Plan	1964 Plan	
	1970	1970	1969
Balance January 1		166,125	190,800
Options granted	58,950	24,150	60,150
Options exercised		(22,425)	(52,725)
Options forfeited	(4,800)	(13,125)	(32,100)
Balance December 31	<u>54,150</u>	<u>154,725</u>	<u>166,125</u>
Average option price	<u>\$10.39</u>	<u>\$16.10</u>	<u>\$13.75</u>
Options exercisable at December 31		42,075	14,925
Average option price		<u>\$13.23</u>	<u>\$ 7.61</u>
Shares available for future option grants at December 31	<u>20,850</u>	<u>3,825</u>	<u>14,850</u>

In 1971, options to purchase 60,525 shares become exercisable.

The following additional shares were reserved for issuance at December 31:

	1970	1969
Conversion of subordinated debentures	114,933	136,363
Exercise of warrant (cancelled in 1971—see Note 4)	7,500	7,500
Exercise of non-qualified option	1,500	

In 1970, the company granted a non-qualified option to purchase 1,500 shares of common stock at \$9.50 per share to an officer of a foreign subsidiary. The provisions of this option are similar to the qualified plans in all significant respects.

Upon exercise of options or conversions of subordinated debentures, the stated value of shares issued will be credited to common stock. Any additional proceeds will be credited to capital in excess of stated value. No charges against or credits to income are made in connection with options exercised or debentures converted.

#### NOTE 10—PER SHARE EARNINGS

Earnings per common and common equivalent share was computed on the basis of weighted average shares outstanding, and further assumed the exercise of dilutive outstanding options granted after May 31, 1969, from date of grant, with the use of related proceeds to acquire treasury stock.

Earnings per common share assuming full dilution was computed on the basis of weighted average shares outstanding for the respective years, increased by assumed exercise of all dilutive outstanding options from the date of grant (with the use of proceeds as above) and the conversion of debentures from date of issuance.

#### NOTE 11—COMMITMENTS AND CONTINGENCIES

In January, 1971, the company contracted for the construction of an annex to its principal facility at an estimated cost, including furnishings and equipment, of approximately \$1,100,000. Construction is estimated to be completed in July, 1971. A substantial portion (\$850,000) of the total estimated cost is being financed over a period of 15 years under a bank loan, which bears interest at 7%. Monthly payments, including interest, approximate \$10,000 for the first five years and \$5,000 for the remaining ten years. Under an agreement to finance construction, the company transferred legal title to the land (cost—\$115,000) on which the annex will be constructed. Legal title to the land and annex will revert to the company upon repayment of said loan or earlier under certain conditions.

The company, in the normal course of business, purchases futures contracts for precious metals (principally silver) in significant quantities and amounts. Such contracts, which aggregated \$5,800,000 at December 31, 1970, were committed to fulfill customer sales orders, some of which extend into 1976. In addition, futures contracts aggregating \$8,600,000 were purchased in January, 1971, to cover planned customer orders for 1971. The cost of the silver under these futures contracts is lower than current market value at March 23, 1971.

The company is guarantor of certain debt and bank lines of credit of its unconsolidated foreign subsidiaries aggregating \$800,000 at December 31, 1970, of which \$178,000 was satisfied in March, 1971. (See Note 4.)

#### NOTE 12—SUBSEQUENT EVENTS

In March, 1971, the company announced that it plans to file a Registration Statement with the Securities and Exchange Commission to offer for sale to the public 100,000 shares of its previously unissued common stock and 100,000 common shares on behalf of certain shareholders.

# THE FRANKLIN MINT, INC.

## BOARD OF DIRECTORS

Charles L. Andes  
Brian G. Harrison  
Norman Klauder  
Stanley Merves  
Gilroy Roberts  
Joseph M. Segel  
Frederick C. Waldron  
Martin F. Walsh

## OFFICERS

Gilroy Roberts, Chairman of the Board  
Norman Klauder, Vice Chairman of the Board  
Joseph M. Segel, President and Chief Executive Officer  
Martin F. Walsh, Senior Vice President  
Charles L. Andes, Executive Vice President—Marketing  
Brian G. Harrison, Executive Vice President—Operations  
Donald F. Smith, Executive Vice President—Finance & Administration  
Nelson B. Colton, Vice President—Manufacturing  
Gerald C. Dragonetti, Vice President—General Counsel  
Francis J. Fitzpatrick, Vice President—Public Affairs  
Harold F. Flynn, Vice President—International Operations  
Walter H. Herman, Vice President—Engineering  
William F. Krieg, Vice President—Collector Services  
Francis D. Margulies, Vice President—Marketing Services  
William M. McCormick, Vice President—Governmental Accounts  
Robert V. O'Brien, Jr., Vice President—Cooperative Marketing  
Donald S. Winograd, Secretary  
James M. Doyle, Jr., Treasurer (Acting)

## HEADQUARTERS

Franklin Center, Pennsylvania

## INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co., Philadelphia, Pennsylvania

## TRANSFER AGENT

First National City Bank, New York, New York

## STOCK EXCHANGE LISTING

American Stock Exchange—Trading Symbol "FM"

## ANNUAL MEETING

May 24, 1971, at 10:30 A.M.  
at the company's headquarters  
Franklin Center, Pennsylvania

