SEC FILE NO 1- 8012 12 --09

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GEICO CORP

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DISCLOSURE INC WASHINGTON D. C. 20016

FOR 12 31 81

Quick Reference Chart to Contents of SEC Filings

REPORT CONTENTS	10-K	19-K 20-F	10-Q	8-K	10-C	6-K	Proxy Statement	Prospectus	Registration Statements '34 Act F-10	Registration Statements '34 Act 8-A 8-B	Registration Statements '33 Act "S" Type	ARS	Listing Application	N-1R	N-1Q
Auditor															
□ Name	A	A	■				■	A	A		A	A	■	A	
□ Opinion	A	A	■						A			A		A	
□ Changes				A			■								
Compensation Plans															
□ Equity	■		■				F	F	A		F		■	■	
□ Monetary	■		■					F	A		F		■		
Company Information															
□ Nature of Business	A	A				F		A	A		A	■	■		
□ History	F	A						A			A	■	■		
□ Organization and Change	F	F		A	■	F	■	A		F	A	■			
Debt Structure	A					F	■	A	A		A	A		A	
Depreciation & Other Schedules	A	A				F		A	A		A				
Dilution Factors	A	A		F		F		A	A		A	A			
Directors, Officers, Insiders															
□ Identification	F	A				F	A	A	A		A	F			
□ Background	■	A				F	F	A	■		A	■			
□ Holdings	■	A		■			A	A	A		A				
□ Compensation	■	A		■			A	A	A		A				
Earnings Per Share	A	A	A			F			A			A		A	
Financial Information															
□ Annual Audited	A	A							A			A		A	
□ Interim Audited		A					■	■			■				
□ Interim Unaudited	■		A	■		F		F			F				
Foreign Operations	A						■	A	A		A	■	F		
Labor Contracts		■		■			■		F		F				
Legal Agreements	F	■		■					F		F				
Legal Counsel				■				A			A		■		
Loan Agreements	F		F	■			■		F		F			■	
Plants and Properties	A	F		■				F	A		F	■			
Portfolio Operations															
□ Content (Listing of Securities)															A
□ Management														A	
Product-Line Breakout	A							A			A	■			
Securities Structure	A	A			■			A	A		A				
Subsidiaries	A	A					■	A	A		A	■	■		
Underwriting				■				A	A		A				
Unregistered Securities	■			■			■	F			F				
Block Movements	■			F			■		A				■		

Legend **A** – *always included - included - if occured or significant* **F** – *frequently included* ■ *special circumstances only*

TENDER OFFER/ACQUISITION REPORTS	13D	13 G	14D-1	14D-9	13E-3	13E-4
Name of Issuer (Subject Company)	A	A	A	A	A	A
Filing Person (or Company)	A	A	A	A	A	A
Amount of Shares Owned	A	A				
Percent of Class Outstanding	A	A				
Financial Statements of Bidders			F		F	F
Purpose of Tender Offer			A	A	A	A
Source and Amount of Funds	A		A		A	
Identity and Background Information			A	A	A	
Persons Retained Employed or to be Compensated			A	A	A	A
Exhibits	F		F	F	F	F

5161 River Road □ Washington, D.C. 20016 □ 301/951-1300

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

APR 1 1982

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 1981 Commission File No. 1-8012

GEICO CORPORATION

Delaware (Jurisdiction of Incorporation) 52-1135801 (IRS Employer Identification No.)

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAR 3 1 1982
OFFICE OF APPLICATIONS AND REPORTS SERVICES

GEICO Plaza, Washington, D. C. 20076

Registrant's telephone number (301) 986-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange
Cumulative Junior Preferred Stock, $.736 Convertible Series	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO ___

Aggregate market value of the voting stock held by non-affiliates of the registrant as of March 3, 1982........................$493,708,404 (1)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	As of March 19, 1982
Common Stock, $1.00 par value	20,078,926

(Page 1 of 119 Pages)

The Exhibit Index to this Form 10-K Annual Report is contained on Page 30.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the GEICO Corporation Annual Report to Shareholders for the fiscal year ended December 31, 1981 are incorporated by reference into Parts I and II of this Form 10-K Report.

2. Portions of the GEICO Corporation Proxy Statement for the Annual Meeting of Shareholders to be held on May 19, 1982 are incorporated by reference into Parts I and III of this Form 10-K Report.

(1) Except as stated herein, the amount set forth as the aggregate market value of GEICO Corporation's voting stock held by non-affiliates is based upon a market value (closing price on the New York Stock Exchange) of $25.125 for each of the 20,058,313 outstanding shares of Common Stock and $50.00 for each of the 201,330 outstanding shares of Cumulative Junior Preferred Stock on March 3, 1982. The amount excludes the market value of 808,884 shares of Common Stock beneficially owned by the Registrant's directors and executive officers (including 185,644 shares of Common Stock as to which said directors and/or officers disclaim beneficial ownership) and includes the market value of 7,200,000 shares of Common Stock beneficially owned by Berkshire Hathaway Inc.

GEICO Corporation
Form 10-K Annual Report

PART I

Item 1. Business (GEICO Corporation and Subsidiaries).

GEICO Corporation (or the "Corporation"), which was organized as a Delaware corporation in 1978 and became the parent of Government Employees Insurance Company ("GEICO" or "the Company") in 1979, is an insurance and financial services organization whose principal subsidiary is a multiple line property and casualty insurer engaged in writing preferred risk private passenger automobile, homeowners, fire and extended coverage, professional and comprehensive personal liability, excess business liability and boatowners insurance. Criterion Insurance Company ("Criterion"), which became a majority owned subsidiary of GEICO in 1978, and a wholly-owned subsidiary in January of 1980, writes standard private passenger automobile and motorcycle insurance.

In December of 1981 GEICO sold its 66% ownership interest in Government Employees Life Insurance Company ("GELICO"), which had been a majority owned subsidiary since 1978, to subsidiaries of Legal & General Group Ltd. of London, England. As a result of this sale GEICO Corporation now operates in one principal business segment, private passenger automobile insurance.

The Corporation is affiliated with Government Employees Financial Corporation ("GEFCO") which became a majority owned subsidiary in March of 1979. GEFCO is a provider of consumer finance services. The Corporation also has a wholly-owned property subsidiary, GEICO Facilities Corporation, and two real estate subsidiaries, GEICO Properties, Inc. ("GPI") and GEICO Washington Properties, Inc. ("GWPI"), which are wholly-owned by GEICO. In January 1981 the Corporation formed a new wholly-owned Delaware subsidiary, Resolute Group, Inc. which, through its wholly-owned subsidiaries, Resolute Reinsurance Company (a New York insurance company licensed in May of 1981) and Resolute Management Corporation (a New York corporation), writes property and casualty reinsurance. In July of 1981 GEICO Corporation incorporated Criterion Investment Services Company ("CRIVEST") as a wholly-owned subsidiary in Delaware. CRIVEST is a registered investment adviser and broker-dealer organized to provide investment management and administrative services to Criterion Investment Series Trust and its Government Securities Cash Fund, a no-load money market mutual fund first offered to the public in February of 1982.

GEICO, Resolute Reinsurance Company and Criterion are subject to regulation and supervision of their respective insurance businesses in each of the jurisdictions in which they do business. In general, the various state laws establish supervisory agencies with broad administrative powers. Those powers relate to the issuance and revocation of licenses to insurers and their agents, standards of solvency, regulation of premium rates and investments, form and content of financial statements, methods of accounting, policy forms and reserves. In general, such regulation is for the protection of policyholders rather than shareholders. CRIVEST is regulated by the federal government and the various states in which it is licensed. The primary purpose of the regulation is to protect the investing public rather than shareholders.

The National Association of Insurance Commissioners has adopted a Model Insurance Information and Privacy Act (the "Model Act") which provides, among other things, a mechanism allowing consumer access to information collected about them and limits disclosures of such information to others. The Model Act or a variation thereof has been adopted in eight states and it is expected that it will be favorably received by a number of other state legislatures. Additionally, it is expected that certain state legislatures will also be looking at the use of age, sex and marital status as rating classifications, and continue to question the traditional underwriting and rating principles of the insurance industry.

The insurance industry is highly competitive. GEICO currently competes most directly with the other companies, including mutual companies, that concentrate on preferred risk insurance. Although most insurance companies are stock companies like GEICO, in 1980 mutual companies wrote approximately one-fourth of all property and liability insurance in the United States. Mutual companies may have a competitive advantage in that certain earnings inure to the benefit of policyholders rather than to shareholders.

The latest available statistics as published in the National Underwriter reveal that GEICO was, based upon 1980 earned premiums, the 10th largest automobile insurer and the 5th largest stock automobile insurer in the United States. GEICO and Criterion together ranked as the 13th largest automobile insurance group in the United States.

As of December 26, 1981, the Corporation and its consolidated subsidiaries had 4,019 full-time employees and 724 part-time employees. A number of benefits are provided or made available for full-time employees including a savings plan, pension plan and various insurance programs.

PRINCIPAL BUSINESS SEGMENT

The information concerning GEICO Corporation's private passenger automobile insurance business required by the remainder of this Item 1 is contained in its 1981 Annual Report to Shareholders under the caption "Principal Business Segments" on pages 7, 8, 10, 13, 15 through 17 and Note O of the "Notes to Consolidated Financial Statements" contained on pages 39 and 40 and incorporated herein by reference.

Item 2. Properties.

GEICO Corporation's total real estate investment, on a consolidated basis, was $30,977,728 (depreciated cost) as of December 31, 1981. Such real estate is owned by GEICO and its subsidiaries and is represented principally by (a) $10,268,743 in its GEICO Plaza Building in Chevy Chase, Maryland; (b) $10,993,206 in its Regional Office Building in Woodbury, Long Island, New York; and (c) $7,192,581 in its Regional Office Building in Macon, Georgia.

GEICO Plaza is a multilevel structure with a total of approximately 428,400 square feet of office space. The greater part of the four-story portion was completed in 1959 and an additional four-story portion and an eight-story tower were completed in 1964.

In December 1973, GEICO's Regional Office Building in Woodbury and one of its Fairfax County, Virginia claims facilities were acquired by GPI. The purchase was financed by 8-1/4% notes due June 15, 2004 sold to institutional investors. The notes were secured by a Deed of Trust and Indenture of Mortgage on the properties, by the assignment to the trustees of a 30-year lease, coincident with the term of the notes, between GEICO and GPI, and by the undertaking of GEICO to make sufficient funds available to GPI to meet its obligations under the Indenture.

GEICO's Regional Office Building in Macon was purchased by GPI in May 1974 and occupied by GEICO in August 1974. This purchase was financed by an 8-1/2% note due May 1, 2004 which was sold to an institutional investor and secured by an assignment to the trustee of a 30-year lease and the undertaking between GEICO and GPI, which documents were similar in terms to those used in financing GEICO's Regional Office Building in Woodbury. Both buildings are similar in design and capacity, each being a modern four-story structure containing approximately 250,000 square feet. With respect to both financings, the outstanding balance of the long-term debt of GPI on December 31, 1981 was $21,651,219.

On July 24, 1975, the Company transferred its GEICO Plaza and certain adjacent property and its Fairfax County, Virginia and Clinton, Maryland sales/drive-in facilities, and GPI sold its Smithtown, New York, sales/drive-in facilities to GWPI. This transfer was financed by a 9-3/8% note due July 1, 2010 which was sold to an institutional investor and secured by an Indenture of Mortgage and Deed of Trust on the properties and by the assignment to the noteholder of a 7-year lease for the GEICO Plaza property, automatically renewable for 4 successive 7-year terms, between GEICO and GWPI. The outstanding balance of the long-term debt of GWPI on December 31, 1981 was $24,179,293.

GEICO also leases office space and drive-in claims facilities in various cities in the United States. These leases expire at various times between 1982 and 1992 with renewal options in a number of cases. In addition, GEICO maintains electronic data processing equipment with a depreciated cost as of December 31, 1981 of $7,996,147, located principally at GEICO Plaza.

Item 3. Legal Proceedings.

There are no material legal proceedings to which GEICO Corporation is a party or of which the property of GEICO Corporation is the subject.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item 4 will be furnished to the Securities and Exchange Commission (the "Commission") in the Corporation's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 ("the Act") and is incorporated herein by reference.

Item 4A. Executive Officers of the Registrant.

John J. Byrne, 49, was elected Chairman of the Board and Chief Executive Officer of GEICO Corporation in November 1978 and was President from November 1978 until September 1981. He has been Chairman of the Board and Chief Executive Officer of GEICO since May 1976 and was President of GEICO from May 1976 to February 1980. Mr. Byrne has also served as Chairman of the Board of Criterion since May 1981, Resolute Group, Inc. since January 1981, Resolute Management Corporation since February 1981, Resolute Reinsurance Company since March 1981, and CRIVEST since August 1981. Prior to his employment by GEICO, he served with The Travelers Insurance Companies, from 1967 to 1970 as Director of Variable Annuities; from 1970 to 1973 as Senior Vice President; and from 1973 to 1976 as Executive Vice President, responsible for casualty-property personal lines and individual life, health and financial services.

Richard C. Lucas, 55, was elected Senior Vice President of GEICO Corporation in January 1980 and was its Controller from November 1978 until January 1982. Mr. Lucas has been a director of GEICO since October 1979, a director of Criterion since March 1980, a director of AVEMCO Corporation since September 1981, a director of CRIVEST since July 1981 and its Controller and Treasurer since August 1981. Mr. Lucas has also served as a Trustee, Controller and Treasurer of Criterion Investment Series Trust since September 1981. He has served as Senior Vice President of GEICO since July 1978, Vice President and Internal Auditor from May 1977 until July 1978 and as Vice President of Criterion from June 1981 through December 1981. Prior to his employment by GEICO, Mr. Lucas was self-employed as a consultant at various times from 1973 to 1976. He also served as Vice President, Massachusetts Company from 1975 until 1976; Senior Vice President and Chief Financial Officer, Financial Services Corporation from 1974 until 1975; and Vice President, Administration, Bradford Trust Company in 1973.

John M. O'Connor, 52, was elected Secretary of GEICO Corporation in November 1978. He has been Secretary of GEICO, GEFCO and Criterion since 1970, the Resolute Group, Inc. since January 1981, Resolute Management Corporation since February 1981, Resolute Reinsurance Company since March 1981, CRIVEST and Criterion Investment Series Trust since September 1981.

Louis A. Simpson, 45, was elected Senior Vice President of GEICO Corporation and GEICO in August 1979, a director of GEICO in October 1979, a director of Criterion in March 1980, a director and Vice President of CRIVEST in July and August of 1981, respectively. Mr. Simpson has also served as Vice President of Resolute Group, Inc. since January 1981, Resolute Management Corporation since February 1981, Resolute Reinsurance Company since March 1981, Criterion Investment Series Trust since September 1981, Criterion since December 1979 and GEFCO since August 1980. Prior to his employment with GEICO Corporation Mr. Simpson served as President and Chief Executive Officer of Western Asset Management, Los Angeles, California, from 1977 to August, 1979, having joined that firm in 1970.

Donald K. Smith, 49, was elected Senior Vice President of GEICO Corporation in January 1980 and has been its General Counsel since December 1978. He has been a director of GEICO since May 1979, Criterion since March 1980, Resolute Reinsurance Company since March 1981 and CRIVEST since August 1981. Mr. Smith has also served as General Counsel of Criterion Investment Series Trust since September 1981, General Counsel and Assistant Secretary of CRIVEST since August 1981 and Senior Vice President and General Counsel of GEICO since 1977, having served as GEICO's Vice President and General Counsel since 1972. He previously served as Vice President and General Counsel of Criterion from 1974 to 1979, and General Counsel from 1972 to 1979.

William B. Snyder, 52, was elected President of GEICO Corporation in September 1981, a director of GEICO Corporation in May 1980 and a director and President of GEICO in May of 1979 and February of 1980, respectively, having served GEICO as Executive Vice President since May 1979 and Senior Vice President from April of 1977 to May of 1979. Mr. Snyder has also served as a director of Resolute Group, Inc., Resolute Management Corporation and Resolute Reinsurance Company since March 1982, CRIVEST since July 1981 and Chairman of the Board of Criterion Investment Series Trust since December 1981. Prior to his employment by GEICO, he served with The Travelers Insurance Companies, from 1973 to 1977 as Vice President and from 1955 to 1973 in various other positions in The Travelers Companies.

W. Alvon Sparks, Jr., 46, was elected a Vice President of GEICO Corporation and GEICO in November 1981, Criterion in January 1982, Resolute Group, Inc., Resolute Management Corporation and Resolute Reinsurance Company in March 1982, having previously served with GEICO Corporation and GEICO, from July 1978 to August 1980, as Vice President. Mr. Sparks has also served as a director of GEFCO since August 1980, Resolute Group, Inc. and Resolute Management Corporation since March 1982. Previously Mr. Sparks had served as President and Chief Executive Officer of GEFCO and its wholly-owned subsidiaries from August 1980 to November, 1981. He served as Senior Vice President and Controller of American Finance Management Corporation from December 1970 to July 1978.

All executive officers hold office at the pleasure of the Board of Directors. There is no family relationship between the above-named executive officers of the Corporation.

PART II

Item 5. <u>Market for the Registrant's Common Stock and Related Security Holder Matters.</u>

In response to this Item the material under the caption "Common Stock Market Prices and Dividends" (page 24) and the final paragraph of Note C (page 34) of the Notes to Consolidated Financial Statements in the Corporation's 1981 Annual Report to Shareholders are incorporated by reference.

Item 6. <u>Selected Financial Data.</u>

In response to this Item the material under the caption "Selected Financial Data" (page 16) in the Corporation's 1981 Annual Report to Shareholders is incorporated by reference.

Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>

In response to this Item the material under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" (pages 18-24) in the Corporation's 1981 Annual Report to Shareholders is incorporated by reference.

Item 8. Financial Statements and Supplementary Data.

In response to this Item the consolidated financial statements and the notes thereto contained in the Corporation's 1981 Annual Report to Shareholders (pages 26 through 40), Supplemental Financial Information (pages 40 and 41) and the Quarterly Highlights of Operating Results (page 41) are incorporated by reference.

PART III

Item 9. Directors and Executive Officers of the Registrant.

The information required by this Item will be furnished to the Commission in the Corporation's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A under the Act and is incorporated by reference.

Item 10. Management Remuneration and Transactions.

The information required by this Item will be furnished to the Commission in the Corporation's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A under the Act and is incorporated by reference.

PART IV

Item 11. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) and (2) List of Financial Statements and Financial Statement Schedules

The following consolidated financial statements of GEICO Corporation and subsidiaries, included in the annual report of the registrant to its shareholders for the year ended December 31, 1981, are incorporated by reference in Item 8:

Consolidated Balance Sheet - December 31, 1981 and 1980

Consolidated Statement of Income - Years Ended December 31, 1981, 1980 and 1979

Consolidated Statements of Redeemable Preferred Stock and Common Shareholders' Equity - Three years Ended December 31, 1981

Consolidated Statement of Changes in Financial Position - Years Ended December 31, 1981, 1980 and 1979

Notes to Consolidated Financial Statements

The following financial information is included in Item 11(d):	Reference
Report of Independent Accountants	Page No. 16
Financial Statements of GEICO Corporation (Parent Company)	
Balance Sheet - December 31, 1981 and 1980	Page No. 17
Statement of Income - Years Ended December 31, 1981, 1980 and 1979	Page No. 18
Statements of Redeemable Preferred Stock and Common Shareholders' Equity - Three Years Ended December 31, 1981	Page No. 19

The Parent Company Information under Rule 5-04 for Schedules II, VII and IX is included in the comparable Rule 7-05 Schedules II, VII and IX, respectively.

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X and all other schedules to the financial statements of the registrant required by Article 5 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

Financial statements of unconsolidated affiliates and 50% or less owned person accounted for by the equity method have been omitted because they do not, considered individually or in the aggregate, constitute a significant subsidiary.

(a)(3) Exhibits

Exhibit No.	Description	Reference
3-a	Certificate of Incorporation.	Exhibit 4 to Registration Statement No. 2-63138 on Form S-14.
3-b	By-laws of GEICO Corporation as amended.	Page No. 31
4-a	Specimen certificate representing the common stock, $1.00 par value.	Exhibit 6(c) to Registration Statement No. 2-63138 filed on Form S-14.
4-b	Specimen certificate representing the Cumulative Junior Preferred Stock, $1.00 par value.	Exhibit 6(c) to Registration Statement No. 2-63138 on Form S-14.

4-c	Certificate of the Registrant's Board of Directors pursuant to Section 151 of the General Corporation Law of the State of Delaware fixing the provisions of the $.736 Convertible Series of the Cumulative Junior Preferred Stock.	Exhibit 2(b) to the Registration Statement filed on Form 8A on February 28, 1979.
4-d	Specimen Warrant certificate evidencing right to purchase shares of common stock.	Exhibit 5-c to Registration Statement No. 2-57242 on Form S-1.
4-e	Warrant Agreement dated May 5, 1971, between GEICO and American Security and Trust Company.	Exhibit 5-c to Registration Statement No. 2-39709 on Form S-1.
4-f	Amendment to Warrant Agreement of May 5, 1971, extending the period during which Warrants may be exercised and reducing the per share exercise price thereof.	Exhibit 1 to GEICO's Form 8-K current report dated August 31, 1978 (date of earliest event reported).
4-g	Indenture dated as of March 15, 1979 between GEICO Corporation and Manufacturers Hanover Trust Company and Form of Debenture contained therein.	Exhibit T3C to Amendment No. 1 to Form T-3 Application for Qualification of Indenture Under Trust Indenture Act of 1939, filed on March 6, 1979 with the Securities and Exchange Commission.
4-h	Indenture dated as of June 15, 1980 between GEICO Corporation and Manufacturers Hanover Trust Company and Form of Debenture contained therein.	Exhibit 4 to Registration Statement No. 2-70801 on Form S-16.
9	Proxy Agreement between Berkshire Hathaway Inc. and Suburban Trust Company.	Exhibit 7 to GEICO's Form 10-K Annual Report for the fiscal year ended December 31, 1977
10-a	Employment Agreement effective May 5, 1976, between GEICO and John J. Byrne, together with Nonqualified Stock Option Agreement executed in connection therewith.	Exhibit 13-f to Registration Statement No. 2-57242 on Form S-1.
10-b	Employment Agreement between GEICO and Paul J. Hanna effective July 1, 1978.	Exhibit 9 to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1978.

Exhibit No.	Description	Reference
10-c	Consultant Agreement between Alvin E. Kraus and Government Employees Insurance Company as amended through March 24, 1981.	Exhibit 10-c to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1980.
10-d	Third Amendment to Consultant Agreement between Alvin E. Kraus and Government Employees Insurance Company dated December 18, 1981.	Page No. 46
10-e	Consultant Agreement between Criterion Insurance Company and Alvin E. Kraus effective May 1, 1981.	Exhibit 10-d to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1980.
10-f	Deferred Compensation Agreement between Government Employees Insurance Company and Alvin E. Kraus dated December 18, 1980.	Exhibit 10-e to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1980.
10-g	Amendment to Deferred Compensation Agreement between GEICO Corporation and Alvin E. Kraus dated January 19, 1982	Page No. 48
10-h	Retainer Agreement between Criterion Insurance Company and Alvin E. Kraus dated May 8, 1980 together with March 23, 1981 Addendum thereto.	Exhibit 10-f to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1980.
10-i	Second Addendum to Retainer Agreement between Criterion Insurance Company and Alvin E. Kraus dated December 18, 1981.	Page No. 50
10-j	Consultant Agreement between GEICO Corporation and H. Edward Wrapp dated April 1, 1980.	Exhibit 10-g to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1980.
10-k	Consultant Agreement between GEICO Corporation and H. Edward Edward Wrapp dated April 1, 1981.	Exhibit 1 to GEICO Corporation's Form 10-Q for the Quarter Ended June 30, 1981.
10-l	Government Employees Insurance Company's 1973 Stock Option Plan, as amended.	Page No. 52
10-m	Form of Option Agreement under 1973 Stock Option Plan, as amended, together with form of Notice of Intent to Exercise.	Exhibit 9-b and 9-d to GEICO's Form 10-K Annual Report for the fiscal year ended December 31, 1973.

Exhibit No.	Description	Reference
10-n	Amendment to Form of Option Agreement under 1973 Stock Option Plan (for employees granted more than $50,000 worth of options).	Page No. 59
10-o	Amendment to Form of Option Agreement under 1973 Stock Option Plan (for employees granted less than $50,000 worth of options).	Page No. 61
10-p	Form of Non-Qualified Stock Option Agreement, as amended.	Page No. 63
10-q	Statement of 1981 Incentive Bonus Program.	Exhibit 10-j to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1980.
10-r	Statement of 1982 Incentive Bonus Program.	Page No. 66
10-s	Executive Health Plan - A.	Exhibit 5-e to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1979.
10-t	Deferred Compensation Plan.	Exhibit 10 to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1978.
10-u	Performance Share Plan, as amended.	Exhibit 10-m to GEICO Corporation's Form 10-K Annual Report for the fiscal year ended December 31, 1980.
11	Additional Earnings Per Share Information.	Page No. 69
13	Annual Report to Shareholders for the year ended December 31, 1981.	Page No. 70
19	Letter of Ernst & Whinney Regarding Change in Accounting Principle.	Page No. 118
22	Subsidiaries of GEICO Corporation.	Page No. 119

(b) Reports on Form 8-K

GEICO Corporation did not file any report on Form 8-K during the three months ended December 31, 1981.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GEICO CORPORATION

By:
W. A. Sparks, Jr.
Vice President (Principal
Accounting Officer)

March 31, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

John J. Byrne Chairman of the Board, Chief Executive Officer, Principal Financial Officer and Director	March 31, 1982 Date
Paul J. Hanna Vice Chairman of the Board and Director	March 31, 1982 Date
William B. Snyder President and Director	March 31, 1982 Date
Thomas E. Bolger Director	March 31, 1982 Date
Samuel C. Butler Director	March 31, 1982 Date
Alvin E. Kraus Director	March 31, 1982 Date
Melvin M. Payne Director	March 31, 1982 Date
Joseph J. Sisco Director	March 31, 1982 Date
Walter E. Washington Director	March 31, 1982 Date
Frank A. Weil Director	March 31, 1982 Date
H. Edward Wrapp Director	March 31, 1982 Date

ANNUAL REPORT ON FORM 10-K

ITEM 11(d)

FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 31, 1981

GEICO CORPORATION

WASHINGTON, D. C.

REPORT OF INDEPENDENT ACCOUNTANTS

To The Shareholders
GEICO Corporation

We have examined the financial statements and related schedules of GEICO Corporation (parent company) and the consolidated financial statements and related schedules of GEICO Corporation and subsidiaries listed in Item 11(a)(1) and (2) of the annual report on Form 10-K of GEICO Corporation for the year ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of GEICO Corporation (parent company) and the consolidated financial position of GEICO Corporation and subsidiaries at December 31, 1981 and 1980, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981 in conformity with generally accepted accounting principles applied on a consistent basis after restatement of the consolidated financial statements for the change, with which we concur, in the method of accounting for the investment in Government Employees Life Insurance Company as described in Note A to the consolidated financial statements. Further it is our opinion that the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulations of the Securities and Exchange Commission.

Ernst & Whinney

ERNST & WHINNEY

Washington, D.C.
February 19, 1982

GEICO CORPORATION
(PARENT COMPANY)
BALANCE SHEET

	December 31, 1981	December 31, 1980
ASSETS		
Investments in subsidiaries (1)		
GEICO Common Stock	$252,245,515	$209,123,648
GEICO Convertible Preferred Stock	68,791,664	68,791,664
GEICO Facilities Corporation Common Stock	119,036	48,916
Resolute Group, Inc. Common Stock	4,471,489	-
Resolute Group, Inc. Convertible Preferred Stock	10,801,361	-
Criterion Investment Services Company Common Stock	50,000	-
Cash and cash items:		
Cash	696,910	32,476
Short-term investments	431,000	4,100,000
Total Cash and Cash Items	1,127,910	4,132,476
Other Investments:		
Fixed maturities, at amortized cost (market $1,255,000 and $1,340,000)	2,000,000	2,000,000
Equity securities, at market (cost $1,062,319 and $1,000,000)	1,463,844	1,551,518
Total Other Investments	3,463,844	3,551,518
Notes receivable from subsidiaries (1)	1,525,000	125,000
Note receivable from related party	962,500	962,500
Income tax benefit receivable	935,638	10,984,588
Accrued investment income	101,594	101,502
Other assets	560,763	496,533
Total Assets	$345,156,314	$298,318,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Dividends payable	$ 44,616	$ 127,032
Accrued interest payable	2,656,361	2,535,100
Amounts payable on security purchases	224,735	395,001
Accrued expenses and accounts payable	5,566,132	6,250,678
Due to subsidiaries (1)	150,545	222,832
Notes payable	6,000,000	5,000,000
Long-term debt	91,610,100	91,610,100
Total Liabilities	106,252,489	106,140,743
Redeemable Preferred Stock:		
Cumulative Junior Preferred Stock, $.736 Convertible Series - $1.00 par value, $9.20 redemption value, 15,000,000 shares authorized, 226,776 and 676,801 shares issued and outstanding (aggregate liquidation value $2,267,760 and $6,768,010)	2,086,339	6,226,569
Common Shareholders' Equity:		
Common Stock - $1.00 par value, 60,000,000 shares authorized, 30,112,593 and 29,011,638 shares issued and 20,143,681 and 20,263,305 shares outstanding	30,112,593	29,011,638
Paid-in surplus	144,316,100	138,137,037
Unrealized depreciation of investments	(11,483,227)	(10,780,755)
Retained earnings	206,641,151	133,628,865
Treasury Stock, at cost (9,968,912 and 8,748,333 shares of Common Stock)	(132,769,131)	(104,045,752)
Total Common Shareholders' Equity	236,817,486	185,951,033
Total Liabilities and Shareholders' Equity	$345,156,314	$298,318,345

(1) Eliminated in consolidation

See notes to financial statements

GEICO CORPORATION
(PARENT COMPANY)
STATEMENT OF INCOME

	For The Year Ended December 31, 1981	1980	1979
Revenue:			
Dividends from GEICO (1)	$47,000,000	$42,000,000	$40,000,000
Interest from subsidiaries (1)	141,691	1,375	-
Management fees from subsidiaries (1)	2,445,935	2,395,504	-
Other investment income	1,859,481	1,382,298	953,433
Total Revenue	51,447,107	45,779,177	40,953,433
Expenses:			
Interest paid to GEICO (1)	78,842	119,921	-
Other interest	10,893,692	9,981,738	6,029,481
General and administrative	7,875,549	9,826,837	1,255,665
Total Expenses	18,848,083	19,928,496	7,285,146
Income before income tax benefit, equity in undistributed income, realized gains (losses), and extraordinary item	32,599,024	25,850,681	33,668,287
Income tax benefit from operations	6,626,154	7,489,561	2,913,832
Income before equity in undistributed income, realized gains (losses), and extraordinary item	39,225,178	33,340,242	36,582,119
Equity in undistributed operating income (loss) of subsidiaries (1)			
GEICO	24,863,934	26,304,913	22,967,370
GEICO Facilities Corporation	70,119	(1,084)	-
Resolute Group, Inc.	272,850	-	-
Operating Income	64,432,081	59,644,071	59,549,489
Realized gains (losses) on sale of investments (2)	1,484	219,174	(52,250)
Equity in realized gains (losses) of GEICO on sale of investments (1)(2)	18,852,409	899,276	(671,540)
Income before extraordinary item	83,285,974	60,762,521	58,825,699
Equity in GEICO's utilization of operating loss carryforward (1)	-	-	15,456,487
Net Income	$83,285,974	$60,762,521	$74,282,186

(1) Eliminated in consolidation

(2) Net unrealized appreciation (depreciation) on investments in stocks by GEICO of ($594,477), $2,564,822 and ($4,426,470) and by the parent company of ($107,995), ($171,845) and $311,309 is reflected directly in shareholders' equity.

See notes to financial statements

GEICO CORPORATION
(PARENT COMPANY)
STATEMENTS OF REDEEMABLE PREFERRED STOCK
AND COMMON SHAREHOLDERS' EQUITY
For the three years ended December 31, 1981

	Cumulative Junior Preferred Stock, $.736 Convertible Series	Common Shareholders' Equity					
		Total	Common Stock	Paid-In Surplus	Unrealized Depreciation of Investments	Retained Earnings	Treasury Stock, At Cost
Balance at December 31, 1978	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Reorganization	72,078,245	148,728,618	18,567,574	100,068,045	(9,058,571)	39,151,570	
Exchange of Convertible Preferred Stock	(35,860,965)	35,860,965	7,795,862	28,065,103			
Retirement of Convertible Preferred Stock and purchase of Common Stock:							
For $73.3 million of Debentures	(13,444,162)	(59,842,737)				(15,782,278)	(44,060,459)
For cash	(5,270,680)	(11,007,510)				(5,098,810)	(5,908,700)
Proceeds from exercise of stock options and other	(59,901)	(268,591)	(12,857)	(255,734)			
Net income for 1979		74,282,186				74,282,186	
Dividends on Convertible Preferred Stock ($.736 per share)		(3,284,210)				(3,284,210)	
Dividends on Common Stock ($.36 per share)		(6,722,416)				(6,722,416)	
Unrealized depreciation of investment in stocks, net of tax benefit of $1,518,672		(4,115,161)			(4,115,161)		
Balance at December 31, 1979	17,442,537	173,631,144	26,350,579	127,877,414	(13,173,732)	82,546,042	(49,969,159)
Exchange of Convertible Preferred Stock	(11,215,968)	11,215,968	2,438,254	8,777,714			
Proceeds from exercise of stock options		1,043,822	222,805	821,017			
Purchase of Common Stock:							
For $18.3 million of Debentures		(18,323,200)					(18,323,200)
For cash		(35,753,393)					(35,753,393)
Net income for 1980		60,762,521				60,762,521	
Dividends on Convertible Preferred Stock ($.736 series)		(743,304)				(743,304)	
Dividends on Common Stock ($.43 per share)		(8,936,394)				(8,936,394)	
Unrealized appreciation of investment in stocks, net of tax effect of $1,163,774		2,392,977			2,392,977		
Income tax benefit from exercise of stock options		660,892		660,892			
Balance at December 31, 1980	6,226,569	185,951,033	29,011,638	138,137,037	(10,780,755)	133,628,865	(104,045,752)
Exchange of Convertible Preferred Stock	(4,140,230)	4,140,230	900,050	3,240,180			
Proceeds from exercise of stock options		248,768	32,906	215,862			
Purchase of Common Stock		(28,723,379)					(28,723,379)
Issuance of performance shares		2,866,483	167,999	2,698,484			
Net income for 1981		83,285,974				83,285,974	
Dividends on Convertible Preferred Stock ($.736 series)		(295,143)				(295,143)	
Dividends on Common Stock ($.48 per share)		(9,978,545)				(9,978,545)	
Unrealized depreciation of investment in stocks, net of tax benefit of $318,960		(702,472)			(702,472)		
Income tax benefit from exercise of stock options		24,537		24,537			
Balance at December 31, 1981	$ 2,086,339	$236,817,486	$30,112,593	$144,316,100	$(11,483,227)	$206,641,151	$(132,769,131)

See notes to financial statements

GEICO CORPORATION
(PARENT COMPANY)
STATEMENT OF CHANGES IN FINANCIAL POSITION

	For The Year Ended December 31, 1981	1980	1979
FUNDS PROVIDED			
Income before extraordinary item	$83,285,974	$60,762,521	$58,825,699
Charges (credits) to earnings not involving funds:			
Equity in undistributed income before extraordinary item (1)			
GEICO	(43,716,343)	(27,204,189)	(22,295,831)
GEICO Facilities Corporation	(70,119)	1,084	-
Resolute Group, Inc.	(272,850)	-	-
Income taxes	10,159,657	(7,489,561)	(2,913,832)
Increase (decrease) in amounts due subsidiaries (1)	(72,287)	310,557	-
Other	2,251,467	6,141,587	2,278,459
Cash provided from operations	51,565,499	32,521,999	35,894,495
Issuance of Debentures	-	18,323,200	73,286,900
Sale of investments	4,100,000	33,042,165	140,460,953
Redemption of GEICO Convertible Preferred Stock (1)	-	4,000,000	-
Issuance of shares in connection with corporate reorganization (1)	-	-	220,806,863
Conversion of Convertible Preferred Stock:			
Increase in Common Stock	4,140,230	11,215,968	35,860,965
(Decrease) in Preferred Stock	(4,140,230)	(11,215,968)	(35,860,965)
Increase in notes payable, net	1,000,000	5,000,000	-
Proceeds from exercise of stock options	273,305	1,043,822	-
Increase (decrease) in amounts payable on security purchases	(170,266)	395,001	-
Common Stock issued under performance share plan	2,866,483	-	-
Reduction in performance share liability	(2,866,483)	-	-
Total Funds Provided	56,768,538	94,326,187	470,449,211
FUNDS APPLIED			
Purchase of investments	431,000	29,688,346	149,909,240
Purchase of Convertible Preferred Stock (Retired)	-	-	39,595,930
Purchase of Common Stock (Treasury)	28,723,379	54,076,593	49,969,159
Cash dividends paid to shareholders	10,356,104	9,905,608	9,653,683
Investments in subsidiaries (1)			
GEICO Convertible Preferred Stock	-	-	72,078,245
GEICO Common Stock	-	-	148,728,618
GEICO Facilities Corporation Common Stock	-	50,000	-
Resolute Group, Inc. Common Stock	5,000,000	-	-
Resolute Group, Inc. Convertible Preferred Stock	10,000,000	-	-
Criterion Investment Services Company Common Stock	50,000	-	-
Increase in notes receivable from subsidiaries (1)	1,400,000	125,000	-
Increase in note receivable from related party	-	962,500	-
Other	143,621	-	-
Total Funds Applied	56,104,104	94,808,047	469,934,875
Increase (Decrease) in Cash	664,434	(481,860)	514,336
Cash Beginning	32,476	514,336	-
Cash, Ending	$ 696,910	$ 32,476	$ 514,336

(1) Eliminated in consolidation

See notes to financial statements

GEICO CORPORATION
(PARENT COMPANY)

NOTES TO FINANCIAL STATEMENTS

December 31, 1981

The following notes to finanical statements of GEICO Corporation (parent company) include only that information which is different from or in addition to information presented in the consolidated financial statements and notes thereto of GEICO Corporation and subsidiaries included elsewhere or incorporated by reference in this Form 10-K Annual Report. The financial statements and notes thereto of GEICO Corporation (parent company), therefore, should be read in conjunction with the consolidated financial statements and notes thereto of GEICO Corporation and subsidiaries.

NOTE A: Accounting Policy

On January 31, 1979 GEICO Corporation became the parent company of Government Employees Insurance Company (GEICO). Pursuant to an Agreement and Plan of Reorganization approved by the Shareholders the outstanding Common Stock and Cumulative Convertible Preferred Stock of GEICO were converted into Common Stock and Cumulative Junior Preferred Stock, $.736 Convertible Series, respectively, of GEICO Corporation on a share for share basis and the authorized capitalization of GEICO Corporation was increased. In December 1980, GEICO Corporation formed GEICO Facilities Corporation, a wholly-owned property subsidiary. In 1981 GEICO Corporation formed Resolute Group, Inc., a wholly-owned property and casualty reinsurance subsidiary, and Criterion Investment Services Company, a wholly-owned investment adviser and broker-dealer subsidiary. GEICO Corporation carries its investments in GEICO, GEICO Facilities Corporation, Resolute Group, Inc. and Criterion Investment Services Company at its equity in the subsidiaries' net assets.

NOTE B: Management Fees

GEICO Corporation provides various executive and advisory services to its subsidiaries, for which the Corporation receives management fees.

NOTE C: Performance Share Plan

Charges of $1,877,959, and $2,605,718 relating to awards made to key executives of the Corporation and subsidiaries under the performance share plan as discussed in Note J to the Consolidated Financial Statements, were made against earnings of the Corporation in 1981 and 1980, respectively.

NOTE D: Employee Benefits

The cost to the Corporation of the defined benefit plan, as discussed in Note L to the Consolidated Financial Statements, was $166,590 and $118,906 in 1981 and 1980, respectively.

SCHEDULE I - SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN RELATED PARTIES

GEICO CORPORATION
DECEMBER 31, 1981
In Thousands

Type of investment	Cost or Amortized Cost	Market Value	Amount at Which Shown in the Balance Sheet
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 57,077	$ 51,116	$ 57,077
States, municipalities and political subdivisions	482,271	300,255	482,271
Foreign governments	970	691	970
All other corporate bonds	6,500	4,212	6,500
Redeemable preferred stocks	41,909	36,300	41,909
Total fixed maturities	588,727	$392,574	588,727
Equity securities:			
Common stocks:			
Banks, trust and insurance companies	20,522	$ 21,936	21,936
Industrial, miscellaneous and all other	156,756	169,152	169,152
Nonredeemable preferred stocks	83,118	52,828	52,828
Total equity securities	260,396	$243,916	243,916
Short-term investments	73,392		73,392
Total investments	$922,515		$906,035

SCHEDULE II - AMOUNTS RECEIVABLE FROM RELATED PARTIES
AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES

GEICO CORPORATION
YEAR ENDED DECEMBER 31, 1981
In Thousands

Name of Debtor	Balance At Beginning of Period	Additions	Deductions		Balance At End of Period	
			Amounts Collected	Amounts Written Off	Current	Not Current
John J. Byrne	$962,500(1)	-	-	-	-	$962,500

(1) In 1980 the Corporation, with the approval of the Board of Directors, accepted notes for $962,500 from the Chairman of the Board payable on demand with interest at 6% per annum in return for the issuance of 209,741 shares of Common Stock to him upon exercise of options granted in 1976. In consideration of the Corporation agreeing to allow exercise by means of demand notes, the Chairman agreed to extend his term of employment.

SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS
OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES

GEICO CORPORATION
(PARENT COMPANY)
THREE YEARS ENDED DECEMBER 31, 1981, 1980 and 1979
In Thousands

Name of Issuer And Description of Investments	Balance At Beginning Of Period (1) Number Of Shares Or Units. Principal Amount Of Bonds And Notes	(2) Amount In Dollars	Additions (1) Equity Taken Up In Earnings (Losses) Of Related Parties For The Period	(2) Other	Deductions (1) Distribution Of Earnings By Persons In Which Earnings (Losses) Were Taken Up	(2) Other	Balance At End of Period (1) Number Of Shares Or Units. Principal Amount Of Bonds And Notes	(2) Amount In Dollars
Year Ended December 31, 1981:								
Wholly-owned subsidiaries:								
Government Employees Insurance Company								
Common Stock	18,775 100%	$209,124	$ 85,321	$ -0-	$41,605	$ 594(c)	18,775 100%	$252,246
		209,124	85,321	-0-	41,605	594		252,246
Convertible Preferred Stock	7,331 100%	68,792	5,395		5,395		7,331 100%	68,792
		$277,916	$ 90,716	$ -0-	$47,000	$ 594		$321,038
GEICO Facilities Corporation Common Stock	1 100%	$ 49	$ 70	$ -0-	$ -0-	$ -0-	1 100%	$ 119
Resolute Group, Inc. Common Stock		$ -0-	$ (528)	$ 5,000(g)	$ -0-	$ -0-	1 100%	$ 4,472
Convertible Preferred Stock		-0-	801	10,000(g)			2 100%	10,801
		$ -0-	$ 273	$ 15,000	$ -0-	$ -0-		$ 15,273
Criterion Investment Services Company Common Stock		$ -0-	$ -0-	$ 50(h)	$ -0-	$ -0-	1 100%	$ 50
Year Ended December 31, 1980:								
Wholly-owned subsidiaries:								
Government Employees Insurance Company								
Common Stock	18,775 100%	$180,253	$ 63,735	$ 2,565(c)	$36,458	$ 320(d) 651(e)	18,775 100%	$209,124
		180,253	63,735	2,565	36,458	971		209,124
Convertible Preferred Stock	7,731 100%	72,545	5,469		5,542	3,680(d)	7,331 100%	68,792
		$252,798	$ 69,204	$ 2,565	$42,000	$4,651		$277,916
GEICO Facilities Corporation Common Stock		$ -0-	$ (1)	$ 50(f)	$ -0-	$ -0-	1 100%	$ 49
Year Ended December 31, 1979:								
Wholly-owned subsidiary:								
Government Employees Insurance Company								
Common Stock		$ -0-	$ 72,063	$148,729(a) 955(b)	$35,733	$4,426(c) 1,335(a)	18,775 100%	$180,253
		-0-	72,063	149,684	35,733	5,761		180,253
Convertible Preferred Stock		-0-	5,689	72,078(a)	4,267	955(b)	7,731 100%	72,545
		$ -0-	$ 77,752	$221,762	$40,000	$6,716		$252,798

(a) Equity ownership and capital changes pursuant to plan of reorganization
(b) Conversion of Convertible Preferred Stock to Common Stock
(c) Equity in unrealized appreciation (depreciation) on investments in equity securities
(d) Redemption of 400,000 shares of Convertible Preferred Stock for $4 million
(e) Adjustment to basis of investments sold to GEICO to reflect elimination of intercompany gain
(f) Capitalization of GEICO Facilities Corporation in December, 1980
(g) Capitalization of Resolute Group, Inc. in 1981
(h) Capitalization of Criterion Investment Services Company in 1981

SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS
OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES - CONTINUED

GEICO CORPORATION
(CONSOLIDATED)
THREE YEARS ENDED DECEMBER 31, 1981, 1980 and 1979
In Thousands

Name of Issuer And Description of Investments	Balance At Beginning Of Period (1) Number Of Shares Or Units. Principal Amount Of Bonds And Notes	Balance At Beginning Of Period (2) Amount In Dollars	Additions (1) Equity Taken Up In Earnings (Losses) Of Related Parties For The Period	Additions (2) Other	Deductions (1) Distribution Of Earnings By Persons In Which Earnings (Losses) Were Taken Up	Deductions (2) Other	Balance At End of Period (1) Number Of Shares Or Units. Principal Amount Of Bonds And Notes	Balance At End of Period (2) Amount In Dollars
Year Ended December 31, 1981:								
Government Employees Life Insurance Company Common Stock	2,926 65.5%	$ 52,221	$ 4,006	$ 309(c)	$ 2,926	$53,610(b)		$ -0-
Government Employees Financial Corporation Common Stock	807 67.4%	$ 13,102	$ (424)	$ -0-	$ 16	$ 3(c)	807 67.4%	$ 12,659
AVEMCO Corporation Common Stock	558 22.3%	7,089	772	35(a)	287	186(c)	562 22.5%	7,423
Total investment in Government Employees Financial Corporation and AVEMCO Corporation Common Stock		$ 20,191	$ 348	$ 35	$ 303	$ 189		$ 20,082
Year Ended December 31, 1980:								
Government Employees Life Insurance Company Common Stock	2,926 65.3%	$ 49,949	$ 4,574	$ -0-	$ 1,814	$ 488(c)	2,926 65.5%	$ 52,221
Government Employees Financial Corporation Common Stock	805 67.6%	$ 14,280	$ (1,056)	$ 19(a)	$ 121	$ 20(c)	807 67.4%	$ 13,102
AVEMCO Corporation Common Stock		-0-	252	916(d) 6,222(a)	138	163(c)	558 22.3%	7,089
Total investment in Government Employees Financial Corporation and AVEMCO Corporation Common Stock		$ 14,280	$ (804)	$ 7,157	$ 259	$ 183		$ 20,191
Year Ended December 31, 1979:								
Government Employees Life Insurance Company Common Stock	2,898 64.7%	$ 45,929	$ 4,360	$ 553(c) $ 391(a)	$ 1,284	$ -0-	2,926 65.3%	$ 49,949
Government Employees Financial Corporation Common Stock	688 58.4%	$ 12,033	$ 1,302	$ 1,433(a)	$ 422	$ 66(c)	805 67.6%	$ 14,280

(a) Additional purchase of common shares
(b) Sale of ownership interest in Government Employees Life Insurance Company. See notes to consolidated financial statements
(c) Equity in unrealized appreciation (depreciation) on investments in equity securities and other
(d) Transfer of cost of shares purchased during 1979 to investment in affiliates due to increase in ownership during 1980

SCHEDULE VI - REINSURANCE

GEICO CORPORATION
THREE YEARS ENDED DECEMBER 31, 1981
In Thousands

	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Year ended December 31, 1981:					
Premiums earned					
Accident and health insurance	$ 579	$ 145	$ 771	$ 1,205	64%
Property and liability insurance	658,731	10,359	7,092	655,464	1%
Total premiums earned	$659,310	$10,504	$7,863	$656,669	
Year ended December 31, 1980:					
Premiums earned					
Accident and health insurance	$ 160	$ 40	$ -	$ 120	-
Property and liability insurance	624,043	10,458	6,415	620,000	1%
Total premiums earned	$624,203	$10,498	$6,415	$620,120	
Year ended December 31, 1979:					
Premiums earned					
Accident and health insurance	$ 50	$ 12	$ -	$ 38	-
Property and liability insurance	607,266	10,837	5,086	601,515	1%
Total premiums earned	$607,316	$10,849	$5,086	$601,553	

SCHEDULE VII
GUARANTEES OF SECURITIES OF OTHER ISSUERS

GEICO CORPORATION
December 31, 1981
In Thousands

Name of Issuer of Securities Guaranteed By Registrant	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed And Outstanding	Amount Owned By Registrant	Amount In Treasury of Issuer of Securities Guaranteed	Nature of Guarantee	Nature of Any Default
Government Employees Financial Corporation	Commercial Paper (a)	$15,000	$ -0-	$ -0-	Principal and interest	None

(a) Under an agreement dated August 12, 1980, as amended, the Corporation is committed to guarantee up to $15.0 million of GEFCO commercial paper, if any, maturing through May 31, 1982 for which the Corporation receives a fee at an annual rate of $18,750.

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

GEICO CORPORATION
THREE YEARS ENDED DECEMBER 31, 1981
In Thousands

Description	Balance at Beginning of Period	ADDITIONS Charged to Costs and Expenses	ADDITIONS Charged to Other Accounts- Describe	Deduction- Note 1	Balance at End of Period
Year Ended December 31, 1981:					
Allowance for amounts uncollectible on cancelled policies	$ 1,200	$ 1,269	-	$ 1,419	$ 1,050
Year Ended December 31, 1980:					
Allowance for amounts uncollectible on cancelled policies	$ 1,075	$ 1,347	-	$ 1,222	$ 1,200
Year Ended December 31, 1979:					
Allowance for amounts uncollectible on cancelled policies	$ 1,225	$ 1,153	-	$ 1,303	$ 1,075

Note 1: The deductions from the allowance during the three years ended December 31, 1981 represent the net write-off of amounts not collected on cancelled policies.

SCHEDULE IX - SHORT TERM BORROWINGS
GEICO CORPORATION
THREE YEARS ENDED DECEMBER 31, 1981

Category of Aggregate Short Term Borrowings	Balance At End of Period	Weighted Average Interest Rate	Maximum Outstanding During the Period	Average Amount Outstanding During The Period (2)	Weighted Average Interest Rate During the Period (3)
Year Ended December 31, 1981:					
Notes Payable to banks (1)	$6,000,000	15.75%	$6,000,000	$1,297,260	19.02%
Year Ended December 31, 1980:					
Notes Payable to banks (1)	$5,000,000	14.54%	$5,000,000	$3,333,333	14.54%
Year Ended December 31, 1979:	-	-	-	-	-

(1) Demand notes payable to banks represent borrowings under lines of credit borrowing arrangements which have no termination date but are reviewed periodically for renewal.

(2) Computed by averaging the daily amounts outstanding.

(3) Computed by dividing the interest expense for the period by the average amount outstanding during the period.

EXHIBIT INDEX

BYLAWS

of

GEICO CORPORATION

ARTICLE I
Offices

SECTION 1. Registered Office. The registered office of the Corporation in the State of Delaware shall be at 100 West Tenth Street, City of Wilmington, County of New Castle. The name of the registered agent in charge thereof is the Corporation Trust Company.

SECTION 2. Other Offices. The Corporation may also have offices at other places either within or without the State of Delaware.

ARTICLE II
Meetings of Stockholders

SECTION 1. Annual Meetings. The annual meeting of the stockholders for the election of directors and for the transaction of such other business as may properly come before the meetings shall be held at such place (within or without the State of Delaware), date and hour as shall be designated in the notice thereof.

SECTION 2. Special Meetings. A special meeting of the stockholders for any purpose or purposes may be called by the Board, the Chairman of the Board, or the President to to be held at such place (within or without the State of Delaware), date and hour as shall be designated in the notice thereof.

SECTION 3. Notice of Meetings. Except as otherwise expressly required by law, notice of each meeting of the stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting by mailing such notice, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation. Every such notice shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise expressly required by law, notice of any adjourned meeting of the stockholders need not be given. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. A written waiver of notice, signed by the person entitled thereto, whether before or after the time stated therein, shall be deemed equivalent to notice.

SECTION 4. List of Stockholders. It shall be the duty of the Secretary or other officer of the Corporation who shall have charge of its stock ledger to prepare and make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote thereat, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting either at a place specified in the notice of the meeting within the city where the meeting is to be held, or, if not so specified, at the place where the meeting is to be held. Such list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 5. Quorum. At each meeting of the stockholders, except as otherwise expressly required by law or by the Certificate of Incorporation, stockholders holding a majority of the shares of stock of the Corporation issued and outstanding, and entitled to be voted thereat, shall be present in person or by proxy to constitute a quorum for the transaction of business. In the absence of a quorum at any such meeting or any adjournment or adjournments thereof, a majority in voting interest of those present in person or by proxy and entitled to vote thereat, or in the absence therefrom of all the stockholders, any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting from time to time until stockholders holding the amount of stock requisite for a quorum shall be present in person or by proxy. At any such adjourned meeting at which a quorum may be present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 6. Organization. At each meeting of the stockholders, one of the following shall act as chairman of the meeting and preside thereat, in the following order of precedence:

(a) the Chairman of the Board;
(b) the President;
(c) any other officer of the Corporation designated by the Board or the Executive Committee to act as chairman of such

meeting and to preside thereat if the Chairman of the Board and the President shall be absent from such meeting; or

(d) a stockholder of record of the Corporation who shall be chosen chairman of such meeting by a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat.

The Secretary, or, if he shall be presiding over the meeting in accordance with the provisions of this Section, or, if he shall be absent from such meeting, the person (who shall be an Assistant Secretary, if an Assistant Secretary shall be present thereat) whom the chairman of such meeting shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

SECTION 7. Order of Business. The order of business at each meeting of the stockholders shall be determined by the chairman of such meeting, but such order of business may be changed by a majority in voting interest of those present in person or by proxy at such meeting and entitled to vote thereat.

SECTION 8. Voting. Except as otherwise provided in the Certificate of Incorporation, each stockholder shall, at each meeting of the stockholders, be entitled to one vote in person or by proxy for each share of stock of the Corporation held by him and registered in his name on the books of the Corporation:

(a) on the date fixed pursuant to the provisions of Section 5 of Article VIII of these By-Laws as the record date for the determination of stockholders who shall be entitled to receive notice of and to vote at such meeting, or

(b) if no record date shall have been so fixed, then at the close of business on the day next preceding the day on which notice of the meeting shall be given.

Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held by the Corporation, shall neither be entitled to vote nor counted for quorum purposes. Any vote of stock of the Corporation may be given at any meeting of the stockholders by the stockholders entitled thereto in person or by proxy appointed by an instrument in writing delivered to the Secretary or an Assistant Secretary of the Corporation or the secretary of the meeting. The attendance at any meeting of a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless he shall in writing so notify the Secretary of the meeting prior to the voting of the proxy. At all meetings of the stockholders all matters, except as otherwise provided by law or in these Bylaws, shall be decided by the vote of a majority of the votes cast by stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. Except as otherwise expressly required by law, the vote at any meeting of the stockholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy.

ARTICLE III
Board of Directors

SECTION 1. General Powers. The business and affairs of the Corporation shall be managed by the Board of Directors.

SECTION 2. Number and Term of Office. Except as otherwise expressly provided in the Certificate of Incorporation, the number of directors which shall constitute the whole Board shall be fixed from time to time by a resolution adopted by a majority of the whole Board. Except as otherwise expressly provided in the Certificate of Incorporation, each of the directors of the Corporation shall hold office until the annual meeting next after his election and until his successor is elected and qualified or until his earlier death or resignation or removal in the manner hereinafter provided.

SECTION 3. Election. Except as otherwise expressly provided in the Certificate of Incorporation, at each meeting of the stockholders for the election of directors at which a quorum is present, the persons receiving the greatest number of votes, up to the number of directors to be elected, shall be the directors.

SECTION 4. Resignation, Removal and Vacancies. Any director may resign at any time by giving written notice of his resignation to the Chairman of the Board, the President, or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time when it shall become effective shall not be specified therein, then it shall take effect when accepted by action of the Board. Except as aforesaid, the acceptance of such resignation shall not be necessary to make it effective.

Except as otherwise expressly provided in the Certificate of Incorporation, a director may be removed, either with or without cause, at any time by the holders of a majority of the shares entitled to vote in the election of directors.

Any vacancy occurring on the Board may, except as otherwise expressly provided in the Certificate of Incorporation, be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the director elected to fill such vacancy shall hold office for the unexpired term in respect of which such vacancy occurred.

SECTION 5. Meetings.

(A) Annual Meetings. As soon as practicable after each annual election of directors, the Board shall meet for the purpose of organization and the transaction of other business.

(B) Regular Meetings. Regular meetings of the Board shall be held at such times and places as the Board shall from time to time determine.

(C) Special Meetings. Special meetings of the Board shall be held whenever called by the Chairman of the Board, the President or two directors. Any and all business may be transacted at a special meeting which may be transacted at a regular meeting of the Board.

(D) Place of Meeting. The Board may hold its meetings at such place or places within or without the State of Delaware as the Board may from time to time by resolution determine or as shall be designated in the r.spective notices or waiver of notices thereof.

(E) Notice of Meetings. Notices of regular meetings of the Board or of any adjourned meeting need not be given.

Notices of special meetings of the Board, or of any meeting of any committee of the Board which has not been fixed in advance as to time and place by such committee, shall be mailed by the Secretary to each director, or member of such committee, addressed to him at his residence or usual place of business, at least two days before the day on which such meeting is to be held, or shall be sent to him by telegraph, cable or other form of recorded communication or be delivered personally or by telephone not later than the day before the day on which such meeting is to be held. Such notice shall include the time and place of such meeting. Notice of any such meeting need not be given to any director or member of any committee, however, if waived by him in writing or by telegraph, cable or other form of recorded communication, whether before or after such meeting shall be held, or if he shall be present at such meeting.

(F) Quorum and Manner of Acting. A majority of the total number of directors shall be present in person at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of those directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or act of the Board, except as otherwise expressly required by law or these Bylaws. In the absence of a quorum for any such meeting, a majority of the directors present thereat may adjourn such meeting from time to time until a quorum shall be present thereat.

(G) Action by Communications Equipment. The directors, or the members of any committee of the Board, may participate in a meeting of the Board, or of such committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

(H) Action by Consent. Any action required or permitted to be taken at any meeting of the Board, or of any committee therof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and such writing is filed with the minutes of the proceedings of the Board or committee.

(I) Organization. At each meeting of the Board, one of the following shall act as chairman of the meeting and preside thereat, in the following order of precedence: (a) the Chairman of the Board; (b) the President; (c) any director chosen by a majority of the directors present thereat. The Secretary or, in the case of his absence, any person (who shall be an Assistant Secretary, if an Assistant Secretary shall be present thereat) whom the chairman shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

SECTION 6. Compensation. The Board of Directors may fix an amount per annum or fees to be paid by the Corporation to directors for attendance at meetings of the Board or of any committee, or both, as the Board shall from time to time determine. The Board may likewise provide that the Corporation shall reimburse each director or member of a committee for any expenses incurred by him on account of his attendance at any such meeting. Nothing contained in this Section shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV
Committees

SECTION 1. Executive Committee.

(A) Designation and Membership. The Board shall, by resolution passed by a majority of the whole Board, designate an Executive Committee consisting of such number of directors as the Board shall appoint. Vacancies may be filled by the Board at any time and any appointed member of the Executive Committee shall be subject to removal, with or without cause, at any time by the Board.

(B) Functions and Powers. The Executive Committee, subject to any limitations prescribed by the Board, shall possess and may exercise, during the intervals between meetings of the Board, all the powers and authority of the Board in the management of the business and affairs of the Corporation, including the declaration of dividends when specifically authorized by the Board to do so for a particular quarter; provided, however, that the Executive Committee shall not have the power or authority to approve amendments to the Certificate of Incorporation of the Corporation, adopt, agreements of merger or consolidation, recommend to the stockholders the sale, lease or exchange of all or substantially all the property and assets of the Corporation, recommend to the stockholders the dissolution of the Corporation or the revocation of a dissolution, amend these Bylaws or authorize the issuance of stock of the Corporation. At each meeting of the Board the Executive Committee shall make a report of all action taken by it since its last report to the Board.

SECTION 2. Audit Committee.

(A) Designation and Membership. The Board shall, by resolution passed by a majority of the whole Board, designate an Audit Committee consisting of such number of Directors as the Board shall appoint. Vacancies may be filled by the Board at any time and any appointed member of the Audit Committee shall be subject to removal, with or without cause, at any time by the Board. No salaried officer or employee of the Corporation may serve as a member of the Audit Committee.

(B) Functions and Powers. The Audit Committee shall recommend to the Board each year the firm of independent certified public accountants (the Accountants) for appointment or reappointment as Accountants for the Corporation. The Audit Committee shall have such other duties and functions as shall be delegated to it in a resolution passed by a majority of the whole Board.

SECTION 3. Other Committees. The Board may, by resolution passed by a majority of the whole Board, designate other committees (including, but not limited to, a Human Resources Committee, Finance Committee and Social Reponsibility Committee), each committee to consist of three or more directors and to have such duties and functions as shall be provided in such resolution. The Board shall have the power to change the members of any such committee at any time, to fill vacancies, and to discharge any such committee, either with or without cause, at any time.

ARTICLE V
Officers

SECTION 1. Election and Appointment and Term of Office. The officers of the Corporation shall be a Chairman of the Board, a President, such number of Vice Presidents (including any Executive and/or Senior Vice Presidents) as the Board may determine from time to time, a Controller and a Secretary. Each such officer shall be elected by the Board at its annual meeting or by a committee of the Board and hold office until the next annual meeting of the Board and until his successor is elected or until his earlier death, resignation or removal in the manner hereinafter provided.

The Board or a Committee of the Board may elect or appoint such other officers (including one or more Assistant Secretaries) as it deems necessary who shall have such authority and shall perform such duties as the Board or committee may prescribe.

If additional officers are elected or appointed during the year, each of them shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until his successor is elected or appointed or until his earlier death, resignation or removal in the manner hereinafter provided.

SECTION 2. Resignation, Removal and Vacancies. Any officer may resign at any time by giving written notice to the Chairman of the Board, the President or the Secretary of the Corporation, and such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, then it shall take effect when accepted by action of the Board. Except as aforesaid, the acceptance of such resignation shall not be necessary to make it effective.

All officers elected or appointed by the Board shall be subject to removal at any time by the Board with or without cause.

A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided for election or appointment to such office.

SECTION 3. Duties and Functions.

(A) Chairman of the Board. The Chairman of the Board, who shall be a member thereof, shall preside at all meetings of the Board and of the stockholders at which he shall be present.

The Chairman of the Board shall be the Chief Executive Officer of the Corporation and shall have the following powers, functions and duties:

(i) under the direction of the Board, he shall have general supervision and management of the property, affairs and business of the Corporation;

(ii) he shall see that all orders and resolutions of the Board and the committees of the Board are carried into effect;

(iii) he shall have the general supervision and direction of the staff officers of the Corporation and shall see that their duties are properly performed;

(iv) with the President, he shall submit an annual report of the operations of the Corporation for the year to the stockholders at their annual meeting and also to the Board;

(v) he shall be vested with such other powers of supervision and management and he shall perform such other duties as may be delegated to him by the Board, or as devolve upon the Chief Executive Officer of like companies.

(B) President. The President shall be the Chief Operating Officer of the Corporation, except that when the offices of Chairman of the Board and President are held by the same person or when the office of the President is vacant, the Chief Operating Officer shall be such other officer as may be designated by the Board, a Committee of the Board or the Chief Executive Officer, and shall have the following powers, functions and duties:

(i) under the direction of the Board and the Chief Executive Officer, he shall have general supervision and active management of the property, affairs and business of the Corporation;

(ii) he shall have the general supervision and direction of the operating officers of the Corporation and shall see that their duties are properly performed;

(iii) he shall execute and acknowledge all contracts, agreements, deeds, bonds, mortgages and other obligations and instruments in the name of the Corporation when so authorized by the Board or a committee of the Board and all other papers and documents necessary and proper to be executed in the performance of his duties;

(iv) with the Chairman of the Board, he shall submit an annual report of the operations of the Corporation for the year to the stockholders at their annual meeting and also to the Board;

(v) he shall be vested with such other powers of supervision and management and he shall perform such other duties as may be delegated to him by the Chief Executive Officer, the Board, a committee of the Board or as devolve upon the Chief Operating Officer of like companies.

In the absence or disability of the President, his authority and duties shall be vested in such officer as may be designated by the Board, a committee of the Board or the Chief Executive Officer, before or after the event.

(C) <u>Vice Presidents</u>. Each Vice President shall have such powers and duties as shall be prescribed by the Board, a committee of the Board or the Chairman of the Board.

(D) <u>Controller</u>. The Controller shall be the chief accounting officer of the Corporation. He shall keep full and accurate accounts of all assets, liabilities, receipts and disbursements and other transactions of the Corporation and shall cause regular audits of the books and records of the Corporation to be made and shall have such powers and duties as shall be prescribed by the Board, a committee of the Board or the Chairman of the Board.

(E) Secretary. The Secretary shall keep the records of all meetings of the stockholders and of the Board and committees of the Board. He shall affix the seal of the Corporation to all instruments requiring the corporate seal when the same shall have been signed on behalf of the Corporation by a duly authorized officer. The Secretary shall be the custodian of all contracts, deeds, documents and all other indicia of title to properties owned by the Corporation and of its other corporate records (except accounting records) and in general shall perform all duties and have all powers incident to the office of Secretary and shall have such powers and duties as shall be prescribed by the Board, a committee of the Board or the Chairman of the Board. To such extent as the Board shall deem proper, the duties of Secretary may be performed by one or more assistants, to be appointed by the Board or a committee of the Board.

ARTICLE VI
Contracts, Checks, Drafts, Bank Accounts, Etc.

SECTION 1. Execution of Documents. The Board or a committee of the Board shall designate the officers, employees and agents of the Corporation who shall have power to execute and deliver deeds, leases, contracts, mortgages, bonds, debentures, checks, drafts and other orders for the payment of money and other documents for and in the name of the Corporation and may authorize such officers, employees and agents to delegate such power (including authority to redelegate) by written instrument to other officers, employees or agents of the Corporation. In the absence of such designation or delegation, such documents shall be executed by the Chairman of the Board, President, Vice President (including any Executive or Senior Vice President), Controller or Secretary.

SECTION 2. Deposits. All funds of the Corporation not otherwise employed shall be deposited to the credit of the Corporation in such depositaries as may be designated from time to time by the Board or a committee of the Board.

SECTION 3. Proxies in Respect of Stock or Other Securities of Other Corporations. The Chairman of the Board, the President or any other officer of the Corporation designated by the Board or a committee of the Board shall have the authority (a) to appoint from time to time an agent or agents of the Corporation to exercise in the name and on behalf of the Corporation the powers and rights which the Corporation may have as the holder of stock or other securities in any other corporation; (b) to vote or consent in respect of such stock or securities; and (c) to execute or cause to be executed in the name and on behalf of the

Corporation and under its corporate seal, or otherwise, such written proxies, powers of attorney or other instruments as he may deem necessary or proper in order that the Corporation may exercise such powers and rights. The Chairman of the Board, the President or any such designated officer may instruct any person or persons appointed as aforesaid as to the manner of exercising such powers and rights.

ARTICLE VII
Books and Records

The books and records of the Corporation may be kept at such places within or without the State of Delaware as the Board or a committee of the Board may from time to time determine.

ARTICLE VIII
Shares and Their Transfer; Fixing Record Date

SECTION 1. Certificate for Stock. Every owner of stock of the Corporation shall be entitled to have a certificate certifying the number of shares owned by him in the Corporation and designating the class of stock to which such shares belong, which shall otherwise be in such form as the Board or a committee of the Board shall prescribe. Each such certificate shall be signed by, or in the name of the Corporation by, the Chairman of the Board, the President or a Vice President (including any Executive or Senior Vice President) and by the Secretary or an Assistant Secretary of the Corporation. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if he were such officer at the date of issue. Where any such certificate is manually countersigned by a transfer agent or registrar, any of the other signatures on the certificate may be a facsimile.

SECTION 2. Record. A record shall be kept of the name of the person, firm or corporation owning the stock represented by each certificate for stock of the Corporation issued, the number of shares represented by each such certificate, and the date thereof, and, in the case of cancellation, the date of cancellation. Except as otherwise expressly required by law, the person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

SECTION 3. Transfer of Stock. Transfers of shares of the stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on the surrender of the certificate or certificates for such shares properly endorsed.

SECTION 4. Lost, Stolen, Destroyed or Mutilated Certificates. The holder of any stock of the Corporation shall immediately notify the Corporation of any loss, theft or mutilation of the certificate therefor. The Corporation may issue a new certificate for stock in the place of any certificate theretofore issued by it and alleged to have been lost, stolen, destroyed or mutilated, and the Board or the President or the Secretary may, in its or his discretion, require the owner of the lost, stolen, mutilated or destroyed certificate or his legal reprsentatives to give the Corporation a bond in such sum, limited or unlimited, in such form and with such surety or sureties as the Board shall in its discretion determine, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss, theft, mutilation or destruction of any such certificate or the issuance of any such new certificate.

SECTION 5. Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action.

ARTICLE IX
Seal

The Board shall provide a corporate seal, which shall be in the form of a circle and shall bear the full name of the Corporation and the words and figures "Corporate Seal 1978 Delaware."

ARTICLE X
Fiscal Year

The fiscal year of the Corporation shall end on the 31st day of December, in each year.

ARTICLE XI
Indemnification

Every person who is or was a director, officer or employee of the Corporation, or of any other corporation in which he served as such at the request of the Corporation, may in accordance with the second paragraph of this Article XI be indemnified by the Corporation against any and all liability and reasonable expense that may be incurred by him in connection with or resulting from any claim, action, suit or proceeding (whether brought by or in the right of the Corporation or such other corporation or otherwise), civil or criminal, or in connection with an appeal relating thereto, in which he may be involved, as a party or otherwise, by reason of his being or having been a director, officer or employee of the Corporation or such other corporation, or by reason of any action taken or not taken in his capacity as such director, officer or employee, whether or not he continues to be such at the time such liability or expense shall have been incurred, provided such person acted, in good faith, in a manner he reasonably believed to be in or not opposed to the best intersts of the Corporation or such other corporation, as the case may be, and, in addition in any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. As used in this Article XI, the terms "liability" and "expense" shall include, but shall not be limited to, court costs, counsel fees and disbursements and amounts of judgments, fines, or penalties against, and amounts paid in settlement by, a director, officer or employee. The termination of any claim, action, suit or proceeding, civil or criminal, by judgment, order, settlement (whether with or without court approval), conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that a director, officer or employee did not meet the standards of conduct set forth in this paragraph.

Every person referred to in the first paragraph of this Article XI who has been successful, on the merits or otherwise, with respect to any claim, action, suit or proceeding of the character described in such first paragraph shall be entitled to indemnification as of right. Except as provided in the preceding sentence, any indemnification under such first paragraph may be made by the Board of Directors, in its discretion, but only if either (i) the Board of Directors, acting by a quorum consisting of directors who were not parties to (or who have been successful with respect to) such claim, action, suit or proceeding, shall have found that the director, officer or employee has met the applicable standard of conduct set forth in such first paragraph or (ii) if there be no such disinterested quorum, independent legal counsel (who may be the regular counsel of the Corporation) shall have delivered to the Corporation written advice to the effect that in their judgment such applicable standard has been met.

Expenses incurred with respect to any claim, action, suit or proceeding of the character described in the first paragraph of this Article XI may be advanced by the Corporation prior to the final disposition thereof upon receipt of an undertaking by or on behalf of the recipient to repay such amount unless it shall ultimately be determined that he is entitled to indemnification under this Article XI.

The rights of indemnification provided in this Article XI shall be in addition to any other rights to which any such director, officer or employee may otherwise be entitled by contract or as a matter of law; and in the event of any such person's death, such rights shall extend to his heirs and legal representatives.

ARTICLE XII
Amendments

These By-laws may be altered, amended or repealed by the Board at any regular or special meeting thereof, subject to the power of the holders of a majority of the outstanding stock of the Corporation entitled to vote in respect thereof, by their vote given at an annual meeting or at any special meeting, to alter or repeal any Bylaw made by the Board, except as otherwise expressly provided in the Certificate of Incorporation.

Exhibit 10-d

THIRD AMENDMENT TO CONSULTANT AGREEMENT

This THIRD AMENDMENT TO CONSULTANT AGREEMENT, entered into as of the 18th day of December, 1981, effective as of December 18, 1981, by and between GOVERNMENT EMPLOYEES INSURANCE COMPANY, a corporation organized and existing under the laws of the District of Columbia (hereinafter called the "COMPANY"), and ALVIN E. KRAUS, residing at 9026 Bronson Drive, Potomac, Maryland 20854 (hereinafter called "KRAUS"),

WITNESSETH THAT:

WHEREAS, commencing April 1, 1978 the COMPANY and KRAUS entered into a CONSULTANT AGREEMENT (and subsequent AMENDMENTS thereto) wherein KRAUS agreeed to serve as a Consultant to the Corporate Office of the COMPANY; and

WHEREAS, the COMPANY and KRAUS desire to revise this AGREEMENT so as to amend the terms whereunder KRAUS' fees shall be paid,

NOW, THEREFORE,

In consideration of the mutual agreements herein set forth, the parties agree that the CONSULTANT AGREEMENT dated April 4, 1978 and the SECOND AMENDMENT TO CONSULTANT AGREEMENT dated March 24, 1981, are further amended as follows:

1. Paragraph 4 of the CONSULTANT AGREEMENT is deleted and the following is substituted therefor:

> 4. For the period of KRAUS' service as Consultant, the COMPANY shall pay KRAUS a Consulting Fee at the rate of $30,000 per annum. The Consulting Fee for the year April 1, 1978 through March 31, 1979 shall be paid to KRAUS on January 1, 1981; the Consulting Fee for the year April 1, 1979 through March 31, 1980 shall be paid to KRAUS on January 1, 1983; and the Consulting fee for the year April 1, 1980 through March 31, 1981 shall be paid

to KRAUS on January 1, 1984. In the event of the death of KRAUS, any amount required to be paid under the AGREEMENT shall be paid equally to his daughters Karen K. Taylor and Eugenia K. Anderson.

2. The first sentence of the second Paragraph of the SECOND AMENDMENT TO CONSULTANT AGREEMENT is deleted and the following substituted therefor: "During the period of KRAUS' extended service as Consultant, the COMPANY shall pay KRAUS a fee of $2,500, payable on January 1, 1984."

3. The SECOND AMENDMENT TO CONSULTANT AGREEMENT is further revised by the addition of the following new paragraph:

5. In the event of the death of KRAUS prior to January 1, 1984, any fee payable hereunder shall be paid to his daughters, Karen K. Taylor and Eugenia K. Anderson, share and share alike.

IN WITNESS WHEREOF, ALVIN E. KRAUS has hereunto affixed his hand, and GOVERNMENT EMPLOYEES INSURANCE COMPANY has caused this THIRD AMENDMENT TO CONSULTANT AGREEMENT to be signed and its corporate seal to be affixed hereto by its corporate officers thereunto duly authorized.

Alvin E. Kraus
ALVIN E. KRAUS

GOVERNMENT EMPLOYEES INSURANCE COMPANY

By: William B. Snyder
William B. Snyder, President

Attest:

J M O'Connor
John M. O'Connor, Secretary

(SEAL)

Exhibit 3-b

Exhibit 10-g

AMENDMENT TO DEFERRAL AGREEMENT

This AMENDMENT TO DEFERRAL AGREEMENT made and entered into this 19th day of January, 1982, by and between GEICO CORPORATION, a corporation organized and existing under the laws of the State of Delaware (hereinafter called the "COMPANY"), and ALVIN E. KRAUS, residing at 9026 Bronson Drive, Potomac, Maryland 20854 (hereinafter called "KRAUS"),

WHITNESSETH THAT:

WHEREAS, KRAUS and the COMPANY entered into a Deferral Agreement on December 18, 1980, and

WHEREAS, KRAUS and the COMPANY desire to modify said Agreement in certain respects,

NOW, THEREFORE,

In consideration of the mutual promises and agreements of the parties hereto and for other good and valuable consideration, the parties hereto agree as follows:

1. Paragraphs 3 and 4 of the aforesaid Deferral Agreement are deleted in their entirety and the following substituted therefor:

   3. The amount of the Deferred Bonus and accumulated interest will be paid to KRAUS on the first business day of January, 1986.

   4. In the event of the death of KRAUS prior to the the first business day in January 1986, payment of the Deferred Bonus on such date shall be made to his daughters, Eugenia K. Anderson and Karen K. Taylor, payments to be in equal amounts for each of said daughters.

IN WITNESS WHEREOF, ALVIN E. KRAUS has hereunto affixed his hand, and GEICO CORPORATION has caused this Agreement to be signed and its corporate seal to be affixed hereto by its corporate officers thereunto duly authorized.

ALVIN E. KRAUS

Attest:

GEICO CORPORATION

J. M. O'Connor, Secretary

By: WILLIAM B. SNYDER

SECOND ADDENDUM TO RETAINER AGREEMENT

This SECOND ADDENDUM TO RETAINER AGREEMENT, entered into as of the 18th day of December, 1981, effective as of December 18, 1981, by and between CRITERION INSURANCE COMPANY, a corporation duly organized and existing under the laws of the District of Columbia (hereinafter called the "COMPANY"), and ALVIN E. KRAUS, residing at 9026 Bronson Drive, Potomac, Maryland 20854 (hereinafter called "KRAUS"),

WITNESSETH THAT:

WHEREAS, the present RETAINER AGREEMENT and ADDENDUM TO RETAINER AGREEMENT between KRAUS and the COMPANY provide for the payment of certain fees to KRAUS on January 1, 1984, and;

WHEREAS, KRAUS has requested that such payments be postponed until January 1, 1985,

NOW, THEREFORE,

In consideration of the mutual promises and agreements of the parties hereto and for other good and valuable consideration, the parties hereto agree as follows:

1. The second sentence in Paragraph 2 of the RETAINER AGREEMENT effective as of March 14, 1980 is revised to read as follows: "However, KRAUS elects to defer the payment of his fee hereunder until January 1, 1985."

2. The first sentence of the second Paragraph of the ADDENDUM TO RETAINER AGREEMENT effective as of March 14, 1981 is revised to read as follows: "During the period of KRAUS' extended service as Chairman, the COMPANY shall pay KRAUS a fee of $5,000.00, payable on January 1, 1985."

3. In the event of the demise of KRAUS prior to January 1, 1985, all amounts payable under the RETAINER AGREEMENT

and ADDENDUM TO RETAINER AGREEMENT shall be paid to KRAUS' daughters Karen K. Taylor and Eugenia K. Anderson, share and share alike.

IN WITNESS WHEREOF, ALVIN E. KRAUS has hereunto affixed his hand, and CRITERION INSURANCE COMPANY has caused this AGREEMENT to be signed and its corporate seal to be affixed hereto by its corporate officers thereunto duly authorized.

ALVIN E. KRAUS

Attest:

J.M. O'Connor, Secretary

CRITERION INSURANCE COMPANY

By: Harry I. Bond, President

(SEAL)

Exhibit 10-1

GOVERNMENT EMPLOYEES INSURANCE COMPANY

1973 STOCK OPTION PLAN FOR OFFICERS AND EXECUTIVE PERSONNEL

Adopted by Board of Directors on January 31, 1973
and Amended May 5, 1976 and November 18, 1981

1. Purpose of Plan. The continued growth and success of Government Employees Insurance Company (hereinafter "the Company") depend in great measure upon the efforts and talents of its officers and key executive personnel. Keen competition exists for executive talent in the insurance and financial fields and the use of stock options to attract and retain key personnel has become widespread in many industries. The issuance of stock options to executives, by encouraging wider stock ownership, provides an important incentive for greater effort and achievement.

In order to achieve the foregoing objectives, this Stock Option Plan for Officers and Executive Personnel (hereinafter "the Plan") has been adopted by the Board of Directors. The Plan is designed to provide for the granting of "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code of 1954, as amended, as well as non-qualified stock options.

2. Total Shares Reserved. A total of 335,000 shares of the authorized and unissued Common Stock of the Company is hereby reserved for issuance upon the exercise of the stock options (hereinafter "Options") granted under the Plan to Eligible Officers and Executive Personnel (hereinafter "Optionees") as defined in Paragraph 5. If an Option shall expire or terminate, in whole or in part, for any reason without having been fully exercised, the unpurchased shares covered by such Option shall (except as provided in Paragraph 12 or unless the Plan shall have been terminated) become available for Options under the Plan to other Optionees.

3. Administration of Plan. (a) Stock Option Plan Administrative Committee. The Chairman of the Board, with the approval of the Board of Directors, shall initially appoint a Stock Option Plan Administrative Committee (hereinafter "the Committee"), which shall consist of at least five Directors, one of whom shall be designated as Chairman. The Chairman of the Board, with the approval of the Board of Directors, may from time to time appoint members of the Committee in substitution for or in addition to members previously appointed and may fill vacancies in the Committee, however caused. Nevertheless, only Directors who are not eligible to receive Options may be members of the Committee. The Committee shall hold its meetings at such times and places as it shall deem advisable.

A majority of its members shall constitute a quorum and all determinations of the Committee shall be made by a majority of its members. Any decision, order or determination in writing signed by a majority of the members shall be fully as effective as if made by a majority vote at a meeting duly called and held. The Committee shall keep minutes of its proceedings and shall furnish the Board of Directors with copies thereof, and of all decisions, orders and determinations made by the Committee.

(b) Powers of Committee. Subject to the provisions of the Plan, the Committee shall administer the Plan in conformance with and subject to the terms and provisions thereof, and shall have the power and authority (i) to allocate and to grant Options from time to time to Optionees, other than the Chief Executive Officer and the President; (ii) to determine whether the Options granted to any Optionee shall be qualified stock options, as defined in the Internal Revenue Code, or non-qualified stock options; (iii) to determine the time or times at which Options shall be granted; (iv) to determine the number of shares to be covered by, and the term of, each Option; (v) to interpret the Plan; (vi) to prescribe, amend and rescind rules and regulations relating to the Plan; (vii) to determine the duration, terms and provisions of the Options and of the Option Agreements between the Company and the Optionee (which need not be identical), subject to approval by the General Counsel, and (viii) to make all other determinations, orders and decisions deemed necessary or advisable for the administration of the Plan provided, however, that all actions of the Committee pursuant to parts (i), (iii) or (iv) hereof shall be taken only after receiving the recommendations of the Chief Executive Officer thereon.

4. Allocation of Options to Chief Executive Officer and President. Subject to the provisions of the Plan, the Board of Directors shall determine the time or times at which Options shall be granted to the Chief Executive Officer and the President of the Company, and the number of shares to be covered by each Option. All other powers granted, decisions relegated and references made to the Committee herein shall be deemed powers granted, decisions relegated and references made to the Board of Directors, insofar as they relate to Options granted or to be granted to the Chief Executive Officer and the President.

5. Eligible Officers and Executive Personnel. Options may be granted only to personnel of the Company under age sixty-four who are regular salaried employees in positions classified in Salary Range 30 or a higher Salary Range (or equivalent) in the Company's Salary Administration Program for Officers and Executives. Options hereunder may not be granted to any

director of the Company unless he is also a regular salaried officer. In determining the persons to whom Options shall be granted and the number of shares to be covered by each Option, the Committee shall take into account their respective duties, their present and potential contributions to the success of the Company, the anticipated number of years of effective service remaining, and such other factors as the Committee shall deem relevant to accomplish the purpose of the Plan. The Board of Directors shall also take such factors into account in determining the number of shares to be covered by Options granted to the Chief Executive Officer and the President. A person who has been granted an Option may be granted additional Options in the discretion of the Committee or the Board, as the case may be, subject to the provisions of the Plan.

6. Allotment of Options. Options up to the total number of shares reserved hereunder shall be available for issuance to Optionees during the term of this Plan in such annual or other installments as the Committee may determine, and the Committee in its discretion may vary any yearly amounts. The aggregate fair market value (determined as of the time the Option is granted) of the stock for which any employee may be granted incentive stock options in any calendar year after 1980 shall not exceed $100,000 plus any unused limit carryover to such year. If $100,000 exceeds the aggregate fair market value (determined at the time the Option is granted) of the stock for which an employee was granted incentive stock options in any calendar year one-half of such excess shall be an unused limit carryover to each of the three succeeding calendar years, under the rules of Section 422A(c)(4) of the Internal Revenue Code.

7. Option Prices. The purchase price under each Option for the shares of Common Stock covered thereby shall be not less than one hundred percent (100%) of the fair market value of the Common Stock of the Company on the date of granting the Option as determined by the Committee. The option price of the Options granted under this Plan shall not be less than the par value of the optioned shares.

8. Term of Options. The term of each Option shall be determined by the Committee, but shall not be less than two years nor more than ten years from the date it is granted. The preceding sentence notwithstanding, the term of each Option intended to be a qualified stock option, as defined in the Internal Revenue Code, shall not be more than five years from the date it is granted. All Options shall be subject to earlier termination as hereinafter provided.

9. Exercise of Options. No Option may be exercised during the first year after the date it is granted, except as provided in Paragraph 12 hereof relating to termination of employment. Twenty-five percent (25%) of the total number of

shares covered by each Option may be exercised at any time after the first anniversary of its granting and an additional twenty-five percent (25%) may be exercised at any time after each of the three (3) succeeding anniversaries. The right to so exercise Options as aforesaid shall be cumulative, so that in the event the holder of an Option does not exercise his Option in any given year with respect to the maximum number of shares as to which it could be exercised in said year, the unexercised number of shares shall be available for exercise in any subsequent year or years until the Option has expired. Any Option shall be exercisable in whole at any time after the fourth anniversary of its granting, or in part from time to time as hereinabove provided, but not as to less than 10 shares at any one time. To exercise an Option in whole or in part, the holder shall give written notice of exercise to the Committee specifying the number of shares as to which the Option is to be exercised, accompanied by payment in full of the option price of the shares as to which the Option is exercised. Except as provided in Paragraph 12 hereof, no Option may be exercised unless the holder thereof is at the time of exercise an Officer or other regular employee of the Company. Notwithstanding the foregoing, the Committee or the Board of Directors may, in the discretion of either, modify or eliminate any of the foregoing terms or requirements with regard to non-qualified stock options. The holder of an Option shall not have any rights of a stockholder with respect to the shares covered by his Option until such shares have been issued to him upon the due exercise of the Option.

10. Option Agreement. Promptly after the grant of an Option by the Committee under this Plan, and before the exercise of any part thereof, the Company and the Optionee shall execute an Option Agreement specifying the option price and the terms and conditions of the Option. If the Option is intended to be a qualified stock option, as defined in the Internal Revenue Code, the Option Agreement evidencing such Option shall contain such provisions as are required of qualified stock options under the applicable provisions of the Internal Revenue Code and Treasury Regulations, as from time to time in effect, specifically including a provision that no Option, intended to be a qualified stock option, granted pursuant to this Plan may be exercised by him while there is outstanding, a previously granted unexercised Option, within the meaning of Section 422(c)(2) of the Internal Revenue Code, granted under this Plan or any other plan, held by him covering shares of the same class of stock if the option price under the prior Option is higher than the option price under the later Option. Further, the Option Agreement shall contain provisions whereby the Optionee agrees that he will remain in the employ of the Company for a period of at least one year from the date the Option is granted to him; that he will, during such employment, devote his entire time, energy and skill to the

service of the Company and the promotion of its interests, subject to vacations, sick leave and other absences in accordance with the Company's regular policies; that such employment shall be at the pleasure of the Board of Directors or the President, and shall be at the rate of compensation in effect at the time of granting the Option, with such increases or decreases as the Company may from time to time in its discretion determine; and that in the event of a violation by the employee of such Agreement, the unexercised Option or Options held by him may be terminated by the Board of Directors. Notwithstanding the foregoing, the Committee or the Board of Directors may, in the discretion of either, modify or eliminate any of the foregong terms or requirements with regard to non-qualified stock options. Further, such an Option Agreement may contain in the discretion of the Committee, a provision whereby the Optionee agrees that any shares purchased upon exercise of the Option shall be purchased solely for investment and not with any intention of distributing the same, and that the Optionee shall so certify at each time or times such shares are so purchased.

11. Non-Transferability of Options. An Option shall not be transferable otherwise than by will or the laws of descent and distribution. During the lifetime of the Optionee, an Option may be exercised only by him.

12. Termination of Employment. (a) General. In the event the employment of an Optionee terminates other than by retirement, resignation or death, the unexercised portion of his Option shall be cancelled. Options granted under the Plan shall not be affected by any change of duties or positions so long as the Optionee continues to be an officer or other regular employee of the Company. Notwithstanding the foregoing, the Committee or the Board of Directors may, in the discretion of either, modify or eliminate any of the foregoing terms or requirements with regard to non-qualified stock options.

Nothing in the Plan or in any Option granted pursuant to the Plan shall confer upon any Optionee any contractual right to continue in the employee of the Company, nor interfere in any way with the right of the Company to terminate his employment at any time.

(b) Retirement. In the event the employment of an Optionee terminates by retirement under the Company's Pension Plan, the unexercised portion of any Option held by him may be exercised by him within three (3) months thereafter. All Options granted to such Optionee and not previously exercisable shall become fully exercisable, notwithstanding the provisions of Paragraph 9 hereof. No Option may be exercised after the expiration of the term thereof.

(c) Resignation. In the event the employment of an Optionee terminates by resignation, the unexercised portion of any Option held by him may be exercised by him within three (3) months thereafter to the extent that it was exercisable under the provisions of Paragraph 9 hereof on the date of his resignation, but no Option may be exercised after the expiration of the term thereof.

(d) Death. In the event the employment of an Optionee terminates by death, the unexercised portion of any Option granted to him may be exercised by his personal representative within one (1) year thereafter (or within such additional time as the Committee may have specified in the Option), to the extent that the Option was exercisable under the provisions of Paragraph 9 hereof on the date of his death (or to such greater extent the Committee or the Board of Directors may have specified in the Option): Provided, however, that if at the date of his death the Optionee was eligible for retirement under the Company's Pension Plan, all Options granted to the Optionee and not previously exercisable shall become fully exercisable at such date, notwithstanding the provisions of Paragraph 9 hereof. No Option may be exercised after the expiration of the term thereof.

13. Adjustments Upon Changes in Capitalization. Notwithstanding any other provisions of the Plan, in the event of any change or changes in the outstanding Common Stock of the Company by reason of stock dividends, stock splits, recapitalizations, mergers, consolidations, combinations or exchanges of shares, the aggregate number of shares reserved or available under the Plan, the maximum number of shares as to which Options may be granted, the number of unexercised shares covered by each outstanding Option, and the Option price shall be appropriately adjusted. Each Option Agreement shall contain such provisions relating to such adjustments as the Committee shall deem appropriate. No downward adjustment of the Option price shall be made except as authorized in this Paragraph 13. Nothing in the Plan shall affect the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or consolidate or to dissolve, liquidate, or sell, or transfer all or any part of its business or assets.

14. Effective Date of the Plan. The Plan will become effective on May 22, 1973, subject to approval by vote of the holders of a majority of the outstanding shares of Common Stock of the Company; provided, however, that the Plan shall not take effect unless and until approved by the appropriate agency designated under the Economic Stabilization Act, if such approval is required.

15. <u>Termination and Amendment of the Plan</u>. Unless terminated sooner pursuant to this Paragraph 15, the Plan shall terminate on March 27, 1983, and no Option shall be granted under the Plan after that date, but the term of the Options theretofore granted may extend beyond that date. The Board of Directors of the Company may terminate the Plan at any time prior to March 27, 1983. The Plan may at any time or from time to time be modified or amended, provided that approval by vote of the holders of a majority of the outstanding shares of the Common Stock of the Company is obtained for any amendments that would increase the aggregate number of shares which may be granted, decrease the Option price to less than one hundred percent (100%) of the fair market value on the date of grant (but no such amendment can permit the Option price to be less than ninety-five percent (95%) of the fair market value of the stock on the date of grant), or change the class of personnel eligible to receive Options. No termination, modification or amendment of the Plan may, without consent of the Optionee, affect rights under any Option which shall theretofore have been granted.

16. <u>Effect on Outstanding Options</u>. This Plan shall not affect the terms and conditions of any restricted stock options or qualified stock options granted to any employee of the Company under the prior Stock Option Plan for Officers and Executive Personnel previously adopted by the Board of Directors.

17. <u>Use of Proceeds</u>. The proceeds received by the Company from the sale of stock pursuant to the Plan will be used for its general corporate purposes.

GOVERNMENT EMPLOYEES INSURANCE COMPANY

Amendment to
Non-Qualified Stock Option Agreement
(Employee granted more than $50,000 worth of options)

AMENDMENT dated March 4, 1982 to the NON-QUALIFIED STOCK OPTION AGREEMENT between GOVERNMENT EMPLOYEES INSURANCE COMPANY (the "Company") and ______________________________ (the "Optionee").

WHEREAS, the Company and the Optionee entered into a Non-Qualified Stock Option Agreement dated ____________ (the "Agreement") granting to the Optionee an option to purchase shares of the Company's common stock (the "Option") pursuant to the Company's 1973 Stock Option Plan for Officers and Executive Personnel (the "Plan"); and

WHEREAS, the Company intends to elect that the outstanding portion of such Option permitting the purchase of stock, the aggregate fair market value of which at the time of grant was not in excess of $50,000, shall be treated as an incentive stock option under section 422A of the Internal Revenue Code; and

WHEREAS, the Company and the Optionee wish to make certain amendments to the Agreement to satisfy certain requirements of said section 422A;

NOW, THEREFORE, the Agreement is hereby amended by adding the following paragraphs at the end thereof:

1. "That portion of the Option permitting the purchase of Common Stock of the Company, the aggregate fair market value of which at the time of grant was not in excess of $50,000, shall be considered to be an incentive stock option within the meaning of section 422A of the Internal Revenue Code of 1954, as amended."

2. "The incentive stock option portion of the Option shall not be exercisable while there is outstanding any incentive stock option granted to the Employee before the grant of the Option, to purchase stock of the Company or its subsidiary (determined at the time of the granting of the Option), or a predecessor of any such corporation. An option shall be treated as outstanding for this purpose until it is exercised in full or expires by reason of lapse of time."

3. "The notice to the Committee required by paragraph 9 of the Plan shall state the election to exercise the Option, the number of shares of Common Stock of the Company with respect to which the Option is being exercised, whether and to what extent the Employee is exercising an incentive stock option and shall be accompanied by payment of the full option price of such shares."

4. "A separate stock certificate shall be issued for any Common Stock of the Company acquired through the exercise of an incentive stock option."

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed in its corporate name by its duly authorized officers and the Optionee has hereunder set his hand on the date hereof.

GOVERNMENT EMPLOYEES INSURANCE COMPANY

By:__________________________
Senior Vice President

(Sealed)

Attest:

____
Secretary

____
Optionee

Exhibit 10-n

GOVERNMENT EMPLOYEES INSURANCE COMPANY

Amendment to
Non-Qualified Stock Option Agreement
(Employee granted less than $50,000 worth of options)

AMENDMENT dated March 4, 1982 to the NON-QUALIFIED STOCK OPTION AGREEMENT between GOVERNMENT EMPLOYEES INSURANCE COMPANY (the "Company") and ______________________ (the "Optionee").

WHEREAS, the Company and the Optionee entered into a Non-Qualified Stock Option Agreement dated ____________ (the "Agreement") granting to the Optionee an option to purchase shares of the Company's common stock (the "Option") pursuant to the Company's 1973 Stock Option Plan for Officers and Executive Personnel (the "Plan"); and

WHEREAS, the Company intends to elect that any outstanding portion of such Option be treated as an incentive stock option under section 422A of the Internal Revenue Code; and

WHEREAS, the Company and the Optionee wish to make certain amendments to the Agreement to satisfy certain requirements of said section 422A;

NOW, THEREFORE, the Agreement is hereby amended by adding the following paragraphs at the end thereof:

1. "Effective as of the date hereof, the Option shall be considered to be an incentive stock option within the meaning of section 422A of the Internal Revenue Code of 1954, as amended."

2. "The Option shall not be exercisable while there is outstanding any incentive stock option granted to the Employee before the grant of the Option, to purchase stock of the Company or its subsidiary (determined at the time of the granting of the Option), or a predecessor of any such corporation. An option shall be treated as outstanding for this purpose until it is exercised in full or expires by reason of lapse of time."

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed in its corporate name by its duly authorized officers and the Optionee has hereunder set his hand on the date hereof.

GOVERNMENT EMPLOYEES INSURANCE COMPANY

By:______________________________
Senior Vice President

(Sealed)

Attest:

____
Secretary

____
Optionee

Exhibit 10-o

(Rev.11/18/81)

NONQUALIFIED STOCK OPTION AGREEMENT

(PURSUANT TO 1973 STOCK OPTION PLAN FOR OFFICERS AND EXECUTIVE PERSONNEL OF GOVERNMENT EMPLOYEES INSURANCE COMPANY)

THIS AGREEMENT made by and between GOVERNMENT EMPLOYEES INSURANCE COMPANY, a corporation of the District of Columbia (the "COMPANY"), and the following regular salaried officer or employee (the "OPTIONEE"), holding the indicated position:

____
(Name)

____
(Position)

WITNESSETH THAT:

WHEREAS, the Board of Directors of the COMPANY on January 31, 1973 duly adopted the 1973 Stock Option Plan for Officers and Executive Personnel (the "PLAN") to become effective on May 22, 1973.

WHEREAS, the Stock Option Plan Administrative Committee (the "COMMITTEE") has, pursuant to its authority under the Plan, granted the following described Nonqualified Option (the "Option") to the OPTIONEE in accordance with the provisions of the Plan:

> For a period of _____ (   ) years from the date hereof, the OPTIONEE has the right to purchase _____ shares of the Common Stock of GEICO Corporation at the option price of $_______ per share (which is 100% of the fair market value on the date of grant), subject to the terms, conditions and provisions of the Plan.

NOW, THEREFORE, for and in consideration of the mutual undertakings and obligations of the parties herein and other good and valuable consideration the parties hereto agree as follows:

1. The OPTIONEE accepts the aforesaid Option subject to the terms, conditions and provisions of the Plan, and agrees to be bound and to abide by all orders, decisions and determinations of the COMMITTEE made in accordance with the Plan.

2. The OPTIONEE agrees that the aforesaid Option may not be exercised during the first year after the date of grant, except as provided in Paragraph 12 of the Plan. Twenty-five

percent (25%) of the total number of shares covered by the aforesaid Option may be exercised at any time after the first anniversary of its granting and an additional twenty-five percent (25%) may be exercised at any time after each of the three (3) succeeding anniversaries. The right to so exercise Options as aforesaid shall be cumulative and in accordance with the provisions of the Plan.

3. The OPTIONEE agrees to remain in the employ of the COMPANY for a period of at least one year from the date hereof; to devote his entire time, energy and skills during such employment to the service of the COMPANY and the promotion of its interests, subject to vacations, sick leave and other absences in accordance with the COMPANY's regular policies; that such employment shall be at the pleasure of the Board of Directors or the President, and shall be at the rate of compensation in effect at the time of granting the Option, with such increases or decreases as the COMPANY may from time to time in its discretion determine, and that in the event of a violation of this AGREEMENT by the OPTIONEE, the unexercised Option or Options held by the OPTIONEE may be terminated by the Board of Directors.

4. The aforesaid Option may be exercised by the OPTIONEE while there is outstanding a previously granted unexercised Option, intended to be a nonqualified stock option granted pursuant to the Plan, held by him covering shares of the same class of stock even though the Option price under the prior Option is higher than the Option price under the later Option.

5. The aforesaid Option shall not be affected by any change of duties or position of the OPTIONEE so long as the OPTIONEE continues to be an officer or other regular employee of the COMPANY. Nothing in the Plan or in this AGREEMENT or in the aforesaid Option shall confer upon the OPTIONEE any contractual right to continue in the employ of the COMPANY nor interfere in any way with the right of the COMPANY to terminate his employment at any time.

6. Notwithstanding any other provision of the Plan or of this AGREEMENT, in the event of any change or changes in the outstanding Common Stock of the COMPANY by reason of stock dividends, stock splits, recapitalizations, mergers, consolidations, combinations or exchanges of shares, the number of unexercised shares covered by the aforesaid Option and the Option price shall be appropriately adjusted.

7. The COMPANY agrees that upon exercise of the aforesaid Option in whole or in part (on a form prescribed by the COMMITTEE and in accordance with the terms thereof and the terms of the Plan), and upon payment of the Option price for the shares with respect to which the Option is exercised, the COMPANY shall issue to the OPTIONEE (or other person entitled thereto) the number of shares of Common Stock so paid for, in the form of fully paid and non-assessable Common Stock of GEICO Corporation.

8. The OPTIONEE understands that the COMMITTEE may, at its discretion, require him to agree and to certify that all shares purchased pursuant to said Option are purchased solely for investment and not with any intention of distributing the same.

9. The Option shall be considered to be an incentive stock option within the meaning of Section 422A of the Internal Revenue Code of 1954, as amended.

10. The Option shall not be exercisable while there is outstanding any incentive stock option granted to the OPTIONEE before the grant of the Option, to purchase stock of GEICO Corporation or its subsidiary (determined at the time of the granting of the Option), or a predecessor of any such corporation. An Option shall be treated as outstanding for this purpose until it is exercised in full or expires by reason of lapse of time.

IN WITNESS WHEREOF, the COMPANY has caused this AGREEMENT to be executed in its behalf by a Senior Vice President and its corporate seal to be affixed and attested by its Secretary or Assistant Secretary, and the OPTIONEE has affixed his hand and seal.

ATTEST:	GOVERNMENT EMPLOYEES INSURANCE COMPANY
______________________ Secretary	By: ______________________ Senior Vice President
______________________ Date	______________________ Optionee

GEICO CORPORATION & GEICO - 1982 BONUS PLAN FOR OFFICERS

BONUS POOL: Performance of the enterprise will be measured by the Human Resources Committee of our Board against the 1982 Business Plan, with focused attention on results compared with the selected key goals of:

(a) underwriting ratio in GEICO:

underwriting ratio	bonus pool as % of salary
95% or better	25%
96%	20%
97%	15%
98%	10%
99%	5%
100%	0%

(b) shareholder earnings: operating earnings per share to be $3.67, approximately 23% higher than 1981 and a return on equity measured over five years which places us in the top quartile of American Business. Results against this goal to modify the pool by no more than ± 15% of itself.

(c) expense ratios: management of productivity and our expense ratios continue to be a core part of our strategy to return GEICO to its pre-eminence as the low cost operator. An improvement to 25% for the general expense ratio and loss adjustment expense ratio combined (1.8 points below last year's 26.8%) would be good progress. Results against this goal to modify the pool by no more than ± 15% of itself.

(d) growth: 1982 voluntary written premium to be $586.2 million as called for in the 1982 Business Plan, an increase of approximately 10%. Results against this goal to modify the pool by no more than ± 10% of itself.

(e) underwriting ratio: in F/AL of 118.9% with no more than 100% in 4Q82. Results against this goal to modify the pool by no more than ± 10% of itself.

All definition of terms, including earnings per share and return on equity, are as currently defined in our standard glossary and as currently being reported according to generally accepted accounting principles, where appropriate. For return on equity for American Business we will use the FORBES magazine results published in January 1983, using the five year average as defined by them. If, for any reason, FORBES should not publish its annual survey by the end of February, the committee will substitute an appropriate alternate. All American Business is to mean all business reported on in the FORBES annual survey, which presently includes well over 1,000 large companies.

DISTRIBUTION OF BONUS POOL: The Committee will distribute the bonuses to participants after considering the recommendations of management.

Individual bonuses will differ widely by performance (from 0% to 50% of salary) with performance measured and ranked by the chairman, with heavy emphasis on individual and departmental accomplishments of the objectives in the 1982 Business Plan and general contribution to 1982 financial results. Payment will be in a single lump cash payment distributed with the release of the 1982 report to shareholders.

The non-officer plan tracks the above with the basic formula producing approximately half as great a percentage for that pool.

GEICO CORPORATION & GEICO
1982 BONUS PLAN FOR INVESTMENT DEPARTMENT PROFESSIONALS

Achievement of the following goals would produce a pool of from 0 to 25% of base pay for all the investment department professionals:

1. shareholder earnings: operating earnings per share to be $3.67, approximately 23% higher than 1981, and a return on equity measured over five years which places us in the top quartile of American Business.

2. performance of common stocks: to produce over a three year period an annual total return of at least 150 basis points net after tax better than the S&P 500 Index. Results against this goal will be weighted 50% for the three years 1980-82, 25% for the two years 1981-82, and 25% for the year 1982.

3. performance of total portfolio: to produce an annual after tax return over a three year period of at least 50 basis points better than a pre-determined passive market portfolio. As in goal 2, results against this goal will be weighted 50%, 25%, and 25% for three, two, and one years respectively.

4. performance against other business plan goals: although the other goals include social responsibility, management of human resources, improving productivity and efficiency, the primary one to achieve is an after tax investment income of at least $62.3 million (26% above last year).

CRITERION INSURANCE COMPANY
1982 BONUS PLAN FOR OFFICERS

Bonus Pool:

Performance of the enterprise will be measured generally against the 1982 Business Plan, with focused attention on results compared with the selected key goals of:

(a) underwriting ratio in CRICO:

underwriting ratio	bonus pool as % of salary
95% or better	25%
96%	20%
97%	15%
98%	10%
99%	5%
100%	0%

(b) shareholder earnings: GEICO Corporation operating earnings per share to be $3.67, approximately 23% higher than 1981, and a return on equity measured over five years which places us in the top quartile of American Business. Results against the goal to modify the pool by no more than ± 15% of itself.

(c) expense ratios: management of productivity and our expense ratios are central to CRICO's performance. An improvement to 29.6% for the general expense ratio and loss adjustment expense ratio combined (2.0 points below last year's 31.6%) would be good progress. Results against the goal to modify the pool by no more than ± 15% of itself.

All definition of terms, including return on equity, are as currently defined in our standard glossary and as currently being reported according to generally accepted accounting principles, where appropriate. For return on equity for American Business we will use the FORBES magazine results published in January 1983, using the five year average as defined by them. If, for any reason, FORBES should not publish its annual survey by the end of February, the committee will substitute an appropriate alternate. All American Business to mean all business reported on in the FORBES annual survey, which presently includes well over 1,000 large companies.

Distribution of bonus pool:

The committee will distribute the bonuses to participants after considering the recommendations of management.

Individual bonuses will differ widely by performance (from 0% to 50% of salary) with performance measured and ranked by the chairman with heavy emphasis on individual and departmental accomplishments of the objectives in the 1982 Business Plan and general contribution to 1982 financial results.

Payment will be in a single lump cash payment distributed with the release of the 1982 report to shareholders.

The non-officer plan tracks the above with the basic formula producing approximately half as great a percentage for that pool.

Exhibit 10-r

ADDITIONAL EARNINGS PER SHARE INFORMATION

Affiliates include GEICO's consolidated insurance subsidiary and unconsolidated affiliates.

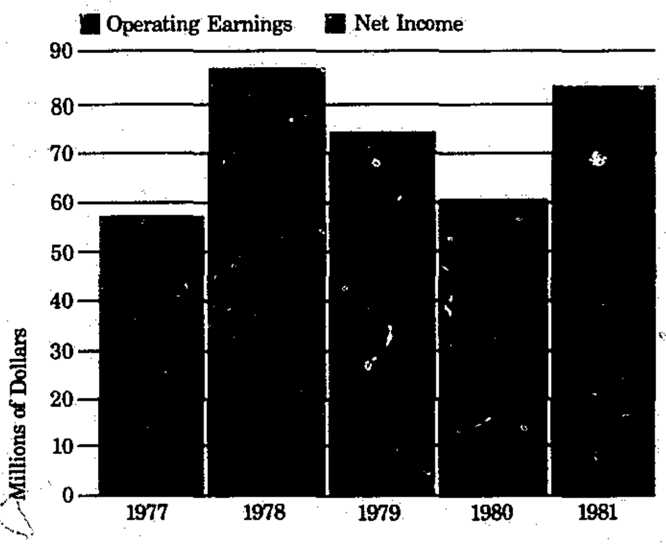
	In Thousands Except Per Share Results		
	Year Ended December 31,		
	1981	1980	1979
Fully Diluted:			
Earnings			
Operating income	$64,432	$59,644	$59,549
Less: Equity in income of affiliates	(8,316)	(10,340)	(9,427)
Plus: Equity in affiliates' fully diluted earnings per share	8,316	10,295	9,186
Less: Dividends on senior preferred stock	-	-	-
Operating earnings applicable to common shares	64,432	59,599	59,308
Realized gains (losses)	18,854	1,119	(724)
Income applicable to common shares before extraordinary item	83,286	60,718	58,584
Extraordinary item	-	-	15,456
Income applicable to common shares	$83,286	$60,718	$74,040
Shares			
Weighted-average number of common shares outstanding	20,623	20,522	17,336
Conversion of convertible preferred stocks	878	2,225	10,238
Net effect of dilutive stock options	42	59	179
Net effect of performance share awards	101	197	-
Total	21,644	23,003	27,753
Fully diluted earnings per share			
Operating earnings	$ 2.98	$ 2.59	$ 2.14
Income before extraordinary item	$ 3.85	$ 2.64	$ 2.11
Net income	$ 3.85	$ 2.64	$ 2.67
Primary:			
Earnings			
Operating income	$64,432	$59,644	$59,549
Less: Equity in income of affiliates	(8,316)	(10,340)	(9,427)
Plus: Equity in the affiliates' primary earnings per share	8,316	10,295	9,320
Less: Dividends on preferred stock	(295)	(743)	(3,284)
Operating earnings applicable to common shares	64,137	58,856	56,158
Realized gains (losses)	18,854	1,119	(724)
Income applicable to common shares before extraordinary item	82,991	59,975	55,434
Extraordinary item	-	-	15,456
Income applicable to common shares	$82,991	$59,975	$70,890
Shares			
Weighted-average number of common shares outstanding	20,623	20,522	17,336
Primary earnings per share			
Operating earnings	$ 3.11	$ 2.87	$ 3.24
Income before extraordinary item	$ 4.02	$ 2.92	$ 3.20
Net income	$ 4.02	$ 2.92	$ 4.09

Financial Highlights

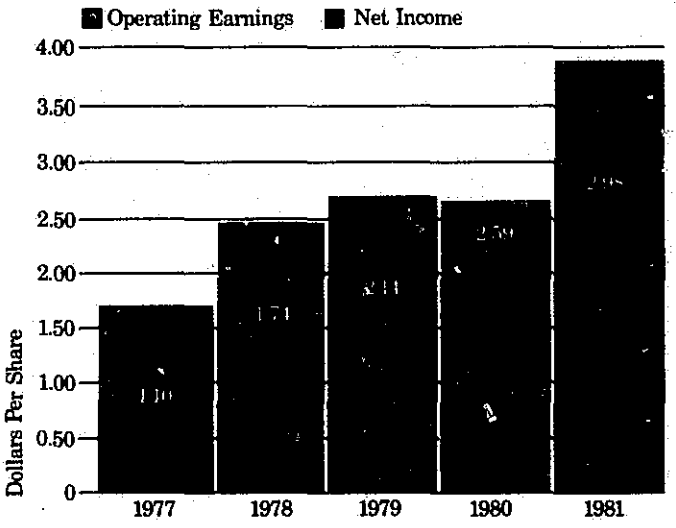
(In thousands, except per share data)	*1981*	*1980**	*Change*
Revenue	**$ 727,453**	$ 684,408	6%
Operating earnings	**64,432**	59,644	8%
Net income	**83,286**	60,763	37%
Assets	**1,362,009**	1,274,796	7%
Shareholders' equity (fully converted)	**238,904**	192,178	24%
Operating earnings per share (fully diluted)	**2.98**	2.59	15%
Net income per share (fully diluted)	**3.85**	2.64	46%
Dividends declared per common share	**.48**	.43	12%
Book value per share (fully converted)	**11.60**	8.89	30%
Weighted average shares (fully diluted)	**21,644**	23,003	(6)%

**Certain financial data restated to reflect GELICO on the equity method of accounting.*

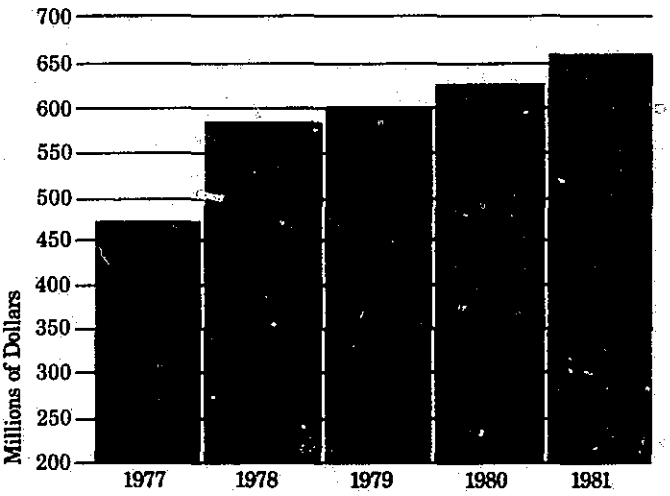
Operating Earnings and Net Income



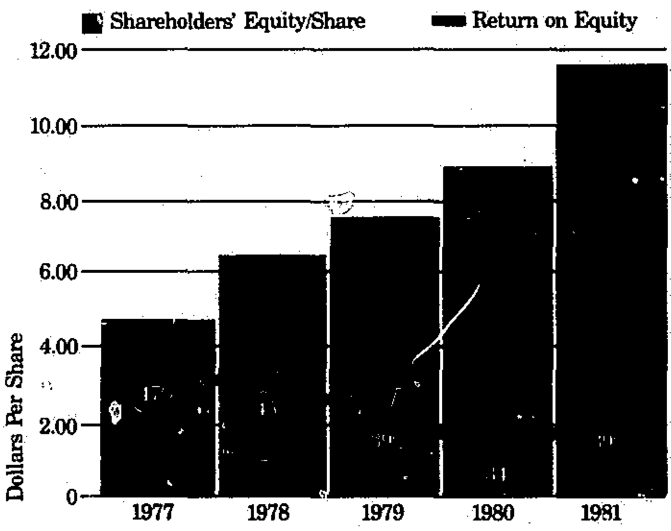
Operating Earnings and Net Income Per Share
(Fully Diluted)



Property and Casualty Earned Premiums



Shareholders' Equity Per Share and Return on Equity
(Fully Converted)



To Our Shareholders

Overall, your Company had a fairly good year—the final quarter was a bit disappointing. Operating earnings for the year increased modestly while earnings per share rose 15%. Net income was helped by the profit from the sale of our interest in an affiliate in the fourth quarter.

Our property and casualty operations achieved a modest underwriting gain. The natural underwriting ratio was 96.2%, reasonably close to our standard, but the last quarter was disappointing. Government Employees Insurance Company, our cornerstone business, managed to a fine 95.1%.

Premiums increased only 6% in 1981. This resulted from a reduction in involuntary business, a favorable development for us, but also reflects disappointing growth in GEICO's automobile business. I think we can do better here.

Our customers reported fewer claims in 1981 than in 1980 but that favorable trend may have bottomed. Claim costs rose during the year at a rate exceeding the rate of inflation in the general economy. It is likely that trend will continue through 1982. This concerns us.

The progress we were making in our investment portfolio was sidetracked by broad declines in the securities markets during the third and fourth quarters. We closed the year with a bond portfolio worth much less than its cost.

On December 21, 1981 we sold our 66% interest in Government Employees Life Insurance Company (GELICO) to the Legal & General Group of the United Kingdom. Our interest in GELICO's 1981 results are reflected on the equity accounting basis and prior years' results have been similarly restated. The $90 million in proceeds from the GELICO sale were placed in our investment portfolio where they provide us with flexibility to meet changing market conditions. To offset some of the realized gains from the sale, we sold preferred stocks, bonds and common stocks, all at a loss, in the fourth quarter. We anticipate making additional sales during 1982. Our investment objective continues to be to improve the real value of your enterprise by increasing total return, rather than by maximizing current income. You may not think so from these numbers, but we are making progress.

Our new venture, Government Securities Cash Fund, a no-load money market fund, has become operational. We are offering the Fund to our policyholders and shareholders through direct mail. If you receive one of our solicitations I hope you will find the Fund to be a useful cash management device. Your recommendation of our insurance and financial services to friends and family is always appreciated.

Resolute Group, our new reinsurance subsidiary, started in business. Gross premium acceptances were about as planned and we think we are seeing satisfactory business. We are committed to careful risk selection and underwriting profitability in the reinsurance field.

GEFCO had another disappointing year. The 1982 outlook here is fair at best.

Per share earnings have benefited over the last three years from a 40% reduction in the number of outstanding common share equivalents. I suspect we are about done here for a while although we will review the matter from time to time.

Your Board of Directors was pleased to increase the quarterly cash dividend on the Common Stock during 1981. The dividend payout was $.48 per share in 1981, up 12%. On February 24, 1982 your Board increased the dividend again, this time to $.14 per quarter, an increase of 17%.

You will notice in this report an underlying concern for a number of safety-related issues that have a direct bearing on our quality of life as well as our business. We are working with various industry, government and consumer groups to bring each of these issues into public focus so that our roadways will be safer to travel.

The outlook for the property and casualty insurance industry is not good for 1982. Most estimates are for continued poor industry underwriting results. Competition for good risks is expected to remain keen. We expect modest premium growth, an underwriting gain, a significant increase in investment income, further gains in earnings per share and growth in book value. We also hope to make further progress in reducing expenses during the year.

Our guarded forecast is that GEICO will continue to prosper at least modestly in 1982.

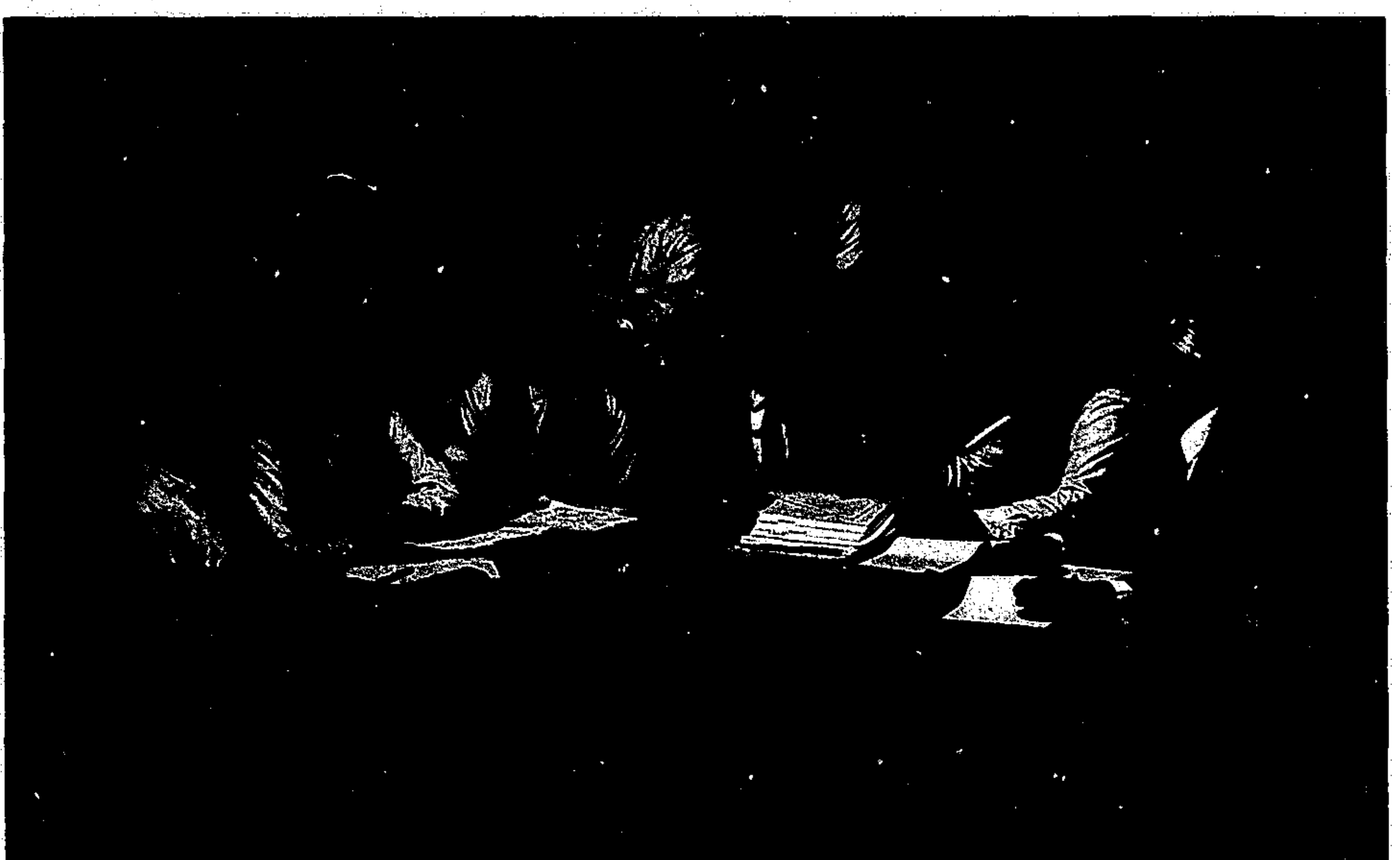
Respectfully submitted,

Jack Byrne

John J. Byrne
Chairman

February 24, 1982

Standing: **William B. Snyder** *President GEICO Corporation and GEICO*; **Louis A. Simpson** *Senior Vice President, Investments GEICO Corporation and Affiliates*; **Donald K. Smith** *Senior Vice President & General Counsel GEICO Corporation and Affiliates*; **Harry I. Bond** *President Criterion Insurance Company*; **W. Alvon Sparks, Jr.** *Vice President, Control GEICO Corporation and Affiliates Formerly President of GEFCO*



Seated: **Eugene J. Meyung** *Executive Vice President GEICO*; **Richard C. Lucas** *Senior Vice President GEICO*; **John J. Krieger** *President GEFCO*; **David M. Evans** *President Resolute Group, Inc.*; **John J. Byrne** *Chairman GEICO Corporation and Affiliates*; **James E. Reagan** *Senior Vice President GEICO*

Operations

Property and casualty insurance is the cornerstone of our business. GEICO's mission is to provide quality insurance to preferred risks at a price advantage, using direct response marketing methods. By delivering appropriate automobile and homeowners coverage and good service at a lower cost to our customers, we hope to attract the volume and quality of business that will allow us to achieve a satisfactory underwriting profit and growth rate.

As a direct response writer, GEICO's delivery system provides us with certain advantages over companies with sales representatives. The most significant advantage is that we do not have sales commissions to include in our price. Our toughest competitors are direct writer companies whose sales representatives sell only their products. Direct response and direct writers have grown dramatically during the last decade because of their price advantage over traditional marketing methods.

To attract the quality of auto business we desire, GEICO targets the good driver or "preferred risk." We must drive the cost of our product down to the point where we enjoy a significant price advantage but are still able to make a 5% underwriting profit—without reducing quality of service. We are approaching this problem from several directions.

First, we are underwriting and pricing all new and renewal business carefully. By attracting and retaining policyholders with good driving records, we pay less in losses and therefore can charge our customers less.

Second, we offer quality service and strive to treat each customer as we would like to be treated. In order to grow we must retain our current policyholders as well as attract new customers. GEICO is one of the few companies still writing 12-month auto premiums, which our customers seem to prefer for the rate protection it affords them. We also offer national 24-hour claim, policy and sales service, a new feature introduced in 1981 that our policyholders perceive favorably. We are the only national company to offer this service. We are proud of our service record. In a survey conducted in 1981, 97% of our customers responded that our claims and policy services were as good as or better than those of our competitors.

Third, we have made significant strides in improving the productivity of our work force and in reducing our general operating and claims expenses. One measure of that progress is the number of policies in force per employee. Since year-end 1978, the number of policies per employee has increased 28%. During that same period our general and loss adjustment expenses as a percentage of premiums have declined 1.7 points. We are passing these savings on to our customers through lower rates. We hope to make further progress in 1982.

An important component of GEICO's marketing strategy is to concentrate our efforts in markets we feel will be profitable for us. Such markets traditionally have an insurance law and regulatory climate conducive to profitability and open competition. While we offer auto insurance in all states except New Jersey and Massachusetts, we are concentrating on attracting new business in approximately eight states that best meet our guidelines.

GEICO's homeowners business achieved disappointing results in 1981, although there was some improvement over 1980's poor results. Homeowners rates have been raised where necessary and we are encouraging our policyholders to insure their property more closely in line with its value. We expect further improvement for this line in 1982. Vice President Donn Knight, who did a fine job previously heading GEICO's claim operations, is now in charge of this Profit Center.

Criterion Insurance Company complements GEICO by offering standard automobile and motorcycle insurance. Although Criterion achieved good premium growth and raised its productivity, the Company's underwriting results were unprofitable in 1981. Returning Criterion to underwriting profitability in 1982 has top priority for its management team headed by President Harry Bond.

The property and casualty environment is expected to remain competitive through 1982 with strong price competition for the preferred risk. We will continue our efforts to reduce the costs of doing business—commensurate with good service—in order to make GEICO the industry's low cost operator and its best insurance value. This operating challenge is in the capable hands of Executive Vice President Gene Meyung and Senior Vice Presidents Dick Lucas and Jim Reagan (pictured) and GEICO's 26 Planning Center Managers who are charged with "making things happen."

William B. Snyder
President

February 24, 1982

Investments

The performance of our investment portfolio in 1981 was disappointing to me on an absolute basis as measured by the total aftertax rate of return. However, on a relative basis, the portfolio performed well as each sector (common stocks, preferred stocks, tax-exempt bonds and taxable bonds) substantially outperformed the market indices against which they are measured. The major reason for the disappointment was the continuing rise in interest rates and the resulting slide in bond prices. The greatest damage to the value of our portfolio was in our largest sector, tax-exempts, which account for approximately 40% of the total on a market value basis. The Bond Buyer Index yield was 9.76% at the start of 1981 and by year-end had reached 13.30%. The shorter average maturity of our portfolio resulted in a more moderate decrease in value but a decline nonetheless. Since we have more than ample liquidity to hold these bonds to maturity, no impact on insurance operations is expected from the depreciation in the market value of the bonds.

I was pleased that the increase in investment income, while modest, was better than I expected. Pretax net investment income increased 10% in 1981; aftertax the increase was 11%.

Our investment strategy in 1981 continued to focus on aftertax total return for the portfolio. We made progress during the year in restructuring the portfolio by (1) increasing our holdings in common stocks and convertible preferreds; (2) selling preferreds without sinking funds; (3) shortening the maturity of the tax-exempt sector by selling long bonds and reinvesting in shorter-term issues; (4) eliminating our position in long-term taxable corporate bonds and (5) increasing our position in cash-equivalent securities.

We did not invest new money in the tax-exempt area. With the benefit of hindsight we should have been even more aggressive in selling long-term tax-exempt bonds. While I felt these bonds were not attractive to purchase, they were too cheap to sell.

For 1982 our goal will again be to concentrate on total return. We expect that financial markets will remain volatile despite our belief that inflationary expectations will decline from recent levels. We are concerned that the liquidity in our credit system continues to deteriorate and will become an increasingly serious problem. In particular, the thrift institutions and state and local governments are vulnerable as their access to financial markets has been impaired. Corporate sector balance sheets are also under pressure as profitability has deteriorated in a number of industries and managements have resisted refinancing short-term borrowings at historically high long-term rates. Finally, we are quite concerned about the continuing conflict between the Administration's stimulative fiscal policy and the Federal Reserve's tight money policy.

Despite all of the above concerns, we are currently in the process of making a change in our investment strategy to emphasize new investments in fixed income securities in 1982. We feel that the continued rise in interest rates over the past three years has made the aftertax total return from bonds attractive compared to alternative investments. For example, one year ago the yields on new intermediate term (5 to 10-year) tax-exempts were about 7½%. Today the yields are approximately 12%. Even though common stocks appear to be reasonably priced compared to historic levels, returns from intermediate tax-exempts offer competitive aftertax rates of return with more certainty, and with no potential adverse impact on surplus from the short-term price volatility of stocks.

At this time we anticipate placing the largest portion of our investable cash in intermediate tax-exempts, emphasizing strong credits and complete call protection. Within our equity portfolio we will continue to emphasize undervalued common stock issues and convertible preferreds. Of course, these judgments must be reviewed almost daily.

In 1982, as market conditions permit, we anticipate offsetting the remaining taxable gain from the sale of GEICO's interest in GELICO which will create a large realized net capital loss. Proceeds from any sales will be reinvested in line with our investment strategy.

I believe it is essential to retain flexibility in 1982 by maintaining a substantial liquidity reserve to be able to react to market opportunities. Right now we have about 20% of our portfolio at market invested in cash and cash equivalents. Each day I see more opportunities to invest this money.

Louis A. Simpson

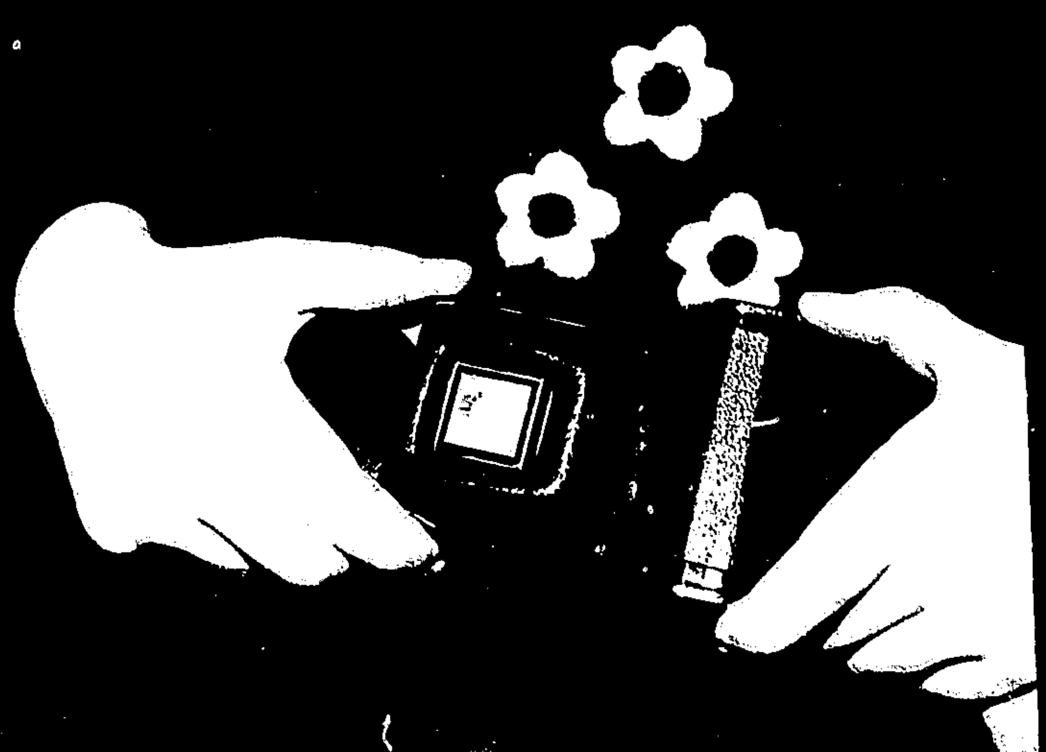
Louis A. Simpson
Senior Vice President

February 24, 1982

The insurance industry has taken a leadership role in advocating the installation of air bags in vehicles. We have no special attachment to air bags—we simply are looking for the most effective means of preventing injuries and saving lives. Safety belts can do that if they are worn, but they are not. Only about one driver in eight uses a safety belt. According to a report issued by the Department of Transportation in 1980 only three percent of those drivers fatally injured and alone in their cars were known to be wearing their seat belts.

Innovative ideas are needed for encouraging safety [illegible] Laws are prohibit[illegible] [illegible] although [illegible] have had [illegible] approach. Passive restraints, automatic [illegible] air bags [illegible] the [illegible] and [illegible] mandated. It [illegible] passive [illegible] install[illegible] cars [illegible]

The private sector is [illegible] promoting [illegible] Many companies, like GEICO, [illegible] safety belts [illegible] Other companies [illegible] programs to encourage employees to wear belts or [illegible] programs to educate the general public on the safety belt issue.



Principal Business Segments

Property and Casualty Insurance

Private Passenger Automobile Insurance

Government Employees Insurance Company

Criterion Insurance Company

GEICO Corporation's principal line of business is private passenger automobile insurance. Although other lines of insurance and financial services are offered, insuring family automobiles accounts for over 90% of our business. We offer automobile coverage through two wholly owned subsidiaries: Government Employees Insurance Company, or GEICO as it is widely known, and Criterion Insurance Company.

Founded in 1936, GEICO is one of the country's largest writers of private passenger automobile insurance. The Company operates in the District of Columbia and all states except Massachusetts (where it is licensed to write non-automobile lines) and New Jersey.

GEICO occupies a unique position in the automobile insurance marketplace. Using direct response marketing techniques, which allow the Company to deal directly with its customers, and insuring drivers with good driving records, GEICO delivers quality insurance protection and excellent service at a significant price advantage over most of its competitors.

Criterion Insurance Company was organized by GEICO's management in 1961 to write automobile insurance for individuals not meeting GEICO's preferred risk underwriting standards. Criterion operates in the District of Columbia and all states except Massachusetts, New Jersey and South Carolina, although it is licensed to do business in the latter. New customers are acquired and service is provided through General Field Representatives (commissioned agents), sales offices operated by GEICO and GEFCO, company-operated sales offices and by direct mail. Criterion's marketing programs are directed toward military personnel, young drivers, senior citizens and other standard risk prospects through newspaper, radio, television, magazine and direct mail advertising. The Company writes private passenger automobile and motorcycle insurance exclusively.

In July 1981 GEICO signed a letter of intent to purchase from Equitable Life Holding Corporation its property and casualty subsidiary, Equitable General Insurance Company. Once completed, the transaction will include that Company's automobile and homeowners personal lines business, but will exclude its reinsurance and excess group health business. Equitable General presently operates in 27 states, mostly west of the Mississippi, but is licensed to do business in the District of Columbia and all fifty states. Its primary policyholder concentrations are in Texas, California and Arizona.

Equitable General will provide us with a third pricing structure for another class of automobile and homeowners business. This multi-company operating structure will allow us to accommodate a greater percentage of the new business inquiries that we receive. Our operating goal for Equitable General will be the same as it is for GEICO and Criterion—to operate at a 95% underwriting ratio.

Our companies provide several attractive advantages to their policyholders. We still offer our automobile insurance customers rates for one year rather than six months. Our policyholders have expressed a strong preference for the one-year policy because of the protection it provides against rising rates. Also, after a successful test in the Washington, D. C. metropolitan area, we became the first insurance company to offer 24-hour nationwide claims, policyholder and sales service. Response to this new service has been quite favorable and we are emphasizing it in our current advertising programs.

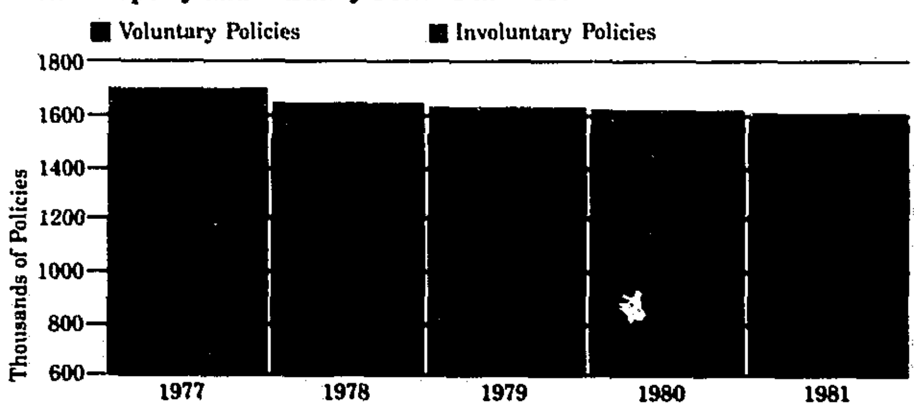
GEICO's automobile policy persistency remained at traditionally high levels in 1981. Over 90% of the Company's customers accepted our offer to renew their coverage.

The "GEICO Preferred" sponsored marketing program, designed to encourage associations to endorse GEICO and Criterion insurance to their members, continued to grow in 1981. Endorsements have been received from associations representing over one million members since the program was introduced in 1979.

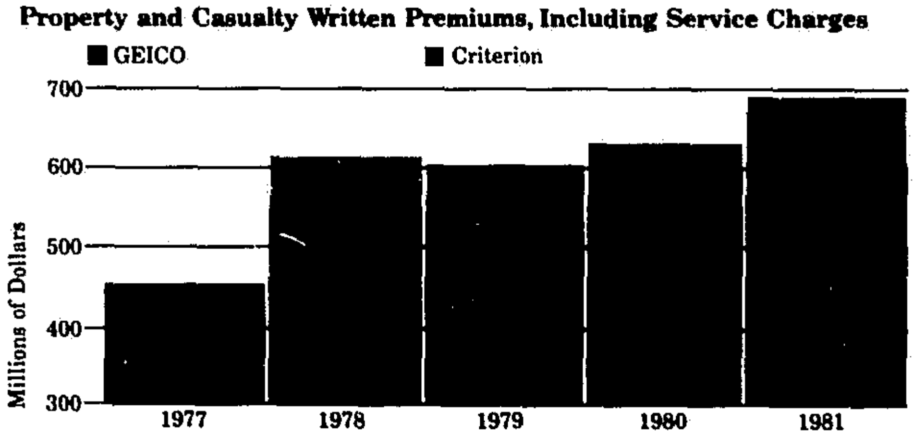
New voluntary automobile policies written by GEICO and Criterion increased 10.7% in 1981 compared to 16.1% and 1.0% gains in 1980 and 1979. Exclusive of residual market business, such as assigned risk and other involuntarily written policies, automobile policies in force totaled 1,278,413 at year-end 1981, a 1.6% increase from the 1,258,505 in force at the end of 1980 which in turn showed a nominal increase from the 1,252,045 in force at year-end 1979.

Residual market policies,

Total Property and Casualty Policies in Force



Property and Casualty Written Premiums, Including Service Charges



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When we talk of occupant restraints, we should keep in mind that special protection is needed for infants and children. Education concerning the need for infant and child restraints in vehicles can be done at the local level by community groups, the medical profession and by employees. At GEICO, for example, we have started an infant restraint lending and educational program for our own employees.

Car safety seats and other types of child restraints may be inconvenient to use but they save lives. Consider these statistics. Traffic accidents are the leading cause of death among children ages 1–14 years. More children die as the result of motor vehicle accidents than from cancer or any other disease. According to the National Highway Traffic Safety Administration, only about 22% of all infants are properly protected by an infant restraint when they travel in a vehicle. Use of restraints is even lower among older children—only 4.5% of toddlers (ages 1–4) are protected. Safety belt usage among children 4–14 years is only 3.3%.

The younger the child, the greater the chance that he will be killed in an accident. A recent study at Johns Hopkins showed that the death rate for infants (under six months of age) is 9.1 per 100,000, about double the rate for one-year olds. This is even more significant because there is evidence that very young children travel less than older children.

which are typically unprofitable, are assigned by state insurance mechanisms in proportion to an insurer's premium volume in preceding years. Our assignments have decreased steadily since 1977, declining 16.2% in 1981, to 65,291 policies following declines of 26.0% in 1980 and 16.7% in 1979. We consider the continued decline in residual market business a highly favorable development, although not sustainable.

Automobile written premiums including service charges totaled $626.0 million in 1981, up 5.4% from $593.9 million in 1980 which was a 4.9% increase from 1979. Premiums from voluntary auto policies increased 6.4% while involuntary policy premiums were down 6.4%. Voluntary rates were increased 5.4% countrywide during 1981 while involuntary rates were raised 7.8%.

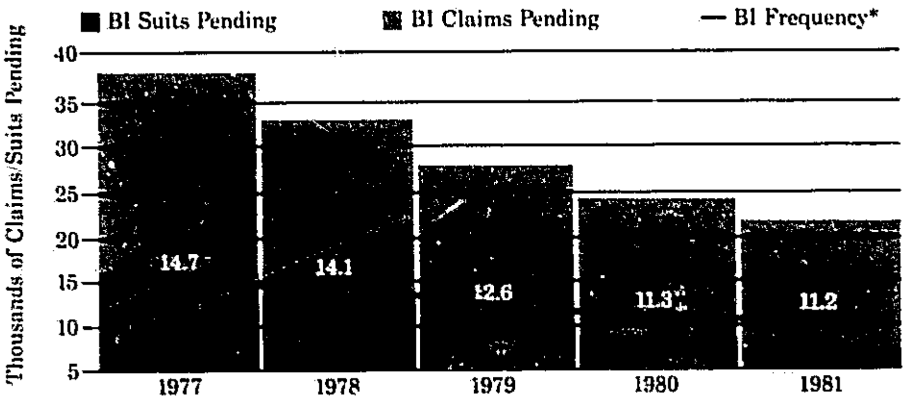
The number of automobile claims reported to the Companies decreased 3.2% in 1981 to 404,922 following reductions of 10.6% and 5.5% in 1980 and 1979. The decline reflects the substantial reduction in residual market policies, a continuation but slowing of the countrywide trend of lower accident frequency, more widespread acceptance by policyholders of higher deductibles and continued dedication by management to disciplined underwriting.

Claims settlement costs rose rapidly throughout the year but, for car repairs, at a somewhat slower pace than in 1980. We estimate that costs associated with repairing automobiles damaged in accidents increased at an annual rate of 12% compared with 15% in 1980 and 19% in 1979. Injury claim cost changes are more difficult to discern because of the mixture of old and new claims. We estimate that bodily injury claim costs increased approximately 15% in 1981 after increases of 12% in 1980 and 10% in 1979.

Our claims staff managed to reduce pending claims to 71,047 at year-end 1981, an 11.0% reduction from the 79,856 pending at year-end 1980 which was 12.5% less than the total at year-end 1979. Pending bodily injury suits were reduced 15.9% in 1981 following reductions of 15.9% and 18.3% in 1980 and 1979.

In 1981 we realized the benefit of improvements made in our claim processing and handling systems in 1979 and 1980. During that two year period we expanded our telephone adjusting and claim processing capabilities by investing in system improvements which increased productivity and reduced claim handling expenses. To enhance the productivity of our

Bodily Injury Claims



*Estimated incurred BI claims/1000 cars insured

Drinking drivers and drinking pedestrians account for half of our traffic fatalities annually—over 26,000 deaths. Programs to identify and control drunk drivers and influence social attitudes to make drunk driving totally unacceptable behavior must be established and coordinated at all levels of society. Private companies can help by establishing policies for use of alcohol at company-sponsored functions and by insuring that an employee who has had too much to drink is not allowed to drive.

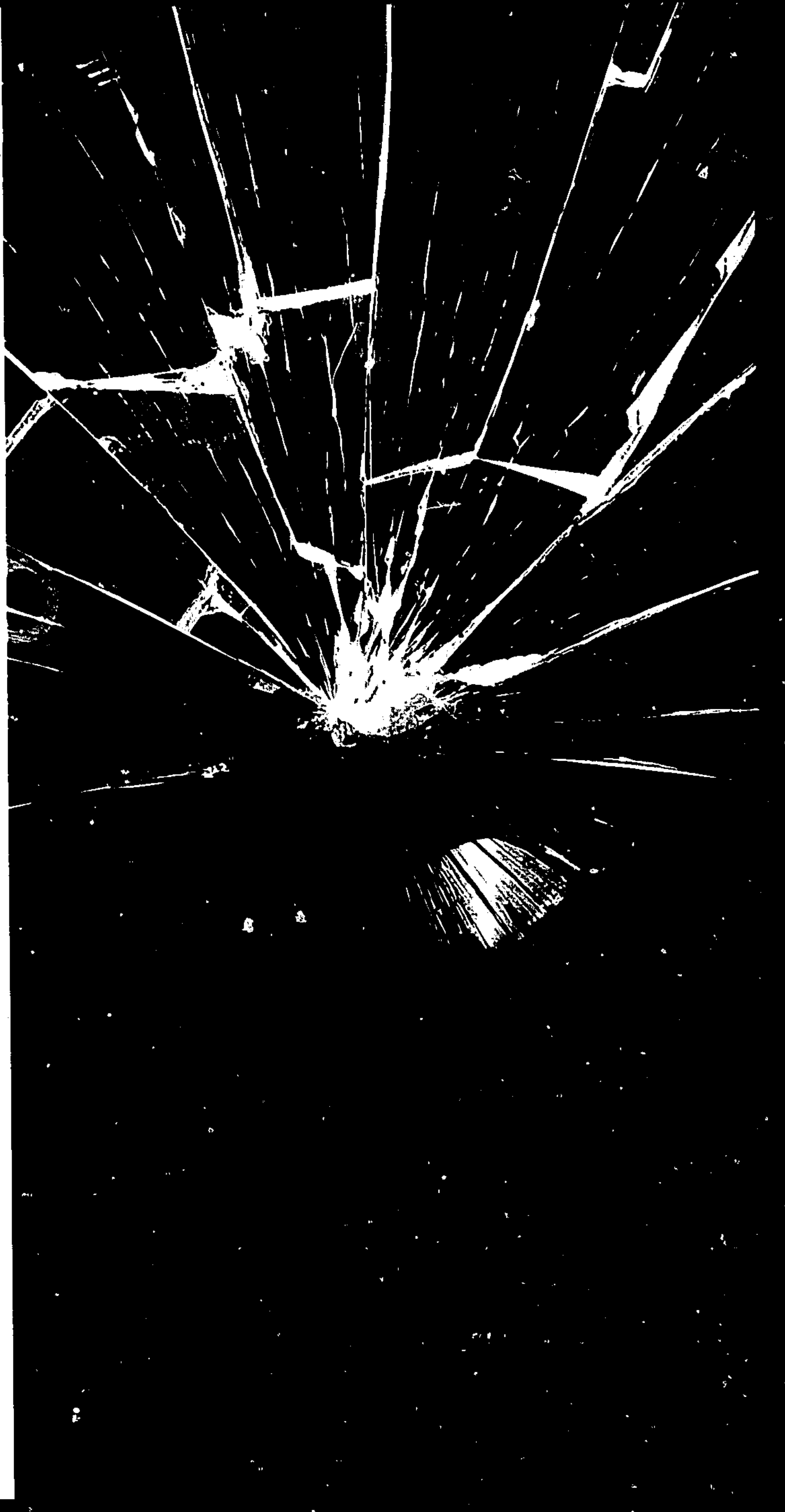
AT GEICO we introduced a new employee program in 1981 called Project LIFT (Leave in a Free Taxi). If one of our employees sees that a friend is intoxicated and unable to drive safely, the employee is instructed to call a taxi and give the driver enough money to cover the fare to take his friend home. GEICO reimburses the employee for expenses up to $25. The offer of a free ride also applies to the employees themselves. Reimbursement is confidential; no questions are asked.

We hope that intervention can be established as the accepted norm wherever people are drinking and might otherwise be allowed to drive.

It is true that some safety measures tax our independence. We may object to a bureaucracy telling us how fast we can drive. But this is an area in which the payoff clearly warrants paying the small price.

Most fatal crashes between motor vehicles occur on rural roads, and in almost one-third of them speeding is a cause. Several states considering legislation against the 55 mph speed limit have traffic death rates higher than the national average. We simply have not done an adequate job of providing facts and motivation to the public regarding the 55 mph speed limit.

Annual traffic fatalities during the past seven years have never surpassed 1973's death toll—the last year before "55" became mandatory. This is despite increases in the number of drivers, vehicles and road mileage. Some experts estimate that 4500 lives are saved each year due to the 55 mph highway speed limit. The 1981 decline in traffic deaths is a hopeful sign that the public is becoming aware of ways and means to decrease traffic deaths.



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material damage adjusters, contain costs and improve claim service, we installed computerized claim estimating systems in our drive-in claim centers. These systems allow our material damage adjusters to estimate claims more accurately and quickly. In locations where the concentration of policyholders was not sufficient to justify maintaining a drive-in claim facility, resident staff adjusters were assigned to cover a broad geographical area. These Company adjusters provide us better control of material damage costs than do independent adjusters. In June 1981 we completed the merger of the GEICO and Criterion claim departments which we expect will result in significant savings in loss adjustment expenses for both companies, while providing the same level of acceptable service.

As a result of these actions, the Corporation's loss adjustment expense ratios as a percentage of earned premiums declined .9 points and 1.9 points in 1981 and 1980.

Overall, our property and casualty underwriting has been profitable in each of the last five years, a period during which the property and casualty insurance industry's underwriting operations have not been. Our property and casualty operations recorded an underwriting gain under generally accepted accounting principles of $28.1 million in 1981 compared with gains of $35.2 million and $29.4 million in 1980 and 1979. The natural underwriting ratio for our property and casualty companies was 96.2% in 1981, 96.4% in 1980 and 96.0% (before policyholder dividends) in 1979.

Homeowners Insurance

Our homeowners insurance is marketed by GEICO primarily through direct mail solicitation of our current automobile policyholders. Homeowners insurance is a relatively small line for GEICO when compared with its automobile business. Policies in force totaled 232,543 on December 31, 1981, down 5.5% from 246,121 policies at year-end 1980. Policies in force at year-end 1980 were up 6.9% from 1979. Written premiums increased 15.0% in 1981 to $42.7 million following an increase of 10.5% in 1980. Homeowners written premiums accounted for 6% of the Corporation's property and casualty premiums in 1981.

As the result of a sudden and substantial increase in jewelry, precious metal and fur thefts in 1980, the homeowners line became unprofitable. We responded by improving risk selection and obtaining needed rate increases. Consequently, new sales declined in both 1980 and 1981 by 2.2% and 27.8%. We changed our homeowners policy coverage period from three years to one year to allow us to respond more quickly to changing conditions. Additionally, our homeowners unit is working directly with customers to educate them regarding loss prevention techniques and the need to insure their homes and personal property for actual value. Although our homeowners loss ratio was 101.6% in 1981 compared to 99.2% in 1980 and 79.2% in 1979, we began to see positive results from these programs during the latter half of 1981.

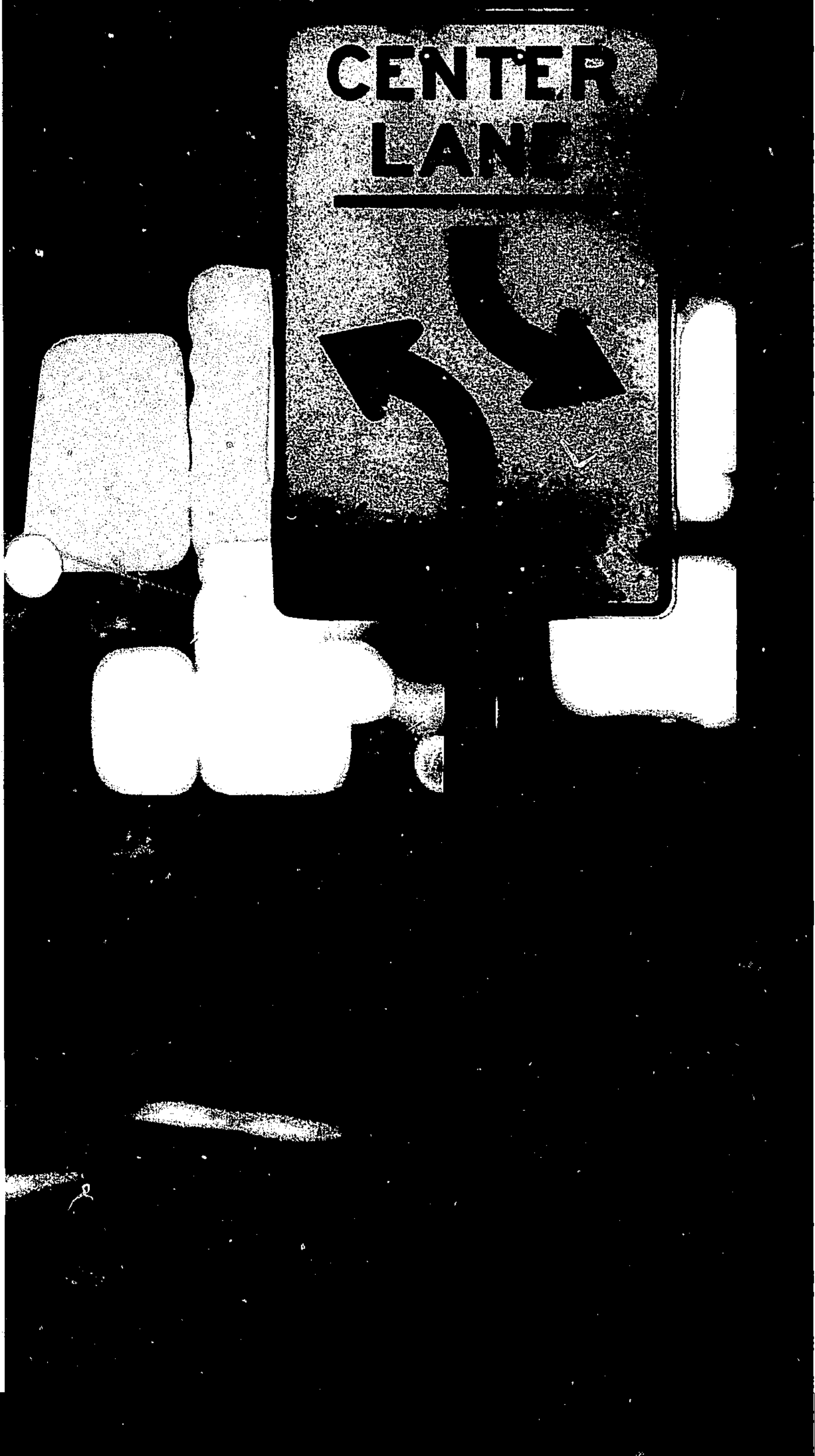
Other Property and Casualty Lines

In addition to the automobile and homeowners lines, GEICO offers policies that provide boat, yacht, accident and health, and lawyers professional liability coverages. These lines provide potential for

Blaming alcohol, speed and driver error for 80 to 90% of all traffic accidents understates the role environmental factors play. When road conditions are poor or when roads are poorly marked, even good drivers are frequently led into accident situations they would normally avoid. When conditions are good, as they are in our interstate system, accidents and death rates drop dramatically.

More people are killed on rural two lane roads in the United States than on all other highways combined. Poorly marked rural roads account for almost two thirds of all occupant fatalities and injuries. Driving environment has a significant impact on accidents. It is estimated by the Federal Highway Administration that through highway improvements, we could reduce the Nation's accident toll by at least 50%.

Providing effective signs, signals and pavement markings is an important responsibility of public officials. It deserves more time and attention than it is getting in the great majority of communities. In many court cases where accident victims have successfully sued local governments or agencies for not providing adequate traffic control or safety measures, the cost of paying that single judgment has been far greater than it would have been to maintain traffic control devices in the locality to standards imposed by the Highway Safety Act of 1966.



growth but in 1981 accounted for less than one percent of property and casualty premiums. As an accommodation, GEICO also offers fire and comprehensive personal liability coverages.

Reinsurance
In 1981 GEICO Corporation provided $15 million of capital to form Resolute Group, Inc., a wholly owned property and casualty reinsurance subsidiary based in New York. Resolute offers its reinsurance services through the brokerage community where it is recognized as a preferred market. The Company writes both treaty and facultative reinsurance in domestic and international markets.

Resolute began to write reinsurance policies in June 1981 and had gross premium acceptances totaling $6.7 million. Net premiums written amounted to $.3 million and premiums earned were $.1 million.

AVEMCO Corporation
Since September 1980 the Corporation has had an ownership interest in AVEMCO Corporation totaling 22.5% of that Company's outstanding shares. AVEMCO specializes in general aviation and pilot insurance as well as aircraft financing. In 1981 Richard C. Lucas, a Senior Vice President of GEICO Corporation, was elected to AVEMCO's Board of Directors, joining Paul J. Hanna, GEICO Corporation Vice Chairman, who was elected to AVEMCO's Board in 1980.

The Corporation's investment in AVEMCO is reflected in our financial statements on the equity accounting basis. Equity in AVEMCO's 1981 earnings was $.8 million compared to $.3 million for the last four months of 1980.

Life and Health Insurance

Government Employees Life Insurance Company
On September 16, 1981 we announced that GEICO Corporation had agreed to sell its 65.5% interest in GELICO to the Legal & General Group Limited, a London-based insurance holding company, for $30.75 per share. Legal & General also offered to purchase all the minority shares at the same price per share. Following receipt of the necessary legal and regulatory approvals, in December we tendered our 2,925,775 shares of GELICO for a note receivable of approximately $90 million due (and paid) on January 4, 1982. We also received the 1981 fourth quarter GELICO dividend totaling approximately $.7 million. The proceeds from the transaction were placed in GEICO's investment portfolio where they will provide additional flexibility in meeting rapidly changing conditions in securities markets.

Statutory accounting and generally accepted accounting principles (GAAP) recognize the gain from the GELICO sale in 1981. For tax purposes, the gain from the sale is reportable in 1982.

As part of the sales agreement GEICO will provide certain staff and support services to GELICO on a fee basis for a specific time period. For further details please see Note 'O' to the Financial Statements.

The sale of GELICO should not be interpreted as a decision by GEICO to terminate life insurance operations on a permanent basis. Although the life insurance industry has recently undergone major changes, we feel that with the right products and delivery system, the life insurance business provides exciting opportunities. We are presently evaluating such opportunities as are available to us.

Financial Services

Government Employees Financial Corporation
GEFCO provides consumer finance, industrial banking and insurance brokerage services, the latter offered to residents of the United States who are transferred overseas and to U.S. nationals already residing in foreign countries. GEFCO is headquartered in Denver, Colorado.

The Corporation's equity in GEFCO's 1981 loss was $.4 million compared to equity of $1.1 million in its 1980 loss. In 1979 the Corporation's equity in GEFCO's income was $1.3 million.

GEFCO's losses in 1980 were attributable to high interest cost and increased provision for loan losses. An increasing number of loans were written off as a result of deteriorating economic conditions and the adverse impact of the greatly liberalized Federal bankruptcy code. In 1981 continued high interest rates and lower revenues adversely affected operations.

GEFCO has improved the quality of its receivables and reduced operating expenses. In 1981 progress was made in restructuring the loan portfolio by increasing the percentage of loans secured by real estate and reducing unsecured receivables.

Criterion Investment Services Company
Criterion Investment Services Company (CRIVEST), a registered investment adviser and broker-dealer, is a newly organized, wholly owned subsidiary of GEICO Corporation. CRIVEST

Selected Financial Data

GEICO Corporation *(In thousands, except per share data)*	1981	1980	1979	1978	1977
Operating Results					
Premiums earned	$ 656,669	$ 620,120	$ 601,553	$ 577,252	$ 463,600
Net investment income	66,401	60,492	58,349	52,777	40,870
Equity in earnings of unconsolidated affiliates	4,383	3,796	5,659	4,878	696
Total revenue	727,453	684,408	665,561	634,907	505,166
Total benefits and expenses	663,021	624,764	606,012	572,498	467,402
Operating earnings	64,432	59,644	59,549	62,409	37,764
Realized investment gains net of tax	18,854	1,119	(723)	(6,958)	120
Utilization of operating loss carryforward	—	—	15,456	32,747	20,697
Net income	$ 83,286	$ 60,763	$ 74,282	$ 88,198	$ 58,581
Weighted average shares outstanding					
Fully diluted	21,644	23,003	27,753	34,343	34,345
Primary	20,623	20,522	17,336	18,040	17,744
Per Share Results					
Fully Diluted:					
Operating earnings	$ 2.98	$ 2.59	$ 2.14	$ 1.74	$ 1.10
Net income	$ 3.85	$ 2.64	$ 2.67	$ 2.49	$ 1.70
Primary:					
Operating earnings	$ 3.11	$ 2.87	$ 3.24	$ 2.99	$ 1.78
Net income	$ 4.02	$ 2.92	$ 4.09	$ 4.42	$ 2.96
Common Stock dividends	$ .48	$ .43	$ .36	$ .20	$ .03
Financial Condition					
Assets	$1,362,009	$1,274,796	$1,235,949	$1,187,585	$ 991,914
Long-term debt	137,495	137,920	120,037	47,154	47,524
Redeemable Preferred Stock	2,086	6,227	17,443	72,078	100,864
Common Shareholders' Equity	236,818	185,951	173,631	148,729	77,575
Book value per share (fully converted)	$ 11.60	$ 8.89	$ 7.60	$ 6.45	$ 4.48

Certain financial data restated to reflect GELICO on the equity method of accounting.

was incorporated under Delaware law on July 30, 1981.

GEICO Corporation organized CRIVEST to provide investment management and administrative services for Government Securities Cash Fund, a no-load, money market mutual fund first offered to the public in February 1982. Government Securities Cash Fund's investment objectives are safety of principal and high current income consistent with maximum liquidity. The Fund invests in short-term securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities. The Fund may also purchase or sell such securities subject to repurchase agreements.

CRIVEST has appointed GTC Management, Inc., a wholly owned subsidiary of Girard Bank of Philadelphia, to manage the Fund's portfolio on a day-to-day basis under CRIVEST's supervision. State Street Bank and Trust Company of Boston serves as Custodian and Transfer Agent.

Government Securities Cash Fund was designed to appeal to the growing cash management needs of our policyholders and other existing and potential clients of the Companies. The Fund should appeal to the investor seeking safety of principal, relatively high yield, convenience and professional management of cash. The Fund is presently registered in 12 states and the District of Columbia where approximately 75% of GEICO's automobile policyholders reside. We are offering the Fund to these policyholders through direct mail solicitation, to interested clients of Girard Bank, shareholders of GEICO Corporation and to the general public through print advertising.

Significant Statutory Indicators *(In thousands, except ratios)*	1981	1980	1979	1978	1977
GEICO					
Surplus for protection of policyholders	**$317,062**	$283,321	$251,078	$220,473	$178,630
Ratio of twelve months written premiums to surplus	**1.9:1**	1.9:1	2.1:1	2.4:1	2.5:1
Active policies in force	**1,454**	1,456	1,463	1,468	1,536
Voluntary policies in force	**1,389**	1,379	1,358	1,342	1,406
GEICO Natural Information					
Loss ratio	**80.6%**	80.7%	79.1%	80.8%	84.4%
Expense ratio	**14.5%**	15.6%	16.1%	14.9%	14.8%
Underwriting ratio	**95.1%**	96.2%	95.2%	95.7%	99.2%
Underwriting ratio after policyholder dividends	**95.1%**	96.2%	95.5%	95.7%	99.2%
Ratio of twelve months written premiums to surplus	**1.8:1**	1.9:1	2.1:1	2.3:1	3.0:1
Property and Casualty Operations*					
Surplus for protection of policyholders	**$317,062**	$283,321	$261,036	$230,469	$198,717
Ratio of twelve months written premiums to surplus	**2.1:1**	2.2:1	2.3:1	2.5:1	3.0:1
Active policies in force	**1,629**	1,632	1,633	1,644	1,710
Voluntary policies in force	**1,564**	1,555	1,528	1,518	1,578
Loss ratio	**81.1%**	80.5%	79.8%	80.8%	84.1%
Expense ratio	**15.1%**	15.9%	16.2%	15.1%	15.0%
Underwriting ratio	**96.2%**	96.4%	96.0%	95.9%	99.1%

Natural ratios exclude the effects of certain quota share reinsurance agreements. Expense ratios are calculated using underwriting *expense less net service charges, as related to premiums written.*

*GEICO and Criterion combined.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Revenue

Consolidated revenue rose 6% in 1981 following a 3% increase in 1980. In both years property and casualty earned premiums reflected modest growth in new policy sales and higher premium rates obtained in recognition of the effects of inflation on automobile repair costs, personal property values and services. Property and casualty earned premiums also rose 6% and 3% in 1981 and 1980, accounting for the major portion of revenue growth in both years.

Pretax net investment income increased 10% following a 4% gain in 1980. Aftertax net investment income rose 11% in 1981 compared to a 6% increase in 1980. The increases in 1981 investment income reflect continued high yields on short-term investments and increased dividend income.

The Corporation's equity in GEFCO's 1981 loss was $.4 million compared to a $1.1 million loss in 1980 and a $1.3 million gain in 1979. In both 1981 and 1980 interest rates remained at or close to historically high levels adversely affecting the cost of borrowed funds. In 1980 GEFCO increased its provision for loan losses due to increased bankruptcies resulting from the recessionary economy and liberalization of the Federal bankruptcy law. The Corporation's equity in the earnings of AVEMCO for 1981 was $.8 million compared with equity of $.3 million for the final four months of 1980.

In December of 1981 GEICO Corporation sold its 65.5% interest in GELICO to Legal & General Group Limited. As a result of this transaction the Corporation's interest in GELICO's 1981 results are accounted for on the equity accounting basis and prior years' results have been similarly restated. GELICO's results were essentially flat over the past three years. The Corporation's equity in GELICO's earnings was $4.0 million in 1981, $4.6 million in 1980 and $4.4 million in 1979.

Benefits and Expenses

Benefits and expenses before minority interest, interest expense and income taxes, rose 7.2% to $634.9 million compared to $592.4 million in 1980, a 3.3% increase from 1979.

Property and casualty operations continued to benefit from reduced accident frequency in 1981. This resulted from a continued decline in involuntary risks insured by GEICO, an apparent further reduction in driving by our policyholders and careful risk selection. Automobile claims decreased 3.2% in 1981, the fourth consecutive year in which there was a decline. In 1981 inflation continued to offset the benefits realized from fewer accidents.

Loss adjustment expenses decreased 1.9% in 1981 after declining 10.4% in 1980 because of higher productivity and more widespread use of telecommunications in settling claims. The Corporation's 1980 general expenses reflected a reduction in the provision for anticipated policyholder dividends. As shown by the Significant Statutory Indicators (page 17), the general expense ratios declined in 1981 and 1980. These declines reflect higher productivity.

Interest expense increased to $15.0 million in 1981 reflecting a full year's interest on the $18.3 million of Debentures issued on July 1, 1980 in exchange for shares of the Corporation. In 1980 interest expense increased 38.5% to $14.1 million reflecting the issuance of $73.3 million and $18.3 million of Debentures for shares of the Corporation on April 1, 1979 and July 1, 1980.

The minority interest in 1981 operations declined to $.2 million which represented the partial dividend on GEICO's Senior Preferred Stock, retired during the first quarter of 1981. Minority interest declined in 1980 from 1979 due to GEICO's purchase of all remaining outstanding shares of Criterion Insurance Company on January 25, 1980.

Income Taxes

Federal income taxes decreased 17.9% and 16.7% in 1981 and 1980, principally as a result of the shift in GEICO's investment portfolio to a greater proportion of stocks and tax-exempt bonds. The Corporation's taxes were also reduced in 1981 by the utilization of $2.7 million of investment tax credits. Federal income tax expense in 1981 includes $3.5 million of tax on undistributed earnings of GELICO for which no deferred taxes had been previously provided since it had been GEICO Corporation's intention that GELICO reinvest these earnings in its operations permanently. Federal income taxes were lower in 1980 than in 1979 because operating earnings were lower. For income tax purposes, at year-end 1981 GEICO Corporation had used all its operating loss carryforwards, except for $3.9 million related to Criterion's operations prior to becoming a member of the consolidated taxable group in January 1980, but had $14.5 million of capital loss carryforwards. Please see Note 'F' to the Financial Statements.

Operating Earnings

Consolidated operating earnings rose 8.0% in 1981 to $64.4 million. Operating earnings were flat in 1980 compared with 1979. Operating earnings per share increased 15% in 1981 to $2.98 following a 21% increase to $2.59 per share in 1980. Earnings per share benefited in each of the last three years from restructuring the Corporation's capital. As described in the Capital Structure section of this report, management substantially reduced the number of common share equivalents outstanding during the past three years through the purchase of shares for cash and through the exchange of Debentures for shares.

Net Income

The Corporation's net income in 1981 includes an aftertax realized gain of $27.2 million ($1.25 per share) from the sale of its interest in GELICO and a realized investment loss of $8.3 million ($.38 per share) from the sale of other investments. Net income in 1980 included a realized investment gain of $1.1 million ($.05 per share) compared with an investment loss of $.7 million ($.03 per share) in 1979. The Corporation's 1979 results also reflected a tax benefit of $.56 per share from GEICO's operating loss carryforwards (extraordinary item) which for financial reporting purposes were fully utilized by year-end 1979.

Net income totaled $83.3 million in 1981 compared to $60.8 million in 1980 and, before the extraordinary item, $58.8 million in 1979. As noted above, per share results in each of the three years reflect the benefit from the decrease in outstanding shares. The above per share figures are all on a fully diluted basis.

Liquidity

Cash Flow

The property and casualty companies have historically had a positive cash flow. In the three years 1979 through 1981 the Corporation and its property and casualty and financial services subsidiaries generated cash of $271.3 million from operations. During that period, GEICO Corporation and its subsidiaries spent $80.7 million to repurchase Common and Convertible Preferred Stock, $25 million to redeem GEICO's Senior Preferred Stock and $22.3 million to increase ownership in subsidiaries and affiliates. In addition to these expenditures the Companies paid $38.1 million in dividends to their public shareholders and added $73.1 million in new investments, net, to their portfolios. The net increase of $90.3 million in the Corporation's long-term debt resulted from Debentures issued in exchange for shares and involved neither receipt nor expenditure of cash.

On December 21, 1981 GEICO Corporation tendered its 2,925,775 shares of GELICO to Legal & General Group Limited at $30.75 per share for a $90 million note due (and paid) on January 4, 1982. The proceeds from this transaction were placed in GEICO's investment portfolio and invested in a manner consistent with the Corporation's investment strategy as described below.

Investments

Pretax net investment income was $66.4 million, an increase of 10% from $60.5 million in 1980. In comparison, pretax net investment income totaled $58.3 million in 1979. The modest increase for the last two years reflects the utilization of $28.7 million and $35.8 million in cash during 1981 and 1980, respectively, to repurchase common shares of the Corporation. These funds would otherwise have been invested in the portfolio. The modest increase in income also reflects the shift in the portfolio to greater concentrations in common stocks and shorter-term tax-exempt bonds.

Net new investments made during the year in the consolidated portfolio amounted to $8.8 million. Consistent with longer-term objectives, which emphasize total aftertax investment return, we made net purchases of $31.7 million in common stocks, $37.9 million in redeemable and convertible preferred stocks and increased our investment in tax-exempt bonds due in less than ten years. U.S. Government and corporate bond holdings were substantially reduced in 1981 as shown in the GEICO Corporation Investment Summary. We also shortened the maturity pattern of the bond portfolio as shown in the Bond Maturity Table. In order to take advantage of the high short-term yields available during 1981, cash was invested in money market instruments pending longer-term placement.

As a result of the high interest rates that prevailed in 1981, the market values of fixed income securities remained depressed. The Corporation generally holds these securities to maturity and has ample liquidity to do so but may sell long-term bonds selectively in favor of other investments that offer better potential for total aftertax return.

The common stock portion of the portfolio, adjusted for net purchases, earned an aftertax

GEICO Corporation Investment Summary

(In millions)	*1981*		*1980**	*1979**
	Carrying Value	*% Portfolio*	*Carrying Value*	*Carrying Value*
Short-term investments ..	$ 73.4	8.1%	$ 45.0	$ 41.1
U.S.Government bonds .	57.1	6.3	114.6	143.7
Corporate bonds	6.5	.7	23.3	44.8
Tax-exempt bonds......	483.2	53.4	477.1	456.3
Bonds...............	546.8	60.4	615.0	644.8
Redeemable preferred stocks...............	41.9	4.6	16.3	7.2
Fixed maturities.........	588.7	65.0	631.3	652.0
Preferred stocks	52.8	5.8	54.6	66.2
Common stocks........	191.1	21.1	163.1	108.5
Equity securities	243.9	26.9	217.7	174.7
Totals.................	$ 906.0	100.0%	$ 894.0	$ 867.8
Note receivable	$ 90.0			

*Restated to reflect GELICO on the equity method of accounting

Bond Maturity Table Property and Casualty Companies*

(In millions)	*1981*		*1980*	
	Amortized Value	*% Portfolio*	*Amortized Value*	*% Portfolio*
Maturity				
Less than one year ...	$ 17.2	3.2%	$ 76.1	12.4%
1-5 years	131.6	24.3	114.0	18.6
6-10 years	106.4	19.7	91.3	14.9
11-15 years	100.7	18.6	107.1	17.5
16-20 years	53.8	9.9	66.7	10.9
Greater than 20 years .	131.8	24.3	157.8	25.7
	$ 541.5	100.0%	$ 613.0	100.0%

*GEICO and Criterion combined

total return of 5.4% in 1981. The aftertax total return for the S&P 500 Stock Index for 1981 was a negative 2.4%. Equity investments made in 1981 were concentrated in consumer non-durable issues that benefited from the perceived trend toward a lower rate of inflation. Portfolio performance was also improved by the modest proportion of the portfolio invested in the energy and technology sectors, which performed poorly in 1981. At year-end the largest industry positions in the common stock portfolio were in foods and consumer non-durables (38.5%), office equipment and computers (11.2%), and insurance (8.6%).

Investment strategy for 1982 has been modified as a result of the high aftertax total returns obtainable from intermediate-term tax-exempt securities. The purchase of those securities as well as convertible and sinking fund preferred stocks will be emphasized. In the tax-exempt sector purchases will be confined to securities with a "Moody's" quality rating of at least an "A," strong call protection and a maturity of five to ten years.

In order to offset, for tax purposes, the realized gain from the sale of GELICO, we sold securities at a $10.5 million loss after tax benefit in the fourth quarter of 1981 and may make similar sales during 1982. Proceeds from the sale of GELICO were invested consistent with the Corporation's current investment strategy.

The GEICO Corporation Investment Summary shows the year-end investment portfolios for 1981, 1980 and 1979. The carrying value of bonds and redeemable preferred stocks is amortized cost while other equity securities are at year-end market value. At year-end 1981 the Corporation and its consolidated subsidiaries held $81.9 million in cash and cash equivalents. Additionally, approximately $17.2 million of the property and casualty bond portfolio will mature in 1982. The Corporation has a continuing outlook for a positive cash flow from operations and ample liquidity.

Loss Reserves

Claim settlement costs rose in 1981 at a somewhat slower pace than in 1980 and 1979. Loss reserves remained relatively flat, as they did in 1980, reflecting our seasoned book of business, the continued decline in involuntary automobile business and accelerated settlement of bodily injury claims incurred prior to 1977. Loss reserves decreased in 1979 due to a concerted effort to reduce pending claims and as claim volume declined in response to GEICO's smaller policyholder base.

The year-end net loss and loss adjustment expense reserves and the ratio of those reserves to the years' earned premiums (excluding service charges) at the end of 1981 and the two preceding years are shown in the following table:

Year-end	*Net Loss Reserves (Millions)*	*Ratio of Loss Reserves to Earned Premiums*
1981	$477.8	74.5%
1980	$473.1	78.2%
1979	$470.7	80.1%

The Corporation analyzes loss information, including timing of claim payments, in order to have sufficient maturities of investments and other liquid assets to meet claim payment patterns. In addition, the Companies reinsurance treaties are structured to avoid the serious cash drains that can accompany catastrophic losses.

Capital Structure

On January 31, 1979 GEICO Corporation became the parent of GEICO and the common shares and convertible preferred shares (convertible into two shares of GEICO common) became, on a share-for-share basis, common shares and convertible preferred shares of GEICO Corporation, with the latter convertible into two shares of Corporation common. The existing Senior Preferred Stock of GEICO remained outstanding. GEICO Warrants to purchase GEICO common shares were modified to provide for the purchase of an equivalent number of the Corporation's common shares.

Shortly thereafter the Corporation initiated programs to reduce the common share equivalents outstanding (one common share representing one common share equivalent and one convertible preferred share representing two common share equivalents). Debentures were offered in exchange for shares and purchases of shares for cash and Debentures were authorized.

Through December 31, 1981 a total of 2,034,222 shares of convertible preferred (4,068,444 common share equivalents) were acquired for $29.2 million of Debentures and $10.4 million cash, and retired; 9,966,833 shares of common were acquired for $62.4 million of Debentures and $70.3 million cash, a total of $132.7 million. (Please see Note 'G' for a description of the Debentures.)

Overall, through December 31, 1981, the above programs resulted in a reduction of 14,035,277 in the outstanding common share equivalents at a cost of $91.6 million in Debentures and $80.7 million in cash. Under the most recent authorization 281,500 shares remained unpurchased at December 31, 1981.

Since the third quarter of 1979 when for the first time the dividend on two shares of Common Stock exceeded that on one share of Convertible Preferred Stock, most preferred holders have elected to convert. (The dividends declared in 1981 totaled $.96 on two shares of common compared to $.736 on one share of convertible preferred.) From 1979 through 1981 conversions of 5,567,083 shares of preferred further reduced such shares outstanding leaving 226,776 or 453,552 common share equivalents remaining at December 31, 1981, less than 3% of the January 1, 1979 total. The conversions created 11,134,166 additional common shares.

On the basis of common share equivalents, the 20,597,233 total outstanding at December 31, 1981 compares to 34,236,758 shares at January 1, 1979, a reduction of 40%.

In January of 1981 the 250,000 outstanding shares of GEICO's Senior Preferred Stock were redeemed at $100 a share.

Each GEICO Warrant entitles the holder to purchase at any time through August 1, 1983, at $24 a share, 2.08 shares of the Corporation's common. A total of 1,348,979 authorized shares of the Corporation's Common Stock has been reserved against the potential exercise of the Warrants.

As the Warrant exercise price exceeded the market price of the Corporation's common except for brief periods during 1981, under the relevant accounting principals they were non-dilutive and are not reflected in the financial statements. Should the market price of the common for the prescribed period render the Warrants dilutive, an increase in the number of fully diluted shares outstanding would result.

This report focuses on fully diluted per share results as the most meaningful measure of the Corporation's performance.

Inflation

Please see 'Supplemental Information on the Effects of Changing Prices' regarding the impact of inflation, using measurement bases developed by the Financial Accounting Standards Board. Additionally, explanatory comments with respect to the Corporation's operations are included in those disclosures.

Common Stock Market Prices and Dividends

The Corporation's Common Stock was listed on the New York Stock Exchange (ticker symbol GEC) on October 1, 1980. Prior to that date it was traded over-the-counter. Under SEC rules, certain securities dealers may continue to make an over-the-counter market in the Corporation's stock. The number of record holders of the Corporation's Common Stock at January 31, 1982 was 8,330.

The following table shows the quarterly high and low prices for the Common Stock on the New York Stock Exchange and, for quarters prior to October 1, 1980, the NASDAQ over-the-counter high and low bid prices. The table also shows dividends paid to shareholders of record in each quarter of 1981 and 1930.

1981	*High*	*Low*	*Dividends Paid*
Fourth Quarter	$25⅝	$23	$.12
Third Quarter	24½	20¾	.12
Second Quarter	22¼	18⅞	.12
First Quarter	19⅝	14⅜	.12
1980			
Fourth Quarter	16½	13⅞	.11
Third Quarter	16¼	12	.11
Second Quarter	13⅜	8⅜	.11
First Quarter	14⅞	8⅛	.10

Report of
Ernst & Whinney,
Independent Auditors

To The Shareholders
GEICO Corporation

We have examined the consolidated balance sheet of GEICO Corporation and subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of income, redeemable preferred stock and common shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of GEICO Corporation and subsidiaries at December 31, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for the investment in Government Employees Life Insurance Company as described in Note A to the financial statements.

Ernst & Whinney
Ernst & Whinney

Washington, D.C.
February 19, 1982

Consolidated Balance Sheet

GEICO Corporation

December 31, in thousands of dollars	*1981*	*1980*
Assets		
Investments—Note E:		
Fixed maturities, at amortized cost (market $392,574 and $478,437)	**$ 588,727**	$ 631,318
Equity securities, at market (cost $260,396 and $233,056)	**243,916**	217,715
Short-term investments	**73,392**	44,984
Total Investments	**906,035**	894,017
Cash	**8,530**	8,317
Note receivable—Note O	**89,968**	—
Investment in GEFCO and AVEMCO—Note A	**20,082**	20,191
Investment in GELICO—Note O	**—**	52,221
Accrued investment income	**12,536**	12,118
Premiums receivable	**217,203**	201,873
Deferred policy acquisition costs—Note D	**37,183**	30,446
Property and equipment, at cost less accumulated depreciation of $31,011 and $27,658—Note G	**46,127**	42,237
Other assets	**24,345**	13,376
Total Assets	**$1,362,009**	$1,274,796

See Notes to Consolidated Financial Statements
Prior Year Restated—Note A

	1981	1980

Liabilities and Shareholders' Equity

	1981	1980
Liabilities		
Policy liabilities		
Loss reserves	$ 412,859	$ 407,398
Loss adjustment expense reserves	64,913	65,749
Unearned premiums	405,338	366,925
	883,110	840,072
Other liabilities	61,438	55,232
Income taxes—Note F	35,062	18,128
Short-term debt—Note G	6,000	5,000
Long-term debt—Note G	137,495	137,920
Minority interest—Note H	—	26,266
Total Liabilities	1,123,105	1,082,618
Redeemable Preferred Stock—Notes C and I		
Cumulative Preferred Stock, $.736 Convertible Series, at $9.20 redemption value per share (aggregate liquidation value $2,268 and $6,768)	2,086	6,227
Common Shareholders' Equity—Notes C and J		
Common Stock—$1 par value, 60,000,000 shares authorized, 30,112,593 and 29,011,638 shares issued and 20,143,681 and 20,263,305 outstanding	30,113	29,012
Paid-in surplus	144,316	138,137
Unrealized depreciation of investments	(11,483)	(10,781)
Retained earnings—Note F	206,641	133,629
Treasury Stock, at cost (9,968,912 and 8,748,333 shares of Common Stock)	(132,769)	(104,046)
Total Common Shareholders' Equity	236,818	185,951
Total Liabilities and Shareholders' Equity	$1,362,009	$1,274,796

Consolidated Statement of Income

GEICO Corporation

For the year ended December 31, in thousands of dollars except per share results	*1981*	*1980*	*1979*
Revenue			
Premiums			
Premiums written	$695,082	$638,621	$606,315
Increase in unearned premiums	(38,413)	(18,501)	(4,762)
Premiums earned	656,669	620,120	601,553
Net investment income	66,401	60,492	58,349
Equity in earnings of GELICO	4,035	4,599	4,357
Equity in earnings (losses) of GEFCO and AVEMCO	348	(803)	1,302
Total Revenue	727,453	684,408	665,561
Benefits and Expenses			
Losses and loss adjustment expenses	516,800	485,494	461,349
Policy acquisition expenses—Note D	52,945	50,955	45,663
Other operating expenses—Note B	65,187	55,902	66,365
Interest expense—Note G	15,019	14,117	10,191
Minority interest	190	2,603	3,602
Total Benefits and Expenses	650,141	609,071	587,170
Operating Earnings Before Income Taxes	77,312	75,337	78,391
Income taxes—Note F	12,880	15,693	18,842
Operating Earnings	64,432	59,644	59,549
Realized gain on sale of GELICO, net of tax—Note O	27,156	—	—
Realized gains (losses) on investments, net of tax—Note E	(8,302)	1,119	(723)
Income Before Extraordinary Item	83,286	60,763	58,826
Utilization of operating loss carryforward	—	—	15,456
Net Income	$ 83,286	$ 60,763	$ 74,282
Per Share Results—Note K:			
Fully Diluted:			
Operating earnings	$2.98	$2.59	$2.14
Income before extraordinary item	$3.85	$2.64	$2.11
Net income	$3.85	$2.64	$2.67
Primary:			
Operating earnings	$3.11	$2.87	$3.24
Income before extraordinary item	$4.02	$2.92	$3.20
Net income	$4.02	$2.92	$4.09

See Notes to Consolidated Financial Statements
Prior Years Restated—Note A

Consolidated Statements of Redeemable Preferred Stock and Common Shareholders' Equity

GEICO Corporation

For the three years ended December 31, 1981, in thousands of dollars	*1981*	*1980*	*1979*
Redeemable Preferred Stock			
Cumulative Preferred Stock, $.736 Convertible Series:			
Balance, beginning of year	$ 6,227	$ 17,443	$ 72,078
Conversion of Preferred Stock into Common Stock	(4,141)	(11,216)	(35,861)
Purchase and retirement of shares	—	—	(18,715)
Other	—	—	(59)
Balance, end of year	$ 2,086	$ 6,227	$ 17,443
Common Shareholders' Equity			
Common Stock:			
Balance, beginning of year	$ 29,012	$ 26,351	$ 18,568
Conversion of Preferred Stock into Common Stock	900	2,438	7,796
Exercise of stock options and other	33	223	(13)
Payment of performance shares	168	—	—
Balance, end of year	30,113	29,012	26,351
Paid-in surplus:			
Balance, beginning of year	138,137	127,877	100,068
Proceeds over par value of stock issued upon:			
Conversion of Preferred Stock into Common Stock	3,240	8,778	28,065
Exercise of stock options and other	241	1,482	(256)
Payment of performance shares	2,698	—	—
Balance, end of year	144,316	138,137	127,877
Unrealized depreciation of investments:			
Balance, beginning of year	(10,781)	(13,174)	(9,058)
Unrealized appreciation (depreciation) net of deferred taxes	(702)	2,393	(4,116)
Balance, end of year	(11,483)	(10,781)	(13,174)
Retained earnings:			
Balance, beginning of year as restated—Note B	133,629	82,546	39,152
Net income	83,286	60,763	74,282
Dividends declared on:			
Convertible Preferred Stock ($.736 per share)	(295)	(743)	(3,284)
Common Stock ($.48, $.43 and $.36 per share)	(9,979)	(8,937)	(6,723)
Purchase and retirement of Convertible Preferred Stock	—	—	(20,881)
Balance, end of year	206,641	133,629	82,546
Treasury Stock, at cost:			
Balance, beginning of year	(104,046)	(49,969)	—
Purchase of 1,220,579, 3,763,560 and 4,984,773 shares of Common Stock	(28,723)	(54,077)	(49,969)
Balance, end of year	(132,769)	(104,046)	(49,969)
Total Common Shareholders' Equity	$236,818	$185,951	$173,631

See Notes to Consolidated Financial Statements

Consolidated Statement of Changes in Financial Position

GEICO Corporation

For the year ended December 31, in thousands of dollars

	1981	1980	1979
Funds Provided			
Income before extraordinary item	$ 83,286	$ 60,763	$ 58,826
Charges (credits) to earnings not involving funds:			
Net premiums receivable	(15,330)	(13,736)	(992)
Deferred policy acquisition costs	(6,737)	156	(4,842)
Loss and loss adjustment expense reserves	4,625	2,413	(13,105)
Unearned premiums	38,413	18,501	4,762
Income taxes	17,277	15,693	3,192
Equity in undistributed earnings of affiliates	(1,125)	(1,697)	(3,956)
Minority interest	190	2,603	3,602
Provision for depreciation	4,054	3,917	3,653
Accrual of discount and amortization of premiums on investments	(4,340)	(4,158)	(3,685)
Other	(4,101)	(7,600)	15,273
Cash provided from operations exclusive of extraordinary item	116,212	76,855	62,728
Utilization of operating loss carryforward	—	—	15,456
Cash Provided From Operations	116,212	76,855	78,184
Sale of investments	211,507	498,936	641,593
Sale of GELICO	53,610	—	—
Issuance of Debentures	—	18,323	73,287
Proceeds from exercise of stock options	273	1,044	—
Increase in short-term debt, net	1,000	5,000	—
Conversion of Convertible Preferred Stock:			
Increase in Common Stock	4,141	11,216	35,861
(Decrease) in Preferred Stock	(4,141)	(11,216)	(35,861)
Common Stock issued under performance share plan	2,866	—	—
Reduction in performance share liability	(2,866)	—	—
Total Funds Provided	382,602	600,158	793,064
Funds Applied			
Purchase of investments	220,261	517,804	687,119
Increase in note receivable	89,968	—	—
Increase (decrease) in receivable from security sales	(655)	(7,774)	2,921
Decrease (increase) in payable on security purchases	(1,798)	5,047	2,343
Purchase of fixed assets, net	7,945	1,304	3,082
Investment in insurance subsidiaries and affiliates	35	20,319	1,901
Purchase of Convertible Preferred Stock (Retired)	—	—	39,596
Purchase of Common Stock (Treasury)	28,723	54,077	49,969
Cash dividends paid to shareholders	10,356	9,906	11,096
Cash dividends paid by subsidiaries to minority shareholders	1,456	2,515	2,819
Redemption of GEICO Senior Preferred Stock (minority interest)	25,000	—	—
Other	1,098	1,468	727
Total Funds Applied	382,389	604,666	801,573
Change in Cash	213	(4,508)	(8,509)
Cash, Beginning	8,317	12,825	21,334
Cash, Ending	$ 8,530	$ 8,317	$ 12,825

See Notes to Consolidated Financial Statements
Prior Years Restated—Note A

Notes to Consolidated Financial Statements

Note A: Consolidation

The consolidated financial statements include the accounts of GEICO Corporation (the Corporation) and its 100% owned subsidiaries, Government Employees Insurance Company (GEICO), Criterion Insurance Company (CRICO), Resolute Group, Inc., Criterion Investment Services Company and real estate and property subsidiaries. Investments in Government Employees Financial Corporation (GEFCO), a consumer finance company, and AVEMCO Corporation (since September 1980), a general aviation insurance and finance company, are accounted for using the equity method. Previously issued financial statements have been restated to reflect the investment in Government Employees Life Insurance Company (GELICO), a life and accident and health insurance company, using the equity method of accounting prior to its disposition on December 21, 1981. Such restatement had no effect on previously reported net income or retained earnings. See Note O.

Significant intercompany accounts and transactions have been eliminated in consolidation. Intercompany transactions with GELICO for group insurance coverage are not eliminated under equity accounting for GELICO.

GEICO and CRICO

Summary financial data for the combined property and casualty insurance companies is presented below and on the following page.

Condensed Balance Sheets
(In millions)

	December 31, 1981			December 31, 1980		
	GEICO	*CRICO*	*Combined*	*GEICO*	*CRICO*	*Combined*
Assets						
Investments						
Short-term investments	$ 54.0	$ 7.0	$ 61.0	$ 38.4	$ 2.5	$ 40.9
Fixed maturities	518.7	64.8	583.5	565.0	64.3	629.3
Equity securities	231.3	11.1	242.4	204.0	12.2	216.2
Affiliates	55.9	7.8	20.4	107.0	7.5	72.8
Cash	5.2	2.2	7.4	6.7	1.5	8.2
Note receivable	90.0	—	90.0	—	—	—
Premiums receivable, net	185.2	31.0	216.2	173.2	28.7	201.9
Deferred policy acquisition costs	32.2	5.0	37.2	26.0	4.4	30.4
Other assets	75.3	2.8	80.0	61.9	2.3	66.6
	$1,247.8	$131.7	$1,338.1	$1,182.2	$123.4	$1,266.3
Liabilities and Shareholders' Equity						
Reserves for losses and loss adjustment expenses	$ 440.1	$ 37.5	$ 477.6	$ 437.8	$ 35.4	$ 473.2
Unearned premiums	358.8	46.4	405.2	324.2	42.7	366.9
Other liabilities	127.2	7.9	133.6	115.4	6.7	121.4
Shareholders' equity	321.7	39.9	321.7	304.8	38.6	304.8
	$1,247.8	$131.7	$1,338.1	$1,182.2	$123.4	$1,266.3

Condensed Income Statements *(In millions)*	*Year Ended December 31, 1981*			*Year Ended December 31, 1980*			*Year Ended December 31, 1979*		
	GEICO	*CRICO*	*Combined*	*GEICO*	*CRICO*	*Combined*	*GEICO*	*CRICO*	*Combined*
Premiums	$ 575.6	$ 80.9	$ 656.5	$ 544.9	$ 75.2	$ 620.1	$ 532.1	$ 69.5	$ 601.6
Losses and loss adjustment expenses	450.4	66.5	516.9	427.8	57.7	485.5	404.0	57.4	461.4
Other expenses	94.2	17.3	111.5	83.4	16.0	99.4	97.2	13.6	110.8
Underwriting income	31.0	(2.9)	28.1	33.7	1.5	35.2	30.9	(1.5)	29.4
Net investment income	57.3	5.7	63.0	53.5	5.8	59.3	51.8	5.6	57.4
Equity in operating earnings of affiliates:									
CRICO	4.1	—	—	5.9	—	—	3.0	—	—
GELICO	4.0	—	4.0	4.6	—	4.6	4.4	—	4.4
GEFCO	(.4)	—	(.4)	(1.1)	—	(1.1)	1.3	—	1.3
AVEMCO	—	.8	.8	—	.3	.3	—	—	—
Interest expense	(4.1)	—	(4.1)	(4.1)	—	(4.1)	(4.2)	—	(4.2)
Operating earnings before income taxes	91.9	3.6	91.4	92.5	7.6	94.2	87.2	4.1	88.3
Income taxes	19.9	(.6)	19.3	21.7	1.5	23.2	21.7	.1	21.8
Operating Earnings	72.0	4.2	72.1	70.8	6.1	71.0	65.5	4.0	66.5
Realized gain on sale of GELICO	27.2	—	27.2	—	—	—	—	—	—
Realized gains (losses) on investments	(8.3)	(1.7)	(8.3)	.9	(.2)	.9	(.7)	.1	(.6)
Income before extraordinary item	90.9	2.5	91.0	71.7	5.9	71.9	64.8	4.1	65.9
Utilization of operating loss carryforward	—	—	—	—	—	—	15.5	—	15.5
Net Income	$ 90.9	$ 2.5	$ 91.0	$ 71.7	$ 5.9	$ 71.9	$ 80.3	$ 4.1	$ 81.4

In January 1980 the shareholders of CRICO approved a proposal whereby the Corporation purchased the remaining outstanding shares (27.2%) of CRICO Common Stock for $13.9 million. The net income included in the consolidated financial statements for CRICO is less than the net income reflected in the condensed income statement by $.1 million, $.2 million and $1.1 million in 1981, 1980 and 1979, respectively, because of amortization of the excess of cost over book value and minority interest.

Resolute Group, Inc.

GEICO Corporation provided $15 million in 1981 to capitalize Resolute Group, Inc., the parent company of Resolute Reinsurance Company which writes property and casualty reinsurance. Summary financial data for Resolute Group, Inc. is as follows:

(In millions)	*1981*
Investments	$15.2
Total assets	17.7
Shareholder's equity	15.3
Underwriting loss	(1.1)
Net investment income	1.7
Net income	.3

GEFCO and AVEMCO

GEICO owns 67% of the Common Stock and 55% of the voting shares of GEFCO. Summary financial data for GEFCO, an equity investee, is as follows:

(In millions)	*1981*	*1980*	*1979*
Receivables, net	$160.8	$172.2	$201.4
Total assets	183.7	206.4	228.6
Long-term debt	79.4	94.7	91.8
Redeemable Preferred Stock	1.0	1.0	—
Nonredeemable Preferred Stock and Common Shareholders' Equity	33.0	33.9	35.9
Revenue	36.2	39.6	42.5
Net income (loss)	(.5)	(1.5)	2.0

GEICO Corporation's consolidated balance sheet at December 31, 1981 includes investments in GEFCO's notes of $6,500,000, redeemable preferred stock of $1,000,000 and preferred stock of $80,850.

In September 1980 GEICO Corporation purchased 435,000 shares of AVEMCO Corporation Common Stock for $6.1 million which increased ownership from approximately 5% to 22%. Summary financial data as reported by AVEMCO, an equity investee, is as follows:

(In millions)	*1981*	*1980*
Total assets	$62.2	$46.9
Shareholders' equity	21.3	19.1
Revenue	30.7	24.2
Net income	3.8	2.9

The Corporation received dividends of $.3 million in 1981 and in 1980 and $.4 million in 1979 related to its equity in earnings of GEFCO and AVEMCO. Retained earnings at December 31, 1981 include $.7 million of undistributed earnings related to GEFCO and AVEMCO. The aggregate cost of GEICO's investments in GEFCO, AVEMCO and CRICO approximated the net book value at purchase date.

Note B: Significant Accounting Policies

Basis of Reporting
The accompanying financial statements are presented in conformity with generally accepted accounting principles (GAAP). These principles for subsidiary insurance companies differ from statutory accounting practices prescribed or permitted by regulatory authorities as described in Note C.

Investments
Investments in fixed maturities (bonds, notes and redeemable preferred stocks) are reported at amortized cost and investments in equity securities (common and nonredeemable preferred stocks) at market value. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the statement of income. GEICO Corporation's equity in changes in unrealized appreciation (depreciation) on equity securities, after deferred income tax effects, is reported directly in shareholders' equity. The consolidated unrealized investment losses on equity securities at December 31, 1981 before deferred tax effects consisted of gross gains of $17,380,272 and gross losses of $33,859,551.

Deferred Policy Acquisition Costs
Costs that vary with and are directly related to the production of business and are recoverable have been deferred. The costs of acquiring property and casualty insurance are being amortized to income as the related written premiums are earned. Such costs include commissions, premium taxes, advertising and certain underwriting and policy issuance costs.

Loss and Loss Adjustment Expense Reserves
Loss reserves are based on averages for automobile claims reported within the most recent three months, case basis estimates for other reported claims and calculated estimates of unreported losses. The reserve for losses further includes additional amounts to reflect anticipated future economic and social conditions. The determination of these additional amounts includes consideration of studies of reserve levels performed by independent consulting actuaries. The reserve for losses has been reduced by approximately $18.3 million and $17.9 million at December 31, 1981 and 1980, respectively, for anticipated salvage and subrogation recoveries. Loss adjustment expense reserves are based upon estimates of expenses to be incurred in the settlement of claims. Reserves are recorded net of estimated reinsurance recoverable on unpaid losses and loss adjustment expenses.

Management believes that its aggregate provision for loss and loss adjustment expense at December 31, 1981 is reasonable and adequate to cover the ultimate net cost of losses on reported and unreported claims arising from accidents which had occurred by that date, but such provision is necessarily based on estimates and the ultimate net cost may vary from such estimates. As adjustments to these estimates become necessary, such adjustments are reflected in current operations. The methods used to develop these reserves are subject to continuing review and refinement.

Premium Revenue and Other Operating Expenses
Property and casualty premiums are earned prorata over the terms of the policies and are reported net of reinsurance. The expected effects of certain states' regulations on underwriting income are recorded in other operating expenses based upon current estimates. In 1980 accrued experience reserves were reduced $11,000,000, based primarily upon judicial actions during the year, and credited to operations.

Property and Equipment
The annual provisions for depreciation are computed by the straight-line method over 45 year useful lives for buildings and over 3–10 year useful lives for equipment.

Compensated Absences
Prior to 1981, the Corporation followed the common practice of recording the costs of employees' vacation pay in the period that such benefits were paid. Effective January 1, 1981, as a result of Financial Accounting Standards Board Statement No. 43, the Corporation began accounting for vacation pay on an accrual basis. Financial statements for the periods prior to 1981 have been restated as required by the Statement, resulting in a decrease in retained earnings as of January 1, 1979 of $2.1 million and no significant impact on previously reported net income.

Note C: Reconciliation of Statutory Accounts

The generally accepted accounting principles which differ significantly from statutory accounting practices are:

- Policy acquisition costs are deferred and amortized in proportion to premium recognition.
- Loss reserves are based upon estimates of ultimate losses net of salvage and subrogation recoverable.
- The effects of regulations on underwriting income are recorded based upon current estimates.
- Deferred income taxes are provided for timing differences between pretax accounting income and taxable income.
- Nonadmitted assets, principally certain premiums receivable and property and equipment, are reported as assets.
- Reinsurance commissions are deferred and earned over the term of the business ceded.
- Equity in the undistributed net income of affiliates is included in net income.

A reconciliation of net income and shareholders' equity of GEICO under statutory practices to net income and redeemable preferred stock and common shareholders' equity reported herein under GAAP for the Corporation is as follows:

Net Income

(In thousands)	*Year Ended December 31,* 1981	1980	1979
GEICO-statutory accounting practices	$98,584	$75,630	$76,611
Deferred income taxes	(6,712)	(21,693)	(5,763)
Income from consolidation of CRICO	877	4,176	2,134
Equity in undistributed net income of GELICO	1,080	2,760	3,076
Equity in undistributed net income of GEFCO	(440)	(1,177)	[illegible]
Deferred policy acquisition costs	6,144	(667)	4,131
Additional statutory and accrued experience reserves	83	10,481	(1,381)
Unearned reinsurance commissions	(197)	932	184
Effect of equity accounting on gain on sale of GELICO	(9,227)	—	—
Other	705	1,290	384
GEICO-in accordance with GAAP	90,897	71,732	80,256
Senior preferred dividends	(190)	(2,531)	(2,500)
Parent company operations	(7,421)	(8,438)	(3,474)
The Corporation in accordance with GAAP	$83,286	$60,763	$74,282

Redeemable Preferred Stock and Common Shareholders' Equity

(In thousands)	*December 31,* 1981	1980	1979
GEICO-statutory accounting practices	$317,062	$283,321	$251,078
Deferred policy acquisition costs	32,169	26,025	26,692
Additional statutory and accrued experience reserves	16,483	16,400	5,919
Deferred income taxes	(33,664)	(27,796)	(3,666)
Accrued compensated absences	(4,289)	(3,880)	(3,880)
Effects of consolidated real estate subsidiaries	(18,333)	(18,837)	(20,320)
Nonadmitted assets	8,440	8,022	7,811
Valuation of CRICO and GEFCO	4,236	5,677	3,949
Valuation of GELICO	—	16,585	13,516
Other	(429)	(688)	(2,052)
GEICO-in accordance with GAAP	321,675	304,829	279,047
Senior Preferred Stock of GEICO included in minority interest	—	(25,000)	(25,000)
Parent company capital transactions-net	3,441)	(75,742)	(59,499)
Parent company operations	'9,330)	(11,909)	(3,474)
The Corporation in accordance with GAAP:			
Cumulative Preferred Stock, $.736 Convertible Series	$ 2,086	$ 6,227	$ 17,443
Common Shareholders' Equity	$236,818	$185,951	$173,631

Consolidated net income for all property and casualty insurance subsidiaries (GEICO, CRICO and Resolute) as determined under statutory practices was $97.6 million in 1981, $81.2 million in 1980 and $79.4 million in 1979. Consolidated shareholders' equity under statutory practices for these subsidiaries was $332.3 million and $283.3 million at December 31, 1981 and 1980, respectively.

Under the Holding Company System Regulatory Act applicable to District of Columbia domestic insurers, the maximum amount of dividends and other distributions to its Shareholders that may be paid by GEICO (without prior approval of the District of Columbia Department of Insurance) in any 12-month period is the greater of (i) investment income (as defined) for the preceding calendar year or (ii) 10% of statutory policyholders' surplus at the end of the preceding year.

Note D: Policy Acquisition Costs

Policy acquisition costs information is summarized as follows:

(In thousands)	*1981*	*1980*	*1979*
Policy acquisition costs incurred:			
Commission and brokerage....	$12,801	$ 7,726	$ 9,229
Premium taxes	12,752	12,970	13,658
Salaries, direct mail selling and other	34,130	30,102	27,619
	$59,683	$50,798	$50,506
Policy acquisition costs expensed	$52,945	$50,955	$45,663

Note E: Investment Operations

The sources of investment income are summarized as follows:

(In thousands)	*1981*	*1980*	*1979*
Fixed maturities	$44,519	$44,498	$43,694
Equity securities	19,084	16,285	13,946
Short-term investments	5,109	2,072	2,596
Other	166	110	33
Total investment income	68,878	62,965	60,269
Investment expenses	2,477	2,473	1,920
Net investment income	$66,401	$60,492	$58,349

There were no investments in fixed maturities which were non-income producing for the twelve month period ending December 31, 1981.

Realized gains (losses) on investments are summarized as follows:

(In thousands)	*1981*	*1980*	*1979*
Fixed maturities	$(7,772)	$(5,853)	$(5,859)
Equity securities	(5,382)	7,004	4,964
Other	87	(9)	(15)
Minority interest	—	2	(12)
	(13,067)	1,144	(922)
Income taxes	4,793	—	195
	(8,274)	1,144	(727)
Equity in affiliates' realized gains (losses)	(28)	(25)	4
Realized gains (losses)	$(8,302)	$ 1,119	$ (723)

A summary of unrealized appreciation (depreciation) on investments in equity securities during each year reflected directly in shareholders' equity is as follows:

(In thousands)	*1981*	*1980*	*1979*
Unrealized appreciation (depreciation)	$(1,139)	$ 4,156	$(6,362)
Deferred income taxes	319	(1,164)	1,519
Minority interest	—	(16)	246
	(820)	2,976	(4,597)
Equity in affiliates' unrealized appreciation (depreciation) ...	118	(583)	481
Unrealized appreciation (depreciation) reflected in shareholders' equity	$ (702)	$ 2,393	$(4,116)

Investments in fixed maturities are carried at amortized cost since such securities are generally held to maturity. A summary of unrealized depreciation on investments in fixed maturities is as follows:

(In thousands)	*1981*	*1980*	*1979*
Amortized cost	$588,727	$631,318	$651,997
Market value	392,574	478,437	563,938
Excess of amortized cost over market value at December 31..	$196,153	$152,881	$ 88,059
Unrealized depreciation during the year	$(43,272)	$(64,822)	$(30,478)

Note F: Income Taxes

Tax Expense

Tax expense has been computed based upon pretax financial reporting income before utilization of the net operating loss carryforward as follows:

(In thousands)	*1981*	*1980*	*1979*
Tax on:			
Tax basis income before loss carryforward	$ 6,105	$10,365	$16,823
Timing differences	6,775	5,328	2,019
Income tax provision	$12,880	$15,693	$18,842

Effective Tax Rate Reconciliation
A reconciliation of the effective tax rates in the consolidated statement of income to the prevailing Federal income tax rate (46%) is as follows:

(In thousands)	*1981*	*1980*	*1979*
Income tax provision at 46% of pretax income	$35,563	$34,655	$36,060
Effect of:			
Tax-exempt interest income	(11,225)	(10,369)	(10,054)
Dividends received deduction	(9,792)	(7,747)	(6,390)
Investment tax credit	(2,650)	—	—
Minority interest	87	1,197	1,657
Tax on subsidiaries' undistributed earnings	3,049	(740)	(1,818)
Capital gains rate differential	(880)	(1,218)	(808)
Other items	(1,272)	(85)	195
Income tax provision	$12,880	$15,693	$18,842

Taxes in 1981 have been reduced by $2.7 million for investment tax credits accounted for by the flow through method including the utilization of a $1.9 million investment tax credit carryforward.

Deferred Tax Provision
The deferred tax provision resulted from timing differences in recognition of revenue and expenses for tax and financial statement purposes as follows:

(In thousands)	*1981*	*1980*	*1979*
Deferral of policy acquisition costs	$3,099	$ (72)	$1,900
Commission on reinsurance treaties	(90)	429	85
Accrued investment income	823	1,078	1,027
Additional statutory reserves	177	(77)	2,392
Accrued experience reserves	—	5,060	(3,128)
Deferred compensation	286	(1,337)	(737)
Investment tax credit	(590)	—	—
Tax on GELICO's undistributed earnings	3,506	—	—
Other	(436)	247	480
Deferred tax provision	$6,775	$5,328	$2,019

Tax Liability
The components of the Federal income tax liability included in the financial statements are as follows:

(In thousands)	*December 31, 1981*	*1980*
Current tax	$ 499	$ —
Deferred tax	39,177	22,423
Deferred tax related to unrealized depreciation on equity securities	(4,614)	(4,295)
Income tax liability	$35,062	$18,128

Carryforwards
During 1981 the Corporation and its wholly owned subsidiaries utilized the net operating loss carryforward existing for tax purposes at December 31, 1980, except for $3.9 million related to CRICO's operations prior to becoming a member of the consolidated taxable group in January 1980. This net operating loss carryforward, $3.1 million of which expires in 1991 and $.8 million in 1994, may only be absorbed by income generated by CRICO and such utilization would result in restoration of deferred taxes. The Corporation's unused investment tax credit carryforward for tax purposes is approximately $1.0 million.

In addition, at December 31, 1981 a capital loss carryforward for tax purposes of approximately $14.5 million is available to offset future capital gains. Of this amount, $3.6 million expires in 1983, $.2 million expires in 1984 and $10.7 million expires in 1986. The gain from the sale of GELICO is reportable in 1982 for tax purposes.

Subsidiaries' Undistributed Earnings
Consolidated retained earnings at December 31, 1981 includes an insignificant amount of undistributed earnings of GEFCO for which no deferred taxes have been provided since it is GEICO's intention that GEFCO reinvest these undistributed earnings in its operations.

Federal income tax expense during 1981 includes $3.5 million of tax on undistributed earnings of GELICO for which no deferred taxes had been previously provided since it had been GEICO Corporation's intention that GELICO reinvest these earnings in its operations permanently. See Note O.

Note G: Debt

Long-term debt consisted of the following:

(In thousands)	December 31, 1981	1980
Unsecured 13¾% Debentures due 1999, annual sinking fund requirement 1990-1999 of 10% of principal amount outstanding January 1, 1990	$ 18,323	$ 18,323
Unsecured 11% Debentures due 1999, annual sinking fund requirement 1990-1999 of 10% of principal amount outstanding January 1, 1990	73,287	73,287
Wholly owned real estate and property subsidiaries—		
GEICO Properties, Inc.:		
8¼% notes, due in equal quarterly installments of $339 including interest, until June 15, 2004	13,803	14,008
8½% note, due in equal quarterly installments of $196 including interest, until May 1, 2004	7,849	7,960
GEICO Washington Properties, Inc:		
9⅝% note due in equal monthly installments of $203 including interest, until June 1, 2010	24,179	24,342
GEICO Facilities Corporation:		
Other	54	—
	$137,495	$137,920

On July 1, 1980 the Corporation issued 13¾% Debentures with a face amount of $18.3 million in conjunction with the repurchase of approximately 2.1 million shares of Common Stock as described in Note J. On April 1, 1979 the Corporation exchanged 11% Debentures with a face amount of $73.3 million for approximately 4.4 million shares of Common Stock and 1.5 million shares of Cumulative Preferred Stock, $.736 Convertible Series.

Property with a cost of $41,752,205 has been pledged as security for the notes of the real estate and property subsidiaries and long-term leases have been assigned as additional collateral. The note agreements provide that in the event of default the entire unpaid principal and interest become due and payable.

The aggregate maturities of long-term debt for the years 1982 through 1986 are $523,066; $570,191; $621,579; $677,618 and $738,730, respectively.

The Corporation has $10 million of unsecured lines of credit with commercial banks at the prime interest rate. Short-term debt of $6.0 million and $5.0 million borrowed under these lines of credit was outstanding at December 31, 1981 and 1980, respectively. All short-term debt was paid in full on January 4, 1982. The availability of these lines of credit is reviewed annually.

Note H: GEICO Cumulative Senior Preferred Stock

At December 31, 1980 GEICO had outstanding 250,000 shares of Cumulative Senior Preferred Stock (the GEICO Senior Preferred Stock), par value $10 per share, which is included in minority interest in the 1980 consolidated balance sheet of GEICO Corporation. In January 1981 GEICO redeemed the 250,000 outstanding shares of GEICO Senior Preferred Stock at the redemption price of $100 per share plus accrued dividends.

Note I: Redeemable Preferred Stock

Description

GEICO Corporation has authorized 15 million shares of Cumulative Junior Preferred Stock, par value $1 per share. The only authorized series is the $.736 Convertible Series (the Convertible Preferred Stock) which is junior to the Corporation's Senior Preferred Stock (none of which has been issued), but senior to its Common Stock. Each share of Convertible Preferred Stock is convertible at any time into two shares of Common Stock. Holders of the Convertible Preferred Stock are entitled to receive quarterly cash dividends at an annual rate of $.736. So long as any shares of its Convertible Preferred Stock are outstanding, GEICO Corporation may not pay any cash dividend on its Common Stock or redeem, purchase or otherwise acquire any shares of its Common Stock if the dividend and sinking fund payments on the Convertible Preferred Stock have not been met. At December 31, 1981 and 1980, 226,776 and 676,801 shares of Convertible Preferred Stock were issued and outstanding.

Redemption and Sinking Fund Provisions

Shares of Convertible Preferred Stock may be redeemed at prices ranging downward from $9.66 during 1982 to $9.20 during 1987 and thereafter, plus accrued and unpaid dividends. The Convertible Preferred Stock is entitled to a sinking fund pursuant to which GEICO Corporation will pay to the transfer agent for the Convertible Preferred Stock on or before each January 1 from 1992 to 2001 an amount sufficient to redeem 10% of the number of shares of Convertible Preferred Stock outstanding on January 1, 1991, at $9.20 plus accrued and unpaid dividends.

Note J: Common Shareholders' Equity

Debenture Exchanges, Share Acquisitions and Conversions

In 1980 the Corporation acquired 2.1 million shares of Common Stock through the issuance of Debentures described in Note G and cash payment of $15 million. In 1979 the Corporation exchanged Debentures for approximately 4.4 million shares of Common Stock and 1.5 million shares of Convertible Preferred Stock on the basis of $10 of Debentures for each common share and $20 for each preferred share.

In other transactions, the Corporation purchased for cash 1,218,500, 1,680,860 and 576,638 shares of Common Stock in 1981, 1980 and 1979, respectively and 572,900 shares of Convertible Preferred Stock in 1979 for an aggregate cost of $28,674,262, $20,734,643 and $16,278,156 in 1981, 1980 and 1979, respectively.

During 1981, 1980 and 1979 450,025, 1,219,127 and 3,897,931 shares of Convertible Preferred Stock were converted into 900,050, 2,438,254 and 7,795,862 shares of Common Stock, respectively.

Stock Option and Performance Share Plans; Warrants
During 1973 a Stock Option Plan was adopted under which options may be granted to officers and key employees for the purchase of capital stock at 100% or more of fair market value at date of grant. The options are exercisable in installments beginning one year from date of grant and expire not more than 10 years thereafter.

	Options		
	Shares Available For Grant	*Price Per Share On Date of Grant*	*Shares Outstanding*
Balance at January 1, 1979	14,628	$4.59 to $36.06	386,184
Granted	(12,000)	8.69 to 11.88	12,000
Exercised	—	6.56	(843)
Terminated	32,481	6.56 to 36.06	(32,481)
Balance at December 31, 1979	35,109	4.59 to 36.06	364,860
Granted	(14,407)	2.68 to 16.72	14,407
Exercised	—	2.68 to 6.56	(222,805)
Terminated	11,066	6.56 to 20.75	(11,066)
Balance at December 31, 1980	31,768	2.68 to 36.06	145,396
Granted	(32,500)	23.50	32,500
Exercised	—	6.04 to 20.75	(32,906)
Terminated	1,768	6.56 to 36.06	(1,768)
Balance at December 31, 1981	1,036	$2.68 to $36.06	143,222

Pursuant to the Agreement and Plan of Merger in 1980 whereby the Corporation obtained 100% ownership of CRICO as discussed in Note A, the Corporation assumed CRICO's stock option plan. Stock options outstanding under CRICO's plan were converted into options to purchase 14,407 shares of the Corporation's Common Stock at prices ranging from $2.68 to $16.72 per share.

In 1980 the Corporation accepted notes for $962,500 from the Chairman of the Board payable on demand with interest at 6% per annum in return for the issuance of 209,741 shares of Common Stock to him upon exercise of options granted in 1976. In consideration of the Corporation agreeing to allow exercise by means of demand notes, which are included in other assets at December 31, 1981 and 1980, the Chairman agreed to extend his term of employment.

In 1979 the Corporation's shareholders approved a performance share plan under which awards in the aggregate of 500,000 performance shares may be made to key executives to be paid in shares of the Corporation's Common Stock or cash based on the attainment of certain goals. During 1981, 184,763 performance shares were paid through the issuance of 167,999 shares of Common Stock and the remainder in cash. Charges of $1,833,349, $2,605,718 and $1,484,557 were made against 1981, 1980 and 1979 earnings, respectively, under the plan.

At December 31, 1981 GEICO Corporation had outstanding warrants exercisable at anytime to August 1, 1983 to purchase 1,348,979 shares of its Common Stock at $24 per share. A total of 1,808,474 shares have been reserved for stock options, performance share awards and warrants.

Note K: Earnings Per Share

Fully diluted earnings per share were determined using 21,643,932 shares in 1981, 23,002,821 in 1980 and 27,753,153 in 1979 assuming conversion of the Convertible Preferred Stock and exercise of dilutive stock options and performance share awards and reflect adjustment for GEICO's equity interest in the fully diluted earnings per share of its insurance subsidiaries and finance affiliate.

Primary earnings per share have been computed by dividing the weighted average number of common shares outstanding of 20,622,661 in 1981, 20,522,424 in 1980 and 17,336,112 in 1979 into earnings after deduction for preferred stock dividend requirements and adjustment for GEICO's equity interest in the primary earnings per share of its insurance subsidiaries and finance affiliate.

Operating earnings per share would have been $3.03 (fully diluted) and $3.11 (primary) and net income per share would have been $3.94 (fully diluted) and $4.04 (primary) for 1981 if the share repurchases and conversions of Convertible Preferred Stock to Common Stock described in Note J had taken place January 1, 1981.

Note L: Employee Benefits

GEICO Corporation and its subsidiaries have a defined benefit noncontributory pension plan covering most full-time employees, the cost of which was $4,428,550 in 1981, $4,059,511 in 1980 and $3,740,902 in 1979. GELICO administers the pension plan funds. The plan provides for payment based on salary and years of service. The policy is to fund accrued pension costs including amortization of prior service costs over 30 years. Additionally, $348,800 was charged to expense in 1981 to accrue costs of certain supplemental retirement benefits.

Accumulated plan benefits, as estimated by consulting actuaries, and plan net assets at December 31, 1980 (latest valuation date) and 1979 were as follows:

(In thousands)	*December 31,* 1980	1979
Actuarial present value of accumulated plan benefits:		
Vested	$25,059	$20,805
Nonvested	7,377	6,934
	$32,436	$27,739
Net assets available for plan benefits	$35,724	$28,680

The assumed rate of return on invested assets used in determining the actuarial present value of accumulated plan benefits was 6% for both the December 31, 1980 and 1979 valuations.

Note M: Reinsurance

The Corporation's insurance subsidiaries are involved in both the cession and assumption of reinsurance with other companies. Reinsurance agreements are maintained for the purpose of insuring excess risks of the subsidiaries and a portion of all risks for Resolute Reinsurance Company. The Corporation and its insurance subsidiaries remain liable to the extent the reinsuring companies are unable to meet their treaty obligations. Amounts deducted from policy liabilities and premium and loss accounts for reinsurance cessions, excluding the effect of reinsurance facilities, are as follows:

(In thousands)	*December 31,* 1981	1980
Policy liabilities		
Loss and loss adjustment expense reserves	$ 11,297	$10,043
Unearned premium reserve	$ 3,642	$ 2,574

(In thousands)	1981	1980	1979
Premiums written	$ 8,230	$ 6,004	$ 6,112
Premiums earned	$ 7,162	$ 6,514	$ 6,572
Loss and loss adjustment expense incurred	$ 5,539	$ (2,397)	$ 4,258

In December 1981 GEICO assumed $18,051,000 of accident and health insurance premiums written of which $771,000 was earned in 1981. $5,184,000 of commission related to the unearned premium at December 31, 1981 is included in deferred policy acquisition costs.

Note N: Commitments and Contingencies

Rental expense for all leases was approximately $6,913,000 in 1981, $6,630,000 in 1980 and $6,400,000 in 1979.

The Corporation and its subsidiaries have entered into non-cancellable leases expiring at various dates through 1992 for both real estate and equipment, all of which are operating leases. The future minimum rental commitments as of December 31, 1981 for noncancellable leases with a remaining term of at least one year are as follows:

(In thousands)	*Total*	*Building Space*	*Equipment*
1982	$ 2,451	$1,494	$ 957
1983	2,216	1,448	768
1984	1,721	1,342	379
1985	1,415	1,281	134
1986	1,156	1,022	134
1987–1992	1,384	1,173	211
	$10,343	$7,760	$2,583

Certain of the building space leases contain renewal options for periods ranging from 1 to 10 years. No options extend beyond the periods indicated.

Under an agreement dated August 12, 1980, as amended, the Corporation is committed to guarantee up to $15.0 million of GEFCO commercial paper, if any, maturing through May 31, 1982, for which the Corporation receives a fee at an annual rate of $18,750. At December 31, 1981, $15,000,000 of commercial paper subject to this agreement was outstanding.

In the ordinary course of its insurance operations, the Corporation is affected by various regulatory, legislative and judicial actions. In the opinion of management, loss to the Corporation materially in excess of amounts provided for in its loss reserves is not probable.

Note O: Sale of GELICO

On December 21, 1981 GEICO Corporation sold its investment in the common stock of GELICO (65.5% of outstanding shares) to Legal & General Group Limited for a note receivable of $90.0 million resulting in a $27.2 million gain, net of $9.2 million income tax expense. The note receivable is non-interest bearing and was paid on January 4, 1982. The Corporation's equity in earnings of GELICO in the fourth quarter of 1981 was limited to dividends declared by GELICO during the quarter to which the Corporation was entitled pursuant to the terms of the agreement to sell dated September 16, 1981. The Corporation has agreed to continue providing certain staff and support services for GELICO on a fee basis for a specific period of time.

GEICO Corporation's equity in GELICO's operating earnings and related dividends is summarized as follows:

(In thousands)	1981	1980	1979
Equity in operating earnings	$4,692	$5,511	$5,321
Amortization of excess cost over historical book value	(657)	(912)	(964)
Equity in operating earnings net of amortization	$4,035	$4,599	$4,357
Dividends received from GELICO	$2,926	$1,814	$1,284

GEICO Corporation has and expects to continue to operate in the life and health insurance business segment. The sale of its investment in GELICO is expected to result in alternative investment by GEICO Corporation in life and health insurance operations. Until such alternative investment occurs, the financial statements of GEICO Corporation contain a dominant business segment, private passenger automobile insurance, pursuant to Financial Accounting Standards Board Statement No. 14. Summarized financial information with respect to the operations of GELICO is as follows:

Condensed Balance Sheet (In millions)	September 30, 1981	December 31, 1980
Assets		
Investments	$161.9	$163.3
Cash	7.2	5.8
Deferred policy acquisition costs	25.5	25.1
Other assets	58.3	53.2
	$252.9	$247.4
Liabilities and Shareholders' Equity		
Reserves	$140.5	$136.0
Other liabilities	45.8	43.5
Shareholders' equity	66.6	67.9
	$252.9	$247.4

Condensed Income Statement (In millions)	Nine Months Ended September 30, 1981	Year Ended December 31, 1980	1979
Premiums	$24.8	$35.1	$35.0
Net investment income	11.6	13.6	11.7
Total revenue	36.4	48.7	46.7
Benefits	13.6	15.4	15.0
Increase in reserves	4.2	10.5	12.0
Other expenses	9.8	10.7	8.3
Operating income before income taxes	8.8	12.1	11.4
Income taxes	2.8	3.7	3.2
Net Income	$ 6.0	$ 8.4	$ 8.2

Supplemental Information on the Effects of Changing Prices (Unaudited)

As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the Corporation must provide supplemental information concerning the effects of changing prices on its financial statements. The disclosures are intended to address two different aspects of an inflationary environment: (1) the effect of a rise in the general price level on the exchange value or purchasing power of the dollar (called "general inflation") and (2) the specific price changes in the individual resources used by the Corporation. Because there is presently no consensus on which aspect, if any, of inflation should be reported, especially as related to insurance companies, the FASB has devised an experiment requiring certain large, publicly held companies to present supplemental information reflecting both types of inflation measures.

The supplemental information on changing prices does not reflect a comprehensive application of either type of inflation accounting. The FASB decided to focus on items most affected by changing prices, that is: (1) the effect of both general inflation and specific price changes on properties and related depreciation expense, and (2) the effect of general inflation on holding monetary assets and liabilities.

Effect on Properties and Related Depreciation Expense
FASB Statement No. 33 requires the presentation, if material, of a supplemental statement of income from continuing operations. The Corporation has computed income from continuing operations (equivalent to income before extraordinary item) as required by the Statement. The supplemental statement of income from continuing operations is not presented because fixed assets and depreciation expense are not significant items in the Corporation's financial statements and the resulting difference between net income, as reported, and income adjusted for general inflation or specific price changes was not material.

Holding Monetary Assets and Liabilities
When prices are increasing, the holding of net monetary assets during any given period results in a loss of general purchasing power.

The FASB's current methodology requires nonmonetary classification for unearned premiums and deferred policy acquisition costs of property and casualty companies despite the recommendation of its own advisory Insurance Task Force that these and all other assets and liabilities be categorized as monetary. Based on the current methodology required by FASB, the Corporation incurred a purchasing power loss from holding net monetary assets during the year of $7.4 million in 1981, compared to a gain of $4.8 million if unearned premiums and deferred policy acquisition costs were classified as monetary.

Five-Year Comparison of Supplemental Financial Data Adjusted for Effects of Changing Prices

(In thousands, except per share data)

	Year Ended December 31,				
	1981	1980	1979	1978	1977
Total revenue:					
As reported	$ 727,453	$ 684,408	$ 665,561	$634,907	$505,166
Adjusted for general inflation (1)	$ 727,453	$ 755,401	$ 833,941	$885,101	$758,167
Purchasing power gain (loss) from holding net monetary assets or liabilities during the year (1):					
As required	$ (7,414)	$ (13,253)	$ (22,287)	—	—
Alternative computation	$ 4,784	$ 2,417	$ (5,734)	—	—
Net assets at year end:					
As reported	$ 238,904	$ 192,178	$ 191,074	$220,807	$178,439
Adjusted for general inflation (2)	$ 238,904	$ 209,358	$ 233,959	$306,344	$269,912
Cash dividends declared per common share:					
As reported	$ .48	$ .43	$ .36	$ .20	$ .03
Adjusted for general inflation (1)	$ .48	$ .47	$ .45	$ .28	$ .05
Market price per common share at year end:					
Historical amount	$ 27.75	$ 14.63	$ 12.06	$ 7.19	$ 8.31
Adjusted for general inflation (2)	$ 27.75	$ 15.94	$ 14.77	$ 9.98	$ 12.57
Consumer price index:					
Average	272.4	246.8	217.4	195.4	181.5
Year-End	281.5	258.4	229.9	202.9	186.1

(1) In average 1981 dollars (2) In year-end 1981 dollars

Quarterly Highlights of Operating Results (Unaudited)

(In millions, except per share results)

	1981				1980			
	Three Months Ended				Three Months Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenue								
Premiums earned	$169.4	$166.5	$163.9	$156.9	$160.1	$157.9	$150.2	$151.9
Net investment income	17.3	16.7	16.2	16.1	15.8	14.7	14.9	15.1
Equity in earnings of GELICO	.7	1.2	1.1	1.0	1.3	1.1	1.0	1.2
Equity in earnings of GEFCO and AVEMCO	(.2)	.1	.2	.3	.1	(.9)	(.2)	.2
Total Revenue	187.2	184.5	181.4	174.3	177.3	172.8	165.9	168.4
Benefits and Expenses								
Losses and loss adjustment expenses	134.2	127.6	129.9	125.1	126.8	120.5	118.3	119.9
Operating expenses	30.7	30.1	29.7	27.5	27.0	25.6	26.9	27.4
Interest expense	3.7	3.7	3.7	3.9	3.9	3.7	3.4	3.1
Minority interest	—	—	—	.2	.6	.7	.6	.7
Income taxes	3.8	5.2	2.4	1.6	3.6	5.9	3.1	3.1
Total Benefits and Expenses	172.4	166.6	165.7	158.3	161.9	156.4	152.3	154.2
Operating Earnings	14.8	17.9	15.7	16.0	15.4	16.4	13.6	14.2
Realized gain on sale of GELICO	27.2	—	—	—	—	—	—	—
Realized gains (losses) on investments	(10.5)	(.7)	2.5	.4	(.5)	1.7	(2.0)	1.9
Net Income	$ 31.5	$ 17.2	$ 18.2	$ 16.4	$ 14.9	$ 18.1	$ 11.6	$ 16.1
Per Share Results								
Fully Diluted:								
Operating earnings	$ .70	$ .83	$ .72	$ .73	$ .70	$ .76	$ .58	$ .57
Net income	$1.49	$ .79	$ .83	$ .75	$ .68	$ .83	$ .50	$ .65
Primary:								
Operating earnings	$ .72	$ .86	$ .75	$ .78	$ .76	$ .82	$ .64	$ .66
Net income	$1.54	$ .82	$ .87	$ .80	$ .73	$ .90	$ .54	$ .75

Restated—Note A

GEICO Corporation Board of Directors

Thomas E. Bolger
Executive Vice President, American Telephone and Telegraph Company

Samuel C. Butler
Partner, Cravath, Swaine & Moore

John J. Byrne
Chairman of the Board and Chief Executive Officer, GEICO Corporation

Paul J. Hanna
Vice Chairman of the Board, GEICO Corporation

Alvin E. Kraus
Retired Chairman of the Board, Criterion Insurance Company

Melvin M. Payne
Chairman of the Board, National Geographic Society

Joseph J. Sisco
Partner, Sisco Associates

William B. Snyder
President, GEICO Corporation

Walter E. Washington
Partner, Burns Jackson Summit Rovins & Washington

Frank A. Weil
Partner, Ginsburg, Feldman, Weil & Bress

H. Edward Wrapp
Professor of Business Policy, Graduate School of Business, University of Chicago

John M. Christie, having reached retirement age, did not stand for reelection to the Board of Directors in May 1981. Mr. Christie had served on the Boards of the Government Employees Companies since 1967. A Director and former Chairman of the Board of The Riggs National Bank of Washington, D.C., Mr. Christie served GEICO Corporation in recent years as Chairman of the Audit Committee and as a member of the Investment and Social Responsibility Committees of the Board. His dedication to the Companies over the years and his valuable leadership have been important to their success.

Mr. John M. Christie

Walter E. Washington, a former mayor of the District of Columbia and current resident partner in the law firm of Burns Jackson Summit Rovins & Washington, was elected to the Board effective December 1, 1981. Mr. Washington served as the elected mayor of the District of Columbia from 1975 to 1979, having previously served as the appointed Mayor-Commissioner of the District from 1967 to 1975. Prior to that, he served as Chairman of the New York City Housing Authority and Executive Director of the National Capital Housing Authority.

Mr. Walter E. Washington

Honorary Directors

Daniel J. Callahan, Jr.
Retired Senior Vice President, The Riggs National Bank of Washington, D.C.

Lorimer A. Davidson
Chairman Emeritus, GEICO Corporation

Harvey B. Gram, Jr.
Chairman of the Board, Johnston, Lemon & Co., Inc.

William K. Jacobs, Jr.
Private financial consultant

David Lloyd Kreeger
Honorary Chairman of the Board, GEICO Corporation

Committees of the Board

GEICO Corporation's Board of Directors consists of eleven members. Assisting the Board in the management of its responsibilities are five Board Committees. The names of those serving on the committees and primary Committee functions are as follows:

Audit Commitee

Paul J. Hanna, *Chairman*
Thomas E. Bolger
Joseph J. Sisco
H. Edward Wrapp

In addition to recommending for appointment the Corporation's Independent Accountants, the Audit Committee, which is composed of nonmanagement Directors, monitors the Accountants' audits, reviews the audit results with management and the Accountants, reviews the Annual Report on Form 10-K, reviews with the Accountants and the Internal Auditor the Corporation's internal controls and accounting procedures, reviews the basis for determining intercompany charges and monitors compliance with the Foreign Corrupt Practices Act. The Internal Auditor reports directly to the Audit Committee and functions as staff thereto.

Executive Committee

Samuel C. Butler, *Chairman*
John J. Byrne
Paul J. Hanna
Alvin E. Kraus
H. Edward Wrapp

This committee exercises the powers of the Board of Directors when the Board is not in session, recommends plans relating to the development of corporate structure, reviews proposals regarding merger or affiliation with other companies and reviews proposals to enter new or expanded lines of business.

Human Resources Committee

H. Edward Wrapp, *Chairman*
Thomas E. Bolger
Samuel C. Butler
Alvin E. Kraus
Melvin M. Payne
Joseph J. Sisco
Frank A. Weil

This committee reviews programs relating to the development of human resources, including personnel and compensation practices; education and training programs; and the introduction of external resources (both the hiring of new employees and retention of consultants). It recommends to the Board the compensation of the Chairman of the Board, Chief Executive Officer, President, Executive Vice President and Senior Vice Presidents; fixes the compensation of other Officers; approves and administers compensation programs; maintains responsibility for administration of employee benefit plans; elects all officers except the Chairman of the Board, Chief Executive Officer, President, Executive Vice President and Senior Vice Presidents; and approves Directors' compensation. The Committee also recommends proposed nominees for election to the Board by the Shareholders at the Annual Meetings.

Investment Committee

John J. Byrne, *Chairman*
Paul J. Hanna
William B. Snyder
Frank A. Weil

The Investment Committee approves broad investment policies and guidelines and assists the Investment Department in their development; approves and monitors the investment portfolio and its performance relative to comparative standards; and authorizes the purchase, conversion, transfer and sale of stocks, bonds and of other securities within guidelines prescribed by the Board of Directors.

Social Responsibility Committee

Joseph J. Sisco, *Chairman*
Paul J. Hanna
Melvin M. Payne
William B. Snyder

This committee oversees the fulfillment of social responsibilities to shareholders, policyholders, employees and the general public; reviews the Affirmative Action Program with respect to employment and upward mobility of females, minorities and disadvantaged segments of society; monitors involvement in political action, particularly with respect to state legislative affairs; and reviews our responsibilities to society in the providing of insurance services and allocating charitable contributions.

Directors and Officers

Government Employees Insurance Company

John J. Byrne *°†
Chairman and Chief Executive Officer

William B. Snyder *°†
President

Eugene J. Meyung °
Executive Vice President

Senior Vice Presidents

Richard C. Lucas *°†
James E. Reagan °
Louis A. Simpson *°†
Donald K. Smith *°†
General Counsel

Vice Presidents

Martin Adler
Actuary
Ralph L. Belford, III
Marion E. Byrd
Edward J. Clark
Theodore F. Culp
DeWayne C. Cuthbertson
Herbert L. DePrenger
Thomas N. Exarhakis
Alvin Kaltman
Merrill D. Knight, III
Ernest M. Lucas
Legislative Counsel
Donald D. Messmer
Olza M. Nicely
Richard A. Ollen
Ross D. Pierce
W. Alvon Sparks, Jr. *
Walter R. Tinsley
Edward H. Utley

Treasurer

Albert M. McKenney

Medical Director

Elaine W. Murphy, M.D.

Secretary

John M. O'Connor *

Criterion Insurance Company

John J. Byrne
Chairman

Harry I. Bond °†
President

Charles T. Connolly †
Senior Vice President Actuary

Vice Presidents

Marie G. Baker
Daniel J. Coughlin, III
DeWayne C. Cuthbertson
Robert L. Green
Treasurer
Ernest M. Lucas
Legislative Counsel
Richard C. Lucas
Gerald F. O'Neal
Clark E. Simcock
Louis A. Simpson
Paul A. Sullivan, Jr.

Medical Director

Elaine W. Murphy, M.D.

Secretary

John M. O'Connor

Criterion Investment Services Company

John J. Byrne
Chairman

William B. Snyder
President

Richard A. Ollen
Executive Vice President

Vice Presidents

Terence J. Smith
Louis A. Simpson

Richard C. Lucas
Controller and Treasurer

Donald K. Smith
General Counsel and Assistant Secretary

John M. O'Connor
Secretary

Resolute Group, Inc.

John J. Byrne
Chairman

David M. Evans
President

Michael L. Horigan
Executive Vice President

Vice Presidents

A. Harrison Brennan
Assistant Secretary
Francis J. DeMayo
Facultative
K. Thomas Kemp
Treasurer and Chief Financial Officer
Richard C. Lucas
Control
Louis A. Simpson
Investments
James F. Ziegler
International Treaty and Assistant Secretary
John M. O'Connor
Secretary

* Executive Officer of GEICO Corporation with titles shown.
° GEICO Director
† Criterion Director

[illegible]

Washington, DC [illegible]

[illegible]

New York, New York [illegible]

[illegible]

Independent Auditors

[illegible]

GEICO
CORPORATION

Washington DC

Exhibit 13

LETTER REGARDING CHANGE IN ACCOUNTING PRINCIPLE

To The Shareholders
GEICO Corporation

We have read the description of the change in the method of accounting for the investment in Government Employees Life Insurance Company by GEICO Corporation and subsidiaries as set forth in Note A of the consolidated financial statements included in the annual report to shareholders for the year ended December 31, 1981. In our opinion, the aforementioned accounting change, with which we concur, is in conformity with generally accepted accounting principles.

Ernst & Whinney

ERNST & WHINNEY

Washington, D. C.
February 19, 1982

Exhibit 22

SUBSIDIARIES OF GEICO CORPORATION

(1) Government Employees Insurance Company (GEICO) is a wholly-owned District of Columbia property, casualty and liability insurer.

(2) GEICO Properties, Inc. (GPI) is a Delaware real estate holding company wholly-owned by GEICO.

(3) GEICO Washington Properties, Inc. (GWPI) is a Delaware real estate holding company wholly-owned by GEICO.

(4) Criterion Insurance Company (Criterion) is a District of Columbia property and casualty insurer wholly-owned by GEICO.

(5) Government Employees Life Insurance Company (GELICO), a majority-owned subsidiary of GEICO, is a District of Columbia life and health insurer.

(6) Government Employees Life Insurance Company of New York (GELICONY), a wholly-owned subsidiary of GELICO, is a New York life and health insurer.

(7) Government Employees Financial Corporation (GEFCO), a majority-owned subsidiary of GEICO, is a Colorado corporation primarily engaged in the business of consumer finance. GEFCO itself has a number of subsidiaries engaged in various aspects of the finance, industrial banking and insurance brokerage businesses which are incorporated in various states and the Federal Republic of Germany.

(8) GEICO Facilities Corporation is a wholly-owned Delaware property company.

(9) Resolute Group, Inc. (RGI) is a wholly-owned Delaware general business corporation.

(10) Resolute Reinsurance Company, a wholly-owned subsidiary of RGI, is a New York domiciled insurer in the process of organization.

(11) Resolute Management Corporation, a wholly-owned subsidiary of RGI, is a New York management corporation.

(12) Criterion Investment Services Company is a wholly-owned Delaware registered investment adviser and broker-dealer.

END

Quick Reference Chart to Contents of SEC Filings

REPORT CONTENTS	10-K	19-K 20-F	10-Q	8-K	10-C	6-K	Proxy Statement	Prospectus	Registration Statements '34 Act F-10	'34 Act 8-A 8-B	'33 Act "S" Type	ARS	Listing Application	N-1R	N-1Q
Auditor															
☐ Name	A	A	■				■	A	A		A	A	■	A	
☐ Opinion	A	A	■						A			A		A	
☐ Changes				A			■								
Compensation Plans															
☐ Equity	■		■				F	F	A		F		■	■	
☐ Monetary	■		■					F	A		F		■		
Company Information															
☐ Nature of Business	A	A				F		A	A		A	■	■		
☐ History	F	A						A			A	■	■		
☐ Organization and Change	F	F		A	■	F	■	A		F	A	■			
Debt Structure	A					F	■	A	A		A	A		A	
Depreciation & Other Schedules	A	A				F		A	A		A				
Dilution Factors	A	A		F		F		A	A		A	A			
Directors, Officers, Insiders															
☐ Identification	F	A				F	A	A	A		A	F			
☐ Background	■	A				F	F	A	■		A	■			
☐ Holdings	■	A		■			A	A	A		A				
☐ Compensation	■	A		■			A	A	A		A				
Earnings Per Share	A	A	A			F			A			A		A	
Financial Information															
☐ Annual Audited	A	A							A			A		A	
☐ Interim Audited		A					■	■			■				
☐ Interim Unaudited	■		A	■		F		F			F				
Foreign Operations	A						■	A	A		A	■	F		
Labor Contracts		■		■			■		F		F				
Legal Agreements	F	■		■					F		F				
Legal Counsel				■				A			A		■		
Loan Agreements	F		F	■			■		F		F			■	
Plants and Properties	A	F		■				F	A		F	■			
Portfolio Operations															
☐ Content (Listing of Securities)															A
☐ Management														A	
Product-Line Breakout	A							A			A	■			
Securities Structure	A	A			■			A	A		A				
Subsidiaries	A	A					■	A	A		A	■	■		
Underwriting				■				A	A		A				
Unregistered Securities	■			■			■	F			F				
Block Movements	■			F			■		A				■		

Legend **A** – *always included - included - if occured or significant* **F** – *frequently included* ■ *special circumstances only*

TENDER OFFER/ACQUISITION REPORTS	13D	13 G	14D-1	14D-9	13E-3	13E-4
Name of Issuer (Subject Company)	A	A	A	A	A	A
Filing Person (or Company)	A	A	A	A	A	A
Amount of Shares Owned	A	A				
Percent of Class Outstanding	A	A				
Financial Statements of Bidders			F		F	F
Purpose of Tender Offer			A	A	A	A
Source and Amount of Funds	A		A		A	
Identity and Background Information			A	A	A	
Persons Retained Employed or to be Compensated			A	A	A	A
Exhibits	F		F	F	F	F

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MANUALLY SIGNED AND
SEQUENTIALLY NUMBERED
[174 PAGES]

INDEX TO EXHIBITS - PAGE 19

ORIGINAL
B 09-406

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended
December 26, 1981

Commission File No. 1-1066

General Host Corporation

Incorporated in the State of New York

IRS Employer Identification
No. 13-0762080

Principal Executive Offices:
22 GATE HOUSE ROAD, STAMFORD, CT. 06902
Telephone Number: (203) 357-9900

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	New York Stock Exchange and Pacific Stock Exchange
5% Convertible Subordinated Debentures, due June 15, 1988	New York Stock Exchange and Pacific Stock Exchange
6% Cumulative Income Subordinated Debentures, due December 1, 1990	New York Stock Exchange
7% Subordinated Debentures, due February 1, 1994	New York Stock Exchange and Pacific Stock Exchange
12 3/4% Convertible Subordinated Debentures, due June 15, 1999	New York Stock Exchange and Pacific Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether General Host Corporation, the Registrant, (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES __X__. NO _____.

Aggregate market value of General Host Corporation's Common Stock, $1.00 par value, held by non-affiliates of General Host as of March 8, 1982: $38,870,034.*

Number of shares of General Host Common Stock outstanding as of March 8, 1982: 4,682,054.**

DOCUMENTS INCORPORATED BY REFERENCE

Documents of Which Portions Are Incorporated in Form 10-K	Parts of Form 10-K Into Which Portions of Documents are Incorporated
General Host Corporation Annual Report for 1981 (hereinafter "the Company's Annual Report for 1981")	Part I, Item 1 Part II, Items 5, 6, 7 and 8 Part IV, Item 11
General Host Corporation Proxy Statement for Annual Meeting of Shareholders to be held on April 21, 1982 (hereinafter "the Company's 1982 Proxy Statement")	Part I, Item 4 Part III, Items 9 and 10

* Does not include market value of Common Stock held by directors and officers who may be deemed to be affiliates of General Host which aggregates $10,291,533.

** Unless otherwise indicated, all references to shareholdings herein and in documents incorporated by reference reflect a two-for-one split of the Company's Common Stock which was accomplished on February 5, 1982, by distribution of one additional share of Common Stock for each share held by shareholders of record on January 25, 1982.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General Host Corporation (hereinafter "General Host," the "Company" or "Registrant") is engaged in two basic areas of business; namely, specialty retailing and food products. Unless otherwise stated, all statistics in this Item were compiled as of December 26, 1981.

SPECIALTY RETAILING

The Company's Specialty Retailing businesses consist of specialty food store operations conducted by its Hickory Farms of Ohio Division and convenience store operations conducted by its Little General Stores and Hot Sam Companies Divisions.

Specialty Food Stores

Hickory Farms of Ohio Division

The Hickory Farms of Ohio Division operates a total of 224 stores, with an additional 333 stores operated by independent franchisees under license or sublease agreements with the Company. All of these stores are generally located in enclosed shopping malls in 48 states and Canada.

Hickory Farms stores sell a variety of specialty food products, including natural and processed cheeses, smoked meats, breads, cakes, crackers, jams, jellies, candy and seasonings. Products generally are marketed under Hickory Farms' various trademarks, the most prominent of which is "Beef Stick." Gift packages containing several different combinations of specialty food products represent a major portion of sales during Hickory Farms' principal season, the Christmas holidays. Sales of gift packages are enhanced by arrangements among all Hickory Farms stores which allow customers to order gift packages in one geographic locale for delivery in another. Hickory Farms manufactures and sells several varieties of mustard and spices to its franchised stores and through Company operated stores. The Cudahy Specialty Foods Co. Division of the Company's wholly-owned subsidiary, Cudahy Company, is an approved supplier of loaf pepperoni, stick pepperoni and Hickory Farm's principal meat product, a summer sausage sold under the trademark "Beef Stick". All other food products sold in Hickory Farms stores are purchased by the Company and its franchisees from various suppliers. Domestic cheese is supplied by approximately 17 different processors, each of whom generally produces one type. Approximately 9% of the cheese sold in the stores is imported from foreign processors. The Company believes that adequate alternative sources of Hickory Farms' food products are available. Franchisees may purchase certain supplies, including paper bags, containers, boxes and packing, advertising and promotional materials, from Hickory Farms. Lists of approved vendors and merchandise and suggested selling prices are provided by Hickory Farms to franchisees; however, franchisees may purchase from any approved vendor they choose and sell at whatever prices they deem appropriate. Franchisees are required only to carry merchandise of a type, quality, quantity and variety consistent with Hickory Farms' standards.

Hickory Farms stores generally occupy leased locations in areas of major shopping mall traffic and are open during the same hours as other stores in the malls. The seasonality of the Hickory Farms business is a result of its dependence upon shopping activity in the malls in which stores are located and the increased demand for gift packages and certain other specialty food products during the Christmas holidays. Approximately 60% of the annual sales of Company-operated Hickory Farms stores occur in the last fiscal quarter of each year and over 45% occur in December. An increased amount of inventory must be carried to meet this seasonal sales load. To accommodate the heightened demand of the 1981 Christmas season, Hickory Farms stores were temporarily supplemented by 1,012 satellite locations (464 of which were Company-operated), consisting of kiosks (free-standing units in central mall space) and temporary store front locations in malls and strip shopping centers, intended to attract customer traffic which might not pass store locations, and outdoor modular sales units (mobile structures located in parking areas). Satellite units generally carry limited inventory since they concentrate on sales of gift packages.

The retail food business is highly competitive. Within each shopping center mall there usually is only one other specialty retailing food business of the kind conducted by Hickory Farms. As a result, Hickory Farms encounters competition in connection with the acquisition of suitable locations in prime shopping malls. In addition, Hickory Farms is subject to substantial competition from similar products sold by (1) specialty food stores situated in local and regional shopping centers and (2) specialty food departments of major department stores and local and chain food stores.

In its franchise program, Hickory Farms selects qualified applicants and trains those who will personally operate a store. The franchisee pays an initial franchise fee, a portion of which covers the costs of (i) training, (ii) travel, meals and lodging of trainees and (iii) preparation of the store for opening. Hickory Farms also receives, as an ongoing royalty fee, a percentage of the gross receipts of each franchised store, which constitutes the charge for, among other things, the franchisee's license to use the Hickory Farms operating system and trademarks and certain continuing services provided by Hickory Farms. An additional percentage of gross receipts periodically is paid by each franchisee into a trust fund to cover the cost of national advertising. In addition, franchisees generally pay directly for business licenses and permits and remit to shopping mall landlords, along with rental payments, their proportionate share of common area maintenance expenses, real estate taxes and insurance costs. Each store is required to maintain a specified minimum level of inventory.

The franchise arrangement generally provides for a term of ten years, but may be terminated at any time by Hickory Farms for good cause. In the event a franchisee desires to transfer its franchise, Hickory Farms has a right prior to all others to acquire the franchisee's interest. Several states in which Hickory Farms grants franchises have enacted legislation regulating the offer, sale, termination and renewal of franchises and the Federal Trade Commission has adopted a trade regulation rule regarding disclosure to prospective franchisees. To date, Hickory Farms has experienced no difficulty in complying with these regulations.

Leases of Company-operated Hickory Farms stores generally have terms of ten years, although some run for fifteen years or longer; several contain options to renew. Rental fees are generally a stated dollar amount, plus a percentage of the amount by which gross sales exceed a specified level. Hickory Farms also leases its headquarters, gift pack assembly center and warehouse facility at Maumee, Ohio; the Company has options to purchase at certain times during the term of the lease. Offices and other gift pack assembly centers at Hayward, California and Rochester, New York and principal warehouses in Denver, Colorado, Indianapolis, Indiana, and Houston, Texas also are leased by the Company. In the aggregate, the fixtures and equipment of Hickory Farms, owned or leased, are in good condition, and adequate for their purposes.

The Company's Hickory Farms Division normally employs approximately 3,600 people and at the height of the Christmas season employs over 10,000 people.

Convenience Stores

Little General Stores Division

The Company's Little General Stores Division, headquartered in Tampa, Florida, operates 460 convenience stores in seven states, nearly all of which are located in the southern and southeastern United States.

Little General convenience stores are small, self-service markets primarily handling rapid turnover items. Principal food products sold include dairy products, soft drinks, bread and beer. In addition to foods, the stores sell cigarettes, various health and beauty aids and household items. Gasoline is sold at self-service pumps at 208 stores. All of the stores operate snack centers for fast food items. Little General stores are usually located in dense residential areas along routes of homeward bound traffic. Locations are generally on major traffic arteries and are designed primarily to serve identifiable market areas. The stores principally serve the consuming public within one mile of the individual locations. Sales are self-service, in-store, cash transactions. The stores are usually in operation 365 days a year, and the majority of them now extend their hours beyond the traditional 7:00 a.m. to 11:00 p.m. operating times, with an increasing number open 24 hours a day. For the most part, the Little General Stores Division does no warehousing, but buys products for resale from others.

A total of four of the Little General stores, all of which are located in Pennsylvania, are operated under franchises granted by the Company. Little General is the owner or primary lessee of these franchised stores.

In addition to its convenience store business, Little General distributes milk and liquor to certain of its own stores and also operates an ice plant which sells approximately 74% of its product to outside customers.

The convenience store industry is highly competitive in all operating areas. In all market areas, Little General directly competes with a number of major companies.

Various supermarkets, small groceries and fast-food restaurants also compete with stores operated by Little General for sales of similar products.

The business of the Little General Stores Division may be significantly affected by economic conditions in the southeastern United States and, in particular, Florida. Also, cash and inventory control are important aspects of the convenience store business.

Little General leases 78% of its store locations; new store locations may be leased or purchased depending upon the Company's assessment of the relative advantages of each approach. Leases generally run ten to twenty year and most contain renewal options for five to ten years. Most leases are for fixed rentals, but in some leases the fixed rental is increased if gross sales in the particular store exceed a pre-established amount. The Company owns Little General's ice-making plant in Tampa, Florida and leases almost all of its 187 vehicles.

In the aggregate, the buildings, fixtures and equipment of Little General, owned or leased, are in good condition. The average store facility is adequate and suitable for its purposes.

Little General employs approximately 2,500 people.

Hot Sam Companies Division

Hot Sam operates 130 retail stores at leased locations in enclosed shopping malls in 26 states. Under the registered trademark "Hot Sam," all of the stores sell freshly baked soft pretzels. The pretzels are purchased from three major suppliers and are baked at individual Hot Sam stores just prior to sale. Pretzels, paper goods and other products and supplies are distributed to the Hot Sam stores through several independent regional distributors. Additional products marketed in various Hot Sam stores include soft drinks, and to a limited extent, a variety of other snack foods intended to accommodate regional tastes and individual mall requirements as permitted by use clauses in store leases. In addition, pretzels are sold with chocolate, cheese and other toppings. The stores generally occupy small retail locations in heavy traffic areas of large shopping malls and are open during the same hours as other stores in the malls. Although the Company believes that it is the largest specialized vendor of freshly baked soft pretzels in the United States, competition is encountered at each location from other stores within the malls selling snack food items, including in some cases soft pretzels. The Company's prices are competitive and in some cases higher than other businesses offering soft pretzels for sale within the same malls. The Hot Sam business is seasonal and is directly related to shopping activity in the malls in which the stores are located. The busiest periods generally are the Christmas, back-to-school and Easter seasons.

Hot Sam leases its headquarters in Tampa, Florida. The leases of the stores operated by Hot Sam generally run from five to ten years, although some have terms of fifteen years and longer. Most leases are renewed at the expiration of their terms. Some leases contain clauses which limit the sale of products to the line presently sold at a Hot Sam location. Rental fees are generally fixed amounts, plus a percentage of the amount by which gross sales exceed pre-established levels.

Hot Sam employs approximately 700 people.

FOOD PRODUCTS

The Company's Food Products businesses consist of frozen food products operations conducted through the Company's Van de Kamp's Frozen Foods and Tambellini Foods Divisions; dry sausage, canned meats and natural sausage casings operations conducted through the Cudahy Specialty Foods Co. Division of the Company's wholly-owned subsidiary, Cudahy Company; and salt and agricultural products operations conducted through American Salt Company and Milk Specialties Company, both of which are divisions of Cudahy Company.

During 1981, the Company substantially completed the disposition of the fresh and processed meat business segment of Cudahy Company (see "Note 4: Discontinued Operations" of "Notes to Financial Statements" which appears on page 29 of the Company's Annual Report for 1981).

Frozen Food Products

Van de Kamp's Frozen Foods Division

The Van de Kamp's Frozen Foods Division manufactures and sells a line of frozen convenience foods under its registered trademark "Van de Kamp's." Its principal products are frozen fish entrees and dinners competing in the "battered" and "breaded" frozen fish segments sold under the "Van de Kamp's" trademark. When extra spices are added to the battered fish, the frozen entrees produced are sold under a combination of the "Van de Kamp's" and "Country Seasoned" trademarks. Van de Kamp's also produces Mexican dinners and entrees and other frozen food products and sells pizza manufactured for it by others. In 1981, Van de Kamp's expanded its "Mexican Classics" line of Mexican specialty entrees into several new markets.

Van de Kamp's frozen convenience food line is distributed throughout the United States, exclusively through brokers. The frozen foods business is intensely competitive, and Van de Kamp's frozen food products are sold in competition with products manufactured by a large number of well-established companies, national, regional and local in scope. Van de Kamp's competes primarily on a national basis in the frozen prepared fish and Mexican food markets, and on a more regional basis in the frozen pizza market. In the frozen prepared fish market, there are more than twenty competitors, four of which, including Van de Kamp's, are major national brands. There are more than six major competitors and many regional brands in the frozen Mexican food market. In the frozen pizza market, there are a substantial number of major national, regional and local brands. Trade and consumer promotions and media advertising are the principal means of competition in Van de Kamp's area of the frozen foods business.

Van de Kamp's currently operates two plants. A frozen food plant in Santa Fe Springs, California is leased; the Company has an option to purchase at the expiration of the lease. Another frozen food plant, in Erie, Pennsylvania, is owned, subject to mortgages. Van de Kamp's headquarters in Long Beach, California are leased.

All of the facilities are modern, functional and well-suited to supply production on a national basis. Productive capacity at both plants is generally adequate for present operations.

Van de Kamp's purchases most of its raw fish from foreign sources and its other principal raw materials from domestic suppliers. All of these raw materials are generally available as required.

The Van de Kamp's Frozen Foods Division presently has approximately 600 employees, slightly less than half of whom are represented by unions.

Tambellini Foods Division

The Tambellini Foods Division manufactures and markets Italian and, to a lesser extent, other ethnic refrigerated and frozen food products throughout the northeastern United States, principally under the trademark "Tambellini." Tambellini distributes to retailers directly and through grocery warehouses, and to institutional customers through food service distributors. Tambellini competes with several major well-established companies in each market segment, largely on the basis of price, service, trade promotions and media advertising.

Tambellini manufactures its products in a modern frozen food facility located in Pittsburgh, Pennsylvania. This facility is leased with an option to purchase, for a nominal payment, upon termination of the lease term. All raw materials are readily available from a number of sources. The capacity of Tambellini's plant is adequate for present operations. Tambellini has approximately 100 employees.

Specialty Foods Products

Cudahy Specialty Foods Co.

The operations of the Cudahy Specialty Foods Co. Division encompass primarily the production and marketing of refrigerated canned meats and dry sausage. Cudahy Specialty Foods also acts as a national distributor for foreign-sourced natural sausage casings. Canned meats are distributed under a variety of trademarks including "Cudahy" and "Holiday." A full line of specialty dry sausage products, such as Genoa and hard salami, pepperoni and prosciutto ham, is distributed principally under the trademarks "Margherita" and "Caruso."

Canned meats and dry sausage products are distributed through Cudahy Specialty Foods' own sales force as well as brokers and independent distributors.

Canned meats and dry sausage products are sold to manufacturers, wholesalers and major chain food stores. The canned meat operations encounter substantial competition from importers as well as regional and national producers. Cudahy Specialty Foods' dry sausage products are sold in competition with products manufactured by many national and regional companies.

Cudahy Specialty Foods' dry sausage products are manufactured at a modern plant in Omaha, Nebraska. Plants located in Independence and West Union, Iowa process canned meat products. These processing facilities are owned by Cudahy Company and are generally free of encumbrances. The casing business leases office space in Chicago, Illinois. A distribution center in Hartford, Connecticut and the division's office headquarters in Phoenix, Arizona are also leased. The Company believes that the buildings in which Cudahy Specialty Foods' operations are conducted are well-maintained and generally suitable for present operations. Processing machinery and equipment, substantially all of which is owned, is well maintained and suitable for Cudahy Specialty Foods' operations.

Raw materials are normally purchased from major hog and cattle slaughterers, located primarily in the Midwest, and are generally available as required. Finished products are marketed throughout the year, but significantly increased marketing activity is experienced around the major holidays.

Cudahy Specialty Foods employs approximately 500 people. About 75% are hourly paid employees, substantially all of whom are covered by collective bargaining agreements with various unions. The labor contract with the union which represents the hourly employees of Cudahy Specialty Foods' Omaha plant is a three-year agreement which expires in August, 1982.

Salt and Agricultural Products

Milk Specialties Company

Milk Specialties Company's principal business is the processing of dairy by-products, fats, vitamins and similar items into milk replacer formulae and ingredient combinations sold to the feed and farming industries. Milk replacer is fed by dairy farmers to calves in place of whole milk. Processing procedures involved are fractionation, evaporation, drying, wet and dry blending and packaging. A key raw material required for basic processing is whey procured in liquid form from 40 to 50 cheese factories in Wisconsin and in dry form from a limited number of large cheese processors, which sources generally provide an ample supply to meet processing needs. Casein is another raw material used in the business. It is from time to time in short supply, in part because it is subject to foreign governmental support or subsidy programs relating to dairy production; however, there are alternative protein sources which are be utilized.

The majority of Milk Specialties' products are designed and formulated to provide proper nutrition to very young animals, primarily calves, mink, fox and horses. Milk Specialties' principal product, milk replacer, is sold throughout the United States by its own sales personnel and several sales agents. A significant portion of the sales are made to feed manufacturers who market the products to livestock producers through their own sales forces under their private labels. The Company believes that Milk Specialties is one of the largest companies in the milk replacer industry. Due to its use as a milk substitute, milk replacer sales are dependent to a degree upon the level and amount of federal price support programs for whole milk. Depending upon their nature and scope, reductions in these programs might adversely affect Milk Specialties to an extent which cannot be predicted. Milk Specialties competes in its markets principally on the basis of nutrition expertise, product quality and service.

Milk Specialties also manufactures and distributes mink and fox feed directly to ranchers under its own "National" trademark. Fish meal and other ingredients are formulated and blended into both cereal and pelletized foods suitable for feeding mink during their entire life cycle. The Company believes that Milk Specialties is one of the largest mink and fox feed manufacturers in the United States. Milk Specialties' mink and fox feeds are marketed in the United States, Canada and, to a relatively limited extent, in Europe. Milk Specialties is actively negotiating a licensing agreement with a Danish feed manufacturer to expand mink and fox feed sales activities into northern Europe.

Milk Specialties also produces a line of veal feed products, including a finisher for milk fed veal. In addition, Milk Specialties produces a milk based supplement in pelletized form for young horses which is marketed throughout the United States and abroad to horse breeders.

Milk Specialties' headquarters are located in Dundee, Illinois, with principal manufacturing operations in Dundee and Huntley, Illinois, and Boscobel, Browntown and New Holstein, Wisconsin. The Company owns the Huntley, Boscobel, Browntown, and New Holstein plants; other than Huntley, all of these plants are free from encumbrances. The Dundee headquarters and plant are leased. The Huntley plant, which utilizes new technology for the production of milk replacer, was opened in late 1981. Milk Specialties' facilities provide adequate productive capacity for its needs. Improvements and modifications to the Browntown plant operation and that of its waste treatment plant were made in 1981 to meet permit requirements of the Wisconsin Department of Natural Resources. Planned expenditures in 1982 at the Boscobel waste treatment plant should resolve any state permit requirements at that facility.

Milk Specialties employs approximately 250 people, of whom approximately 29% are represented by labor organizations.

American Salt Company

American Salt Company mines rock salt and produces evaporated or granulated salt and solar salt. The headquarters of the Company are located in Kansas City, Missouri, with production facilities located at Lyons, Kansas and on the Great Salt Lake, near Grantsville, Utah. The Lyons facility is fully integrated, consisting of an underground rock salt mine and a vacuum pan evaporation plant which produces granulated salt. The Grantsville plant, where salt is produced by solar evaporation of salt water from the Great Salt Lake, consists of concentrating and crystallizing ponds, a washing station and a bulk storage area. Both production locations have refinery mills for sizing, mixing and packaging products and are served by office, laboratory and maintenance facilities.

Major marketing classifications in the Company's salt product line are water conditioning, industrial, agri-salt, highway de-icing and food grade salt. The industrial salt line consists of products which are formulated and packaged for specific uses, such as meat packing, dairy, canning, milling and food processing applications. In the agri-salt line, salts are formulated with various trace elements as an essential part of livestock diet. The food grade salt line consists of table salt and food processing salt products. Products are distributed on a direct shipment basis from plant locations to customers, and are sold using the Company's own sales force, under the Company's name and private label brands.

American Salt's marketing area is generally bounded on the west by the Pacific Ocean (excluding California), on the north by the Canadian border, and on the east by the Indiana-Illinois border. This marketing area extends southward to include New Mexico, the Texas Panhandle, Oklahoma and the northern half of Arkansas. The industry is highly competitive, and price, transportation costs and reliability of service are principal competitive factors. American Salt's market position is enhanced by the fact that it is a cost efficient producer of all three types of salt - rock, granulated and solar.

The principal properties of American Salt Company consist of leased office space in Kansas City; a salt mine and processing plant in Lyons, Kansas where American Salt owns the plant and 527 acres and leases mineral rights to an additional 1,927 acres; and salt ponds and a processing plant near Grantsville, Utah, where American Salt owns the plant and approximately 15,000 acres and leases an additional 5,561 acres. American Salt's principal fuel for granulated salt production and drying solar salt is natural gas supplied by interstate and intrastate suppliers. In January 1981, American Salt acquired a small local pipeline and related rights to natural gas which supplement these sources in Kansas. Residual fuel oil is used as a stand-by fuel supply in Kansas and propane is used as a standby fuel supply in Utah.

Plant locations and physical facilities are suitable and mineral reserves considerably more than adequate for American Salt's requirements.

American Salt employs approximately 350 people, approximately 60% of whom are represented by unions.

During 1977, the Kansas Department of Health and Environment issued an order directing American Salt to cease polluting state waters at its Lyons plant. Without conceding the Department's water pollution claim, American Salt agreed with the Department to undertake certain improvements suggested by engineering studies submitted by it pursuant to the Department's order. In January, 1982, American Salt received written notification that it was in compliance with the Department's order.

Further Information as to Business Segments

Business segment information for the three fiscal years ended December 26, 1981, which appears on pages 36 and 37 of the Company's Annual Report for 1981, is incorporated by reference in this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

Principal operating facilities owned or leased by the Company are described in Item 1 of this Annual Report on Form 10-K. The Company also owns or leases administrative facilities, including executive offices and a corporate computer center. No material adverse effect is foreseen as a result of the expiration of leases of the Company's facilities.

ITEM 3. LEGAL PROCEEDINGS

In June 1980, a shareholder derivative action was commenced in the Supreme Court of the State of New York, County of New York, entitled Edith Citron v. Harris J. Ashton, Edward H. Hoornstra, C. Whitcomb Alden, Jr., William F. Downey, Weston E. Hamilton, Charles B. Johnson, Joseph P. Binns, Christopher A. Forster, Phillip E. Harley and General Host Corp. (Index No. 11976/80). The action seeks to recover damages allegedly suffered by General Host as a result of its Board of Directors' authorization of transactions consummated on June 10, 1980, in which General Host repurchased 267,850 shares (not restated for the two-for-one stock split referred to above) of its common stock from associates of Clabir Corporation for $25 per share and paid $2.50 per share to Clabir for an option to purchase another 466,450 shares (not restated) at $22.50 per share. The complaint alleges that the damages suffered by General Host by virtue of the transactions are at least $5,140,000, the aggregate amount by which the price on the open market of the common stock on June 10, 1980, is exceeded by (i) the price paid to repurchase common stock from Clabir's associates, (ii) the price of the option acquired from Clabir to repurchase additional shares of common stock and (iii) the price which would be paid to repurchase those shares upon exercise of that option. On November 10, 1980, General Host, after having exercised its option, did in fact purchase the 466,450 shares (not restated) of its common stock from Clabir.

A shareholder derivative action, entitled Colonial Securities Corporation v. Clabir Corporation, et al. was commenced in the Superior Court of the State of Connecticut, Judicial District of Fairfield (at Bridgeport), in June 1980, naming as defendants (in addition to Clabir Corporation) Harris J. Ashton, Edward H. Hoornstra, C. Whitcomb Alden, Jr., Joseph P. Binns, William F. Downey, Weston E. Hamilton, Philip B. Harley, Charles B. Johnson, General Host and eight associates of Clabir. The complaint in this action seeks, on behalf of General Host, to recover unspecified damages from the defendants other than General Host allegedly caused by the above-described transactions between General Host and Clabir and its associates.

A shareholder derivative action entitled Joseph Gottlieb v. Harris J. Ashton, C. Whitcomb Alden, Jr., William F. Downey, Christopher A. Forster, Weston A. Hamilton, Philip B. Harley, Charles B. Johnson, Timothy D. Day, Louis A. Guzzetti, Jr., Clabir Corporation and General Host Corporation (Civil Action File No. B-80-306) was filed in the United States District Court for the District of Connecticut during June 1980. This action seeks an accounting from Clabir and the directors of General Host named as defendants for damages allegedly sustained by General Host and profits allegedly realized by the directors and Clabir as a result of the above-described transactions between General Host and Clabir and its associates. The plaintiff also seeks an accounting for the profits allegedly realized by Clabir in violation of Section 16(b) of the Securities Exchange Act of 1934 as a result of its having purchased common stock within the six months preceding its grant to General Host of an option to repurchase common stock. In addition, an accounting is sought from the officers and directors of General Host named as defendants for damages allegedly sustained by General Host as a result of the surrender by Messrs. Ashton, Guzzetti and Day of options to purchase common stock and payment by General Host to them of the difference between the option price and the market price on the date of surrender.

On April 6, 1977, American Salt Company ("American Salt"), a division of Cudahy Company, was ordered by the Secretary of the Department of Health and Environment of the State of Kansas to cease polluting State waters by discharging high mineral content water from its plant in Lyons, Kansas. Pursuant to the order, American Salt hired an engineering consultant to (a) investigate and study its brine wells and brine transport system, potential sources of groundwater pollution and contaminating storm water run-off and internal plant processes, and (b) prepare a report to the Division of Environment of the Department of Health and Environment (i) recommending any changes which may be necessary to prevent or contain unlawful spills or discharges and (ii) proposing an acceptable timetable for any work determined to be necessary. The report summarizing the consultant's findings and recommendations was submitted to the Department of Health and Environment on August 30, 1978, and American Salt undertook certain improvements recommended in the report. Following further studies pursuant to a directive from the Department in January 1979, and subsequent discussions with Department personnel, American Salt undertook additional improvements. In January, 1982, American Salt received written notification that it was in compliance with the 1977 order of the Department.

On May 31, 1977, an action entitled Cecil W. Miller, et al v. Cudahy Company and General Host Corporation was filed in the United States District Court for the District of Kansas. The complaint alleges that, through negligent design and maintenance of certain salt water injection wells at its Lyons, Kansas plant, American Salt Company has polluted the groundwater underlying plaintiffs' property, which is near the Lyons plant. In addition, certain of the plaintiffs have alleged that American Salt has allowed salt-laden water to pollute the surface of their land. Plaintiffs seek compensatory damages of at least $2,441,250, punitive damages in an amount equal to three times compensatory damages and an injunction against further pollution.

In January 1980, the Wisconsin Department of Natural Resources (the "DNR") issued a public notice that it intended to deny the request of Milk Specialties Company ("Milk Specialties"), a division of Cudahy Company, for reissuance of a permit for discharge of effluents by Milk Specialties' Boscobel, Wisconsin plant, the term of which expired in September 1979. The DNR alleged that, though the Boscobel plant presently may be in compliance with permit requirements, there were earlier violations of the Boscobel permit. Violations of the permit for Milk Specialties' Browntown, Wisconsin plant, despite construction in 1978 of waste treatment facility improvements intended to meet the Browntown plant's permit requirements, were also alleged by the DNR to be a factor requiring denial of the Boscobel permit. According to the DNR, these alleged violations require payment of civil penalties by Milk Specialties before the Boscobel permit can be reissued. Milk Specialties has been advised by counsel that reissuance of the Boscobel permit should not depend on payment of civil penalties for past violations. In March 1980, Milk Specialties, in a formal response to the DNR's notice, requested a public hearing regarding the Boscobel permit. The DNR then referred the alleged violations of both permits to the Wisconsin Department of Justice for enforcement proceedings to collect civil penalties and to require further construction of waste treatment facilities at the Browntown plant.

Since the issuance of the DNR's public notice, Milk Specialties and the DNR have reached a tentative agreement in principle with respect to the Boscobel plant under which Milk Specialties would pay a penalty of $27,500, and install a clarifier and achieve permit limits at the Boscobel plant by July, 1982. Milk Specialties is entitled to continue to operate the Boscobel plant under its expired permit. Milk Specialties and the DNR have also reached to a tentative agreement in principle with respect to the Browntown plant under which Milk Specialties has made certain operational changes which will allow it to meet the present permit and would pay a penalty of $33,750. The permit for the Browntown plant is effective until December 1983. Pending formal settlement of these matters, enforcement proceedings have not been commenced.

Between August and December 1981, unfair labor practice charges under the National Labor Relations Act (the "Act") were filed against the Company and its subsidiary, Cudahy Company, in Regional Offices of the National Labor Relations Board (the "NLRB") in Seattle, Denver, New Orleans and Los Angeles by the United Food and Commercial Workers International Union (the "UFCW") and locals of the UFCW, the International Union of Operating Engineers and the International Brotherhood of Teamsters. All of these charges essentially allege that the closing, on August 28, 1981, of the processing plants and distribution centers previously used by Cudahy in fresh and processed meat operations and the subsequent sale to Bar-S Foods Co., a newly organized corporation owned by former managers of the Company and Cudahy, of certain of the plants and distribution centers were part of a scheme to avoid union contract obligations in violation of the Act. All of the NLRB Regional Offices, other than the Los Angeles Regional Office (in which a charge of a Teamster's local was filed), have ruled that the sale of Cudahy assets was a bona fide transaction which did not violate the Act. Appeals of the Regional Office rulings have been made by each of the filing unions to the General Counsel of the NLRB, before which they presently are pending. The unfair labor practice charge filed in the Los Angeles Regional Office has been referred to the Division of Advice of the NLRB, where it presently remains to be determined along with the charges which are on appeal. Allegations similar to those made to the NLRB also are the subject of two grievance proceedings filed, in July 1981, by locals of the UFCW, in Seattle and Denver, both of which presently are awaiting arbitration. In addition, a civil action was commenced by former employees of Cudahy in the District Court for the City and County of Denver, State of Colorado, in November 1981, and subsequently removed to the United States District Court for the District of Colorado. The complaint in this action alleges that the sale of a Cudahy plant in Denver to Bar-S constituted a conspiracy among the Company, Cudahy and Bar-S to deprive the plaintiffs of their rights under a labor agreement between Cudahy and the UFCW. The plaintiffs seek compensatory damages on behalf of a class which consists of all employees of the Denver plant covered by the labor agreement as well as exemplary damages of $1,000,000.

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

"Information Concerning General Host Securities," which appears on pages 2 through 4 of the Company's 1982 Proxy Statement.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The New York Stock Exchange is the principal market on which the Company's Common Stock is traded. The high and low sales prices per share of Common Stock as traded on the New York Stock Exchange and cash dividends paid per share of Common Stock during each quarter of the last two fiscal years appear in the Quarterly Information on pages 38 and 39 of the Company's Annual Report for 1981 and are incorporated by reference in this Annual Report on Form 10-K.

A description of provisions in the Company's loan agreements which may limit the payment of dividends is incorporated in this Annual Report on Form 10-K by reference to Note 11 to the financial statements, which appears on pages 31 to 33 of the Company's Annual Report for 1981.

At March 8, 1982, there were approximately 4,400 holders of record of the Company's Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Financial Data, which appear on page 40 of the Company's Annual Report for 1981, and Inflation Disclosures, appearing on pages 41 to 43 of the Company's Annual Report for 1981, are incorporated by reference in this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing on pages 22 and 23 of the Company's Annual Report for 1981, and Inflation Disclosures, appearing on pages 41 to 43 of the Company's Annual Report for 1981, are incorporated by reference in this Annual Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements

The Company's consolidated financial statements, together with the report thereon of Price Waterhouse dated February 15, 1982, appearing on pages 24 to 37 of the Company's Annual Report for 1981, are incorporated by reference in this Annual Report on Form 10-K. The Financial Statement Schedules required under Regulation S-X are included in Part IV, Item 11.

The financial statements of Hickory Farms of Ohio, Inc., a consolidated subsidiary of the Company, for the fiscal year ended December 27, 1980, were examined by other independent accountants whose report thereon is included on page 26 of this Annual Report on Form 10-K.

Supplementary Data

The Quarterly Information, appearing on pages 38 and 39 of the Company's Annual Report for 1981, is also incorporated by reference in this Annual Report on Form 10-K.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Directors

Information on Nominee and Incumbent Directors, which appears on pages 4 and 5 of the Company's 1982 Proxy Statement, is incorporated by reference in this Annual Report on Form 10-K.

(b) Executive Officers

NAME	AGE	POSITION AND OFFICE WITH THE COMPANY
Harris J. Ashton	49	Chairman of the Board of Directors, President and Chief Executive Officer
Edward H. Hoornstra	60	Vice Chairman of the Board of Directors and President, Specialty Retailing Group
Louis A. Guzzetti, Jr.	43	Executive Vice President and Secretary
Douglas W. Lauder	44	Vice President of the Company and President, Food Products Group
Anthony D. Battaglia	37	Vice President - Plannning
William H. Bertin	39	Vice President and General Counsel
George K. Gill	42	Treasurer
Richard Gould	41	Vice President - Human Resources
James C. Hull	44	Vice President and Controller

Mr. Ashton was elected Chairman of the Board of Directors in June 1970. Previously, he had been President of General Host since December 1967, and a Director since May 1965. He has been Chief Executive Officer of the Company since October 1969, and has been both Chairman and President since August 1974. Mr. Ashton is a director of The Royal Bank and Trust Company and two mutual funds, Franklin Custodian Funds, Inc. and Franklin Tax Free Income Fund, Inc.

Mr. Hoornstra succeeded Mr. Ashton as President of the Company in June 1970, and served in that position as Chief Operating Officer of the Company until he became Vice Chairman of the Board of Directors of the Company in August 1974. He was appointed President, Specialty Retailing Group in April 1977. Mr. Hoornstra had been Vice President-Operations of General Host since October 1969, prior to which he had been President of the Li'l General Stores Division of General Host.

Mr. Guzzetti has been employed by the Company since January 1973, initially as Corporate Counsel and Assistant Secretary; becoming General Counsel in June 1973; Vice President in July 1974; Secretary in February 1976; Vice President-Administration in April 1977; and Executive Vice President in December 1979.

Mr. Lauder, prior to his appointment as Vice President of the Company and President, Food Products Group, in June 1980, held the position of Vice President, Marketing of the Singer Corporation. He was previously employed by Standard Brands as President of their subsidiary, Lowney's Limited, since 1973, and in 1976 assumed the position of President, Standard Brand's Planters Division.

Mr. Battaglia has been employed by the Company since June 1976, initially as Director, Budgets & Analysis; becoming Director, Operations Analysis in April 1977; Director, Planning & Analysis in August 1977; and Vice President-Planning in December 1979.

Mr. Bertin was initially employed by the Company in October 1973, as Corporate Counsel; he became Senior Attorney in June 1977; Assistant General Counsel in January 1978; and Vice President and General Counsel in December 1979.

Mr. Gill joined the Company in March 1980, as Assistant Treasurer, and subsequently became Treasurer in October 1980. Prior to joining the Company, he had been employed by Chase Manhattan Bank since 1968, first as an Assistant Treasurer; subsequently, as Second Vice President; and then as Vice President.

Mr. Gould, prior to his appointment as Vice President-Human Resources of the Company in April 1979, had been employed by American Express Company since 1972, first as Director, Organization and Manpower Planning; subsequently as Vice President, Organization and Manpower Planning; and then as Vice President, Personnel, Card Division.

Mr. Hull was initially employed by the Company in September 1975 as Controller and was appointed Vice President in December 1978.

ITEM 10. MANAGEMENT REMUNERATION AND TRANSACTIONS

Remuneration and Other Transactions With Management and Others, which appears on pages 6 through 15 of the Company's 1982 Proxy Statement, is incorporated by reference in this Annual Report on Form 10-K.

As of March 25, 1982, there were options outstanding and exercisable for 268,000 shares under the Company's 1974 and 1981 Stock Option Award Plans, as follows:

Number of Shares Under Option	Purchase Price Per Share	Expiration Date
32,000	$ 4.59	December 7, 1987
15,000	$ 5.28	December 13, 1988
14,000	$ 7.38	April 15, 1990
4,000	$ 8.88	June 1, 1990
10,000	$ 9.00	June 8, 1990
193,000	$ 11.22	June 30, 1982
268,000		

As of March 25, 1982, 38 employees held options.

PART IV

ITEM 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report

1. Financial Statements

The consolidated financial statements, together with the report thereon of Price Waterhouse dated February 15, 1982, appearing on pages 24 to 37 of the Company's Annual Report for 1981, are incorporated by reference in this Annual Report on Form 10-K.

2. Financial Statement Schedules

The following financial statement schedules should be read in conjunction with the consolidated financial statements included in the Company's Annual Report for 1981. Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Schedules:			Page No.
II	-	Amounts receivable from related parties, underwriters, promoters and employees other than related parties	27
V	-	Property, plant and equipment	28
VI	-	Accumulated depreciation and amortization of property, plant and equipment	28
VII	-	Guarantees of securities of other issuers	31
VIII	-	Valuation and qualifying accounts	32
X	-	Supplementary income statement information	35

The individual financial statements of the Company have been omitted inasmuch as the Company is primarily an operating company and all subsidiaries included in the consolidated financial statements are wholly-owned and are not indebted to any persons, other than the Company or its consolidated subsidiaries, in amounts which in the aggregate exceed 5% of total consolidated assets at December 26, 1981.

The financial statements of Hickory Farms of Ohio, Inc., a consolidated subsidiary of the Company, for the fiscal year ended December 27, 1980 were examined by other independent accountants whose report thereon is included on page 26 of this Annual Report on Form 10-K.

Financial statements of 50% or less owned persons have been omitted since in the aggregate they would not constitute a significant subsidiary.

3. **Exhibits**

(3) Articles of Incorporation and By-Laws

(a) Restated Certificate of Incorporation of the Company, filed November 13, 1968. Incorporated by reference to the Company's Form S-1 Registration Statement No. 2-37709, filed June 19, 1970, Exhibit 3.1.

(b) Certificate of Amendment, filed January 24, 1969, of the Company's Restated Certificate of Incorporation. Incorporated by reference to the Company's Form S-1 Registration Statement No. 2-37709, filed June 19, 1970, Exhibit 3.2.

(c) Certificate of Amendment, filed October 30, 1969, of the Company's Restated Certificate of Incorporation. Incorporated by reference to the Company's Form S-1 Registration Statement No. 2-37709, filed June 19, 1970, Exhibit 3.3.

(d) Certificate of Change, filed June 15, 1977, of the Company's Restated Certificate of Incorporation. Incorporated by reference to the Company's Annual Report on Form 10-K, for its fiscal year ended December 27, 1980, Exhibit 3(d).

(e) Composite Certificate of Incorporation of the Company, As Amended. Incorporated by reference to the Company's Annual Report on Form 10-K, for its fiscal year ended December 27, 1980, Exhibit 3(e).

(f) By-Laws of the Company, as amended as of December 18, 1975. Incorporated by reference to the Company's Form S-16 Registration Statement No. 2-56148, filed April 26, 1976, Exhibit 1.4.

(4) Instruments Defining the Rights of Security Holders, Including Indentures

(a) Indenture, dated as of May 15, 1980, between the Company and The First Jersey National Bank, Trustee, covering 12-3/4% Convertible Subordinated Debentures due June 15, 1999. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended June 14, 1980, Exhibit VI.

(b) Credit Agreement, dated as of September 27, 1979, between the Company and The Chase Manhattan Bank, N.A., as Agent. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended October 6, 1979, Exhibit V.

(c) First Amendment Agreement, dated as of October 6, 1980, of Credit Agreement, dated as of September 27, 1979, between the Company and The Chase Manhattan Bank, N.A., as Agent. Incorporated by reference to the Company's Annual Report on Form 10-K, for its fiscal year ended December 27, 1980, Exhibit 4(e).

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(d) Second Amendment Agreement, dated as of December 26, 1980, of Credit Agreement, dated as of September 27, 1979, between the Company and The Chase Manhattan Bank, N.A., as Agent. Incorporated by reference to the Company's Annual Report on Form 10-K, for its fiscal year ended December 27, 1980, Exhibit 4(f).

(e) First Amendment Agreement, dated as of December 26, 1980, of Term Loan Agreement, dated as of September 23, 1980, between the Company and Manufacturers Hanover Trust Company. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended March 21, 1981, Exhibit 4(b).

(f) Amendment, dated February 25, 1981, effective December 26, 1980, to Loan Agreement, dated June 29, 1979, between the Company and Union Bank. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended March 21, 1981, Exhibit 4(c).

(g) Amendment, dated February 25, 1981, effective December 26, 1980, of Credit Agreement, dated September 27, 1977, between the Company and First National Bank of Toledo. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended March 21, 1981, Exhibit 4(d).

(h) Credit Agreement, dated September 13, 1981, between Registrant and Credit Suisse. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended October 3, 1981, Exhibit 4(a).

(i) Credit Agreement, dated as of October 16, 1981, between General Host Corporation and RBC Finance B.V.

(10) Material Contracts

(a) Employment Agreement, dated as of February 22, 1979, between the Company and Harris J. Ashton. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 30, 1978, Exhibit (2) (xiii).

(b) Agreement, dated as of May 8, 1979, between the Company and Harris J. Ashton. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 27, 1980, Exhibit 10(b).

(c) Employment Agreement, dated as of August 15, 1977, between the Company and Edward H. Hoornstra, as amended February 7, 1978. Incorporated by reference to the Company's Post-Effective Amendment No. 4, filed May 8, 1978, to Form S-1 Registration Statement No. 2-52654, Exhibit 13.4.

(d) Employment Agreement, dated as of May 1, 1979, between and Company and Louis A. Guzzetti, Jr. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 29, 1979, Exhibit (2) (ix).

(e) Agreement, dated as of May 8, 1979, between the Company and Louis A. Guzzetti, Jr. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 27, 1980, Exhibit 10(e).

(f) Agreement, dated January 3, 1980, between the Company and Del-Tem Corporation, a company wholly-owned by Edward H. Hoornstra. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 27, 1980, Exhibit 10(h).

(g) Agreement, dated as of December 3, 1980, between the Company and Donald P. Berens. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 27, 1980, Exhibit 10(p).

(h) 1982 Executive Compensation Program.

(i) 1981 Stock Option Award Plan. Incorporated by reference to the Company's Proxy Statement for Annual Meeting of Shareholders held on April 22, 1981, Exhibit A.

(j) Insured Medical Expense Reimbursement Plan pursuant to which certain officers and their dependents receive additional coverage of up to $10,000 per year for medical expenses not covered by the Company's group health insurance. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 27, 1980, Exhibit 10(v).

(11) Computation of Fully Diluted Earnings Per Share.

(13) The Company's Annual Report for 1981 (such Report, except for those portions which are expressly incorporated by reference herein, is not to be deemed filed as part hereof).

(22) Subsidiaries

(With the exception of the Company's Annual Report for 1981, none of the documents referred to in the foregoing list of Exhibits is being furnished with this Annual Report on Form 10-K; however, documents referred to in the list of Exhibits will be furnished upon receipt by the Secretary of the Company, at the Company's principal executive offices referred to on the cover of this Form 10-K, of written requests therefor accompanied by a fee covering the Company's reasonable expenses of $3.00 for handling and postage, plus $.10 per page for photocopying.)

(b) <u>Reports on Form 8-K</u>

No reports on Form 8-K were filed by the Company during the fourth quarter of its fiscal year ended December 26, 1981.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAL HOST CORPORATION

Date: March 26, 1982 By HARRIS J. ASHTON*
Harris J. Ashton
Chairman of the Board of Directors,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 26, 1982 By HARRIS J. ASHTON*
Harris J. Ashton
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 26, 1982 By EDWARD H. HOORNSTRA*
Edward H. Hoornstra
Vice Chairman of the Board of Directors

Date: March 26, 1982 By
Louis A. Guzzetti, Jr.
Executive Vice President and Secretary
(Principal Financial Officer)

Date: March 26, 1982 By James C. Hull
James C. Hull
Vice President and Controller
(Principal Accounting Officer)

Date: March 26, 1982 By C. WHITCOMB ALDEN, JR.*
C. Whitcomb Alden, Jr.
Director

Date: March 26, 1982 By WILLIAM F. DOWNEY*
William F. Downey
Director

Date: March 26, 1982 By CHRISTOPHER A. FORSTER*
Christopher A. Forster
Director

Date: March 26, 1982 By WESTON E. HAMILTON*
Weston E. Hamilton
Director

Date: March 26, 1982 By PHILIP B. HARLEY*
Philip B. Harley
Director

Date: March 26, 1982 By RICHARD W. HASKEL*
Richard W. Haskel
Director

Date: March 26, 1982 By CHARLES B. JOHNSON*
Charles B. Johnson
Director

Date: March 26, 1982 By ______________
(Attorney-in-Fact)

CONSENTS OF INDEPENDENT ACCOUNTANTS

We hereby consent to the application of our report dated February 15, 1982, which appears on page 37 of the General Host Corporation Annual Report for 1981, to the Financial Statement Schedules listed in the foregoing index when these schedules are read in conjunction with the financial statements in such Annual Report for 1981; our report and the financial statements have been incorporated by reference in this Annual Report on Form 10-K. The examinations referred to in our report included an examination of the Financial Statement Schedules.

Price Waterhouse

Price Waterhouse

986 Bedford Street
Stamford, Connecticut 06905
February 15, 1982

We also consent to the incorporation by reference in the Prospectus constituting part of Registration Statement No. 2-71908 on Form S-8 of General Host Corporation of our report referred to in the preceding consent.

Price Waterhouse

Price Waterhouse

986 Bedford Street
Stamford, Connecticut 06905
March 26, 1982

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The Board of Directors
General Host Corporation
Stamford, Connecticut

We have examined the consolidated balance sheet of Hickory Farms of Ohio, Inc. (a subsidiary of General Host Corporation) and subsidiaries as of December 27, 1980, and the related statements of earnings and retained earnings and changes in financial position (none of which are presented separately herein) 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 consolidated financial statements referred to above present fairly the financial position of Hickory Farms of Ohio, Inc. and subsidiaries at December 27, 1980, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Touche Ross & Co.

One Landmark Square
Stamford, Connecticut 06901
February 11, 1981

We hereby consent to the incorporation by reference in the Prospectus constituting part of Registration Statement No. 2-71908 on Form S-8 of General Host Corporation of our report dated February 11, 1981 appearing herein.

Touche Ross & Co.
Touche Ross & Co.

One Landmark Square
Stamford, Connecticut 06901
March 26, 1982

Schedule II

GENERAL HOST CORPORATION
AMOUNTS RECEIVABLE FROM RELATED PARTIES, UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES THREE FISCAL YEARS ENDED DECEMBER 26, 1981
(In thousands)

	Interest Rate	Year of Maturity	Beginning of Year	Additions	Amounts Collected	End of Year
Year ended December 26, 1981:						
Notes receivable from employees (1)						
Harris J. Ashton	4%/6%	1982/85	$784			$ 784
Louis A. Guzzetti, Jr.	4%/6%	1982/84/85	272		$ (5)	267 (2)
Edward H. Hoornstra	4%/6%	1982/85	210			210
Steven H. Pokress	4%/5%/6%	1981/84/85/86	108	$ 4		112
Richard G. Webb	4%/6%	1982	105			105
Year ended December 27, 1980:						
Notes receivable from employees (1)						
Harris J. Ashton	4%/6%	1982/85	637	147		784
Louis A. Guzzetti, Jr.	4%/6%	1982/84/85	203	74	(5)	272 (2)
Edward H. Hoornstra	4%/6%	1982/85	136	74		210
Steven H. Pokress	4%/5%/6%	1981/84/85	53	55		108
Richard G. Webb	4%/6%	1982		105		105
Year ended December 29, 1979:						
Notes receivable from employees (1)						
Harris J. Ashton	4%/6%	1982/84	453	184		637
Louis A. Guzzetti, Jr.	4%/6%	1982/83/84	203			203 (2)
Edward H. Hoornstra	4%	1982	143		(7)	136

(1) Includes notes receivable arising from exercise of stock options, including loans to pay taxes on exercises of stock options, and notes receivable to purchase the Company's Common Stock.

(2) Includes $5 classified as a current note receivable.

GENERAL HOST CORPORATION
FISCAL YEAR ENDED DECEMBER 26, 1981
(In thousands)

PROPERTY, PLANT AND EQUIPMENT (1)

Schedule V

Classification	Balance, Beginning of Year	Additions at Cost	Sales or Retirements	Transfers Between Classifications	Other Changes Additions (Deductions)	Balance, End of Year
Land	$ 8,837	$ 430	$ 88	$ 104		$ 9,283
Buildings	45,121	1,960	682	2,336	$ (42)	48,693
Machinery and equipment	58,814	6,784	1,748	3,362	575	67,787
Vehicles	3,208	1,179	3,775	(2)	19	629
Leasehold improvements	16,956	3,673	682	1,350	325	21,622
Construction in progress	6,180	2,150		(7,150)	5	1,185
	$139,116	$16,176	$ 6,975	$ -0-	$ 882 (2)	$149,199

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Schedule VI

Classification	Balance, Beginning of Year	Additions Charged to Costs and Expenses	Sales or Retirements	Other Changes Additions (Deductions)	Balance, End of Year
Buildings	$10,321	$ 2,012	$ 626	$ 30	$11,737
Machinery and equipment	18,865	5,860	1,297	403	23,831
Vehicles	1,263	683	1,570	(39)	337
Leasehold improvements	4,075	2,215	224	184	6,250
	$34,524	$10,770	$3,717	$ 578 (2)	$42,155

(1) The estimated useful lives used in computing depreciation and amortization of plant and equipment, including capital leases, are: buildings, 10-50 years; machinery and equipment, 3-20 years; vehicles, 3-8 years; or, if appropriate, for certain capital leases, the terms of the leases.

(2) Other changes in property, plant and equipment and in accumulated depreciation and amortization of property, plant and equipment represent the reclassification of property, plant and equipment previously classified in net non-current assets of operations discontinued in 1980.

GENERAL HOST CORPORATION
FISCAL YEAR ENDED DECEMBER 27, 1980
(In thousands)

PROPERTY, PLANT AND EQUIPMENT (1)

Schedule V

Classification	Balance, Beginning of Year	Additions at Cost		Sales or Retirements	Transfers Between Classifications	Other Changes Additions (Deductions)	Balance, End of Year
		Regular	Other (2)				
Land	$ 8,351	$ 2,278	$ 827	$ 995	$ 549	$ (2,173)	$ 8,837
Buildings	46,112	2,772	3,166	1,077	3,906	(9,758)	45,121
Machinery and equipment	51,847	8,833	8,988	2,425	3,360	(11,789)	58,814
Vehicles	7,750	1,995	297	1,212	33	(5,655)	3,208
Leasehold improvements	6,346	1,956	8,659	234	705	(476)	16,956
Construction in progress	3,969	11,678			(8,553)	(914)	6,180
	$124,375	$29,512	$21,937	$5,943	-0-	$ (30,765) (3)	$139,116

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Schedule VI

Classification	Balance, Beginning of Year	Additions Charged to Costs and Expenses	Sales or Retirements	Other Changes Additions (Deductions)	Balance, End of Year
Buildings	$12,484	$ 2,262	$ 747	$ (3,678)	$10,321
Machinery and equipment	21,611	5,661	1,938	(6,469)	18,865
Vehicles	3,449	1,372	800	(2,758)	1,263
Leasehold improvements	3,383	1,165	241	(232)	4,075
	$40,927	$10,460 (4)	$3,726	$ (13,137) (3)	$34,524

(1) The estimated useful lives used in computing depreciation and amortization of plant and equipment, including capital leases, are: buildings, 10-50 years; machinery and equipment, 3-20 years; vehicles, 3-8 years; or, if appropriate, for certain capital leases, the terms of the leases.

(2) Other additions represent the fair value of property, plant and equipment acquired in the acquisitions of Hickory Farms of Ohio, Inc., Hickory Farms Sales Corp. and Tambellini Foods Co.

(3) Other changes in property, plant and equipment and in accumulated depreciation and amortization of property, plant and equipment represent the reclassification of Cudahy Foods Co. property, plant and equipment to net non-current assets of operations discontinued in 1980.

(4) Includes depreciation expense of $2,504 relating to discontinued operations.

GENERAL HOST CORPORATION
FISCAL YEAR ENDED DECEMBER 29, 1979
(In thousands)

PROPERTY, PLANT AND EQUIPMENT (1) — Schedule V

Classification	Balance, Beginning of Year	Additions at Cost	Sales or Retirements	Transfers Between Classifications	Other Changes Additions (Deductions)	Balance, End of Year
Land	$ 7,366	$ 1,211	$ 226			$ 8,351
Buildings	63,968	731	19,189	$ 577	$ 25	46,112
Machinery and equipment	55,196	4,195	10,335	2,563	228	51,847
Vehicles	9,081	2,854	4,213	16	12	7,750
Leasehold improvements	5,845	348	775	928		6,346
Construction in progress	1,039	7,763	749	(4,084)		3,969
	$142,495	$17,102	$35,487	-0-	$ 265	$124,375

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT — Schedule VI

Classification	Balance, Beginning of Year	Additions Charged to Costs and Expenses	Sales or Retirements	Other Changes Additions (Deductions)	Balance, End of Year
Buildings	$23,822	$ 2,552	$ 13,892	$ 2	$12,484
Machinery and equipment	26,211	4,177	8,804	27	21,611
Vehicles	4,512	1,266	2,336	7	3,449
Leasehold improvements	3,180	582	379		3,383
	$57,725	$ 8,577 (2)	$ 25,411	$ 36	$40,927

(1) The estimated useful lives used in computing depreciation and amortization of plant and equipment, including capital leases, are: buildings, 10-50 years; machinery and equipment, 3-20 years; vehicles, 3-8 years; or, if appropriate, for certain capital leases, the terms of the leases.

(2) Includes depreciation expense of $2,775 relating to discontinued operations.

Schedule VII

GENERAL HOST CORPORATION

GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 26, 1981
(In thousands)

Name of issuer of securities guaranteed by person for which statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Nature of guarantee
Host 16th Street Properties (The Company owns 40% of this partnership)	$4,441 Promissory Note	$1,776	Guarantee of principal and interest
Norbest Foods Company (The Company previously owned 50% of this joint venture)	$1,385 Lease Agreement	$ 693	Guarantee of principal and interest
Bar-S Foods Co. (Cudahy Company, a wholly-owned subsidiary of the Company, assigned this lease to Bar-S Foods Co.)	$2,000 Lease Agreement	$2,000	Guarantee of principal and interest
Bar-S Foods Co. (The Company assigned to Bar-S Foods Co. a vehicle lease agreement to the extent such agreement covered certain vehicles transferred to Bar-S Foods Co.)	$1,951 Lease Agreement	$1,951	Guarantee of principal and interest

Schedule VIII

GENERAL HOST CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
FISCAL YEAR ENDED DECEMBER 26, 1981
(In thousands)

	Balance, Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance, End of Year
Deducted from accounts receivable:					
Allowance for doubtful accounts	$ 427	$ 594		$ 105 (1)	$ 916
Non-current assets:					
Allowance for possible loss on uncollectible notes and other	$ 659	$ 37			$ 696
Accumulated amortization of intangible assets	$ 1,799	$ 2,149			$ 3,948
Valuation allowance for preferred stock			$3,200 (2)		$ 3,200
Non-current liabilities:					
Estimated liabilities in connection with discontinued operations	$16,034			$6,826 (3)	$ 9,208
Other liabilities	$ 5,162	$ 696		$1,562 (4)	$ 4,296

(1) Accounts written off less recoveries.

(2) Represents valuation allowance for preferred stock received in sale of fresh and processed meat business segment, included in charges to estimated liabilities in connection with discontinued operations.

(3) Primarily represents charges related to the disposition of the fresh and processed meat business segment.

(4) Includes reduction to certain liabilities resulting from finalizing amounts estimated in 1980 for the Hickory Farms acquisitions.

Schedule VIII

GENERAL HOST CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
FISCAL YEAR ENDED DECEMBER 27, 1980
(In thousands)

	Balance, Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance, End of Year
Deducted from marketable securities:					
Valuation allowance for marketable equity securities	$ 303	—	—	$ 303 (1)	—
Deducted from accounts receivable:					
Allowance for doubtful accounts	$ 770	$ 378	—	$ 721 (2)	$ 427
Non-current assets:					
Allowance for possible loss on uncollectible notes and other	$ 600	$ 59	—	—	$ 659
Accumulated amortization of intangible assets	$ 960	$ 839	—	—	$ 1,799
Non-current liabilities:					
Estimated liabilities in connection with discontinued operations	$2,049	$14,130 (3)	—	$ 145	$ 16,034
Other liabilities	$1,475	$ 814	$3,046 (4)	$ 173	$ 5,162

(1) Reversal of valuation allowance for marketable equity securities.

(2) Includes $199 reclassified to net current assets of operations discontinued in 1980 and $522 accounts written off less recoveries.

(3) Represents liabilities established in connection with the disposal of the fresh and processed meat business segment.

(4) Represents certain liabilities related to the Hickory Farms acquisitions.

Schedule VIII

GENERAL HOST CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
FISCAL YEAR ENDED DECEMBER 29, 1979
(In thousands)

	Balance, Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance, End of Year
Deducted from marketable securities:					
Valuation allowance for marketable equity securities		$ 303			$ 303
Deducted from accounts receivable:					
Allowance for doubtful accounts	$ 535	$ 435		$ 200 (1)	$ 770
Non-current assets:					
Allowance for possible loss on uncollectible notes and other	$4,153			$3,553 (2)	$ 600
Accumulated amortization of intangible assets	$ 838	$ 122			$ 960
Non-current liabilities:					
Estimated liabilities in connection with discontinued operations	$2,433			$ 384	$ 2,049
Other liabilities	$1,377	$ 205		$ 107	$ 1,475

(1) Accounts written off less recoveries.

(2) Includes $3,177 of accounts written off which were provided for in prior years.

Schedule X

GENERAL HOST CORPORATION

SUPPLEMENTARY INCOME STATEMENT INFORMATION

THREE FISCAL YEARS ENDED DECEMBER 26, 1981
(In thousands)

	Year Ended		
	December 26, 1981	December 27, 1980 (1)	December 29, 1979 (1)
Advertising costs	$11,345	$8,572	$5,180
Maintenance and repairs	$ 8,687	$6,614	$3,832

(1) These amounts do not include charges related to discontinued operations.

MANUALLY SIGNED AND
SEQUENTIALLY NUMBERED

EXHIBITS

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 26, 1981

Commission File No. 1-1066

General Host Corporation

Incorporated in the State of New York

IRS Employer Identification No. 13-0762080

SECURITIES AND EXCHANGE COMMISSION RECEIVED MAR 29 1982 APPLICATIONS SERVICES

Principal Executive Offices:
22 GATE HOUSE ROAD, STAMFORD, CT. 06902
Telephone Number: (203) 357-9900

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	New York Stock Exchange and Pacific Stock Exchange
5% Convertible Subordinated Debentures, due June 15, 1988	New York Stock Exchange and Pacific Stock Exchange
6% Cumulative Income Subordinated Debentures, due December 1, 1990	New York Stock Exchange
7% Subordinated Debentures, due February 1, 1994	New York Stock Exchange and Pacific Stock Exchange
12 3/4% Convertible Subordinated Debentures, due June 15, 1999	New York Stock Exchange and Pacific Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether General Host Corporation, the Registrant, (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X . NO ____.

CREDIT AGREEMENT dated as of October 16, 1981 between GENERAL HOST CORPORATION, a New York corporation having its principal executive office at 22 Gate House Road, Stamford, Connecticut 06902 (herein called "the Company"); and RBC FINANCE B.V., a Netherlands corporation having its principal office at Keizergracht 604, 1017 EP Amsterdam (herein called "the Bank").

The Company has requested the Bank to extend credit to the Company. The Bank is prepared to extend credit as requested by the Company, on the terms hereof, and, accordingly, the parties agree as follows:

§1. CERTAIN DEFINITIONS. As used in this Agreement:

"Acquisition" means any transaction consummated after the date of this Agreement by which the Company or any of its Subsidiaries (i) acquires any going business or all or substantially all of the assets of any person, whether through purchase of assets, merger, consolidation or otherwise, or (ii) acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency).

"Advance" means an advance by the Bank to the Company pursuant to §3.A

"Base Financials" mean the Consolidated Financials for the fiscal year ended December 27, 1980, with the opinion thereon of Price Waterhouse & Co., heretofore furnished to the Bank.

"business day" means a day other than (i) a Saturday, Sunday or legal holiday in the State of New York, (ii) a day on which dealings are not carried on in the London interbank market, or (iii) a day on which banks are required or authorized to close in the jurisdiction of the Lending Office.

"Capitalized Lease Obligation" means any lease obligation which, in accordance with generally accepted accounting principles, has been or should be capitalized on the books of the lessee.

"Commitment" shall have its meaning as defined in §3.A(3).

"Commitment Termination Date" means September 30, 1983.

"Consolidated Financials" mean Financials of the Company and its Consolidated Subsidiaries, on a consolidated basis.

"Consolidated Subsidiary" means any Subsidiary (whether now existing or hereafter organized or acquired) which was as of the date of the Base Financials, or which at any time thereafter was or shall be, consolidated with the Company in any consolidated financial statement furnished to the Bank. Each Subsidiary shall be a Consolidated Subsidiary unless the Bank otherwise consents.

"corporation" means a corporation, business trust or like business association or entity.

"Debt" means at any time Capitalized Lease Obligations and debt created, issued, guaranteed (whether directly or indirectly by any Guaranty), incurred or assumed for money borrowed or for the deferred (for 60 days or more) purchase price of property or services purchased, excluding, however, accounts payable (other than for borrowed money or for such deferred purchase prices) and accrued expenses incurred in the ordinary course of business, provided in each case that the same are not overdue in a material amount or, if overdue, are being contested in good faith and by appropriate proceedings.

"directors" mean, in respect of a corporation, its directors or persons performing like functions.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

"Existing Agreement" means the Credit Agreement, dated as of September 27, 1979, and amended by First Amending Agreement dated as of October 6, 1980, among the Company, The Chase Manhattan Bank, N.A., The First National Bank of Boston, Manufacturers Hanover Trust Company, The Royal Bank of Canada, and Bankers Trust Company.

"Financials" mean, for any fiscal year or other accounting period, statements of operations and changes in financial position for such period and for the period from the beginning of the respective fiscal year to the end of such period and the related balance sheet as at the end of such period, together with the notes thereto, all in reasonable detail and setting forth in comparative form the corresponding figures for the corresponding period in the preceding fiscal year; provided that Financials for any fiscal year shall also include a statement of changes in shareholders' equity for such year,

setting forth in comparative form the corresponding figures for the preceding fiscal year.

"Guaranty" means any agreement, undertaking or arrangement by which any person guarantees, endorses, or otherwise becomes contingently liable (whether directly, or indirectly by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor, or otherwise to assure the creditor against loss) upon, the indebtedness, obligation or liability of any person or guarantees the payment of dividends or other distributions upon the stock of any corporation.

"hereunder", "hereby", "herein", "hereof" and the like mean and refer to this Agreement as a whole and not merely to the specific section, paragraph or clause in which the respective word appears.

"Interest Period" means, with respect to a particular Advance, the period commencing on the date of the Advance and ending 2, 3, or 6 months, or 1, 2, 3, 4, 5, 6 or 7 years thereafter as the Company may elect pursuant to §3.A; PROVIDED that no Interest Period elected by the Company may extend beyond the Termination Date.

"Lending Office" means the principal office of the Bank or such other office or affiliate as the Bank may from time to time designate by written notice to the Company.

"LIBO Rate" means, for any Interest Period, an interest rate per annum (rounded upward to the nearest whole multiple of 1/16 of 1% per annum if not such a multiple) equal to the rate at which U.S. Dollar deposits in immediately available funds are offered by The Royal Bank of Canada to prime banks in the London interbank market at 11:00 a.m. (London time) on the first day of such Interest Period for a period equal to such Interest Period and in an amount approximately equal or comparable to the principal amount of such Advance. The Bank's determination of the LIBO Rate shall be conclusive and binding for all purposes, except for manifest error.

"Net Worth" means at any time the sum of the following for the Company and its Consolidated Subsidiaries, on a consolidated basis:

(1) the amount of recorded share capital (less cost of treasury shares), plus

(2) the amount of surplus and retained earnings (or, in the case of a surplus or retained earnings deficit, minus the amount of such deficit), minus

(3) the sum of the following (without duplication of deductions in respect of items already deducted in arriving at surplus and retained earnings): (A) except as otherwise expressly provided in the proviso below in this definition, the book value of all assets which would be treated as intangibles under generally accepted accounting principles, including without limitation intangibles (whether representing the excess of cost over book value of assets acquired, or otherwise), trademarks, tradenames, copyrights, patents and unamortized debt discount and expense; (B) minority interests in Consolidated Subsidiaries to the extent included in clause (1) or (2) above; (C) all reserves (except contingency reserves, not allocated to specific purposes and not deducted from assets, which contingency reserves are properly treated as appropriations of surplus or retained earnings); and (D) any write-up in book value of assets (except any net write-up in accordance with generally accepted accounting principles) resulting from a revaluation thereof subsequent to the date of the Base Financials.

PROVIDED THAT, for purposes of clause (3)(A) above in this definition, there shall not be deducted as intangibles: (x) unamortized debt discount and expense in respect of Subordinated Debt, or (y) intangibles arising by reason of any Acquisition effected after June 14, 1980 except to the extent that the value of such intangibles remaining unamortized exceeds $25,000,000.

"Note" shall have its meaning as defined in §3.A(2).

"Operating Lease" means any lease other than a lease which gives rise to Capitalized Lease Obligations.

"PBGC" means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"person" means any individual, partnership, joint venture, firm, corporation or governmental entity.

"Plan" means, as to the Company or any of its Subsidiaries, any employee benefit or other plan maintained by it for its employees and covered by Title IV of ERISA or to which §412 of the Internal Revenue Code of 1954, as amended, applies.

"Reportable Event" shall have its meaning as set forth in §4043(b) of Title IV of ERISA.

"Subordinated Debentures" mean, collectively, the Company's: 5% Convertible Subordinated Debentures, due June 15, 1988; 6% Cumulative

Income Subordinated Debentures, due December 1, 1990; 7% Subordinated Debentures due February 1, 1994; and 12-3/4% Convertible Subordinated Debentures, due June 15, 1999.

"Subordinated Debt" means at any time Debt in respect of which the Company is directly and primarily obligated which (i) shall be evidenced by the Subordinated Debentures; or (ii) shall have been incurred after June 13, 1981 and shall be subordinated to the payment of the Notes upon terms satisfactory to the Bank; provided that, for purposes of any computations hereunder, the amount of any Subordinated Debt at any time shall be deemed to be the outstanding principal amount thereof less unamortized debt discount and expense.

"Subsidiary" means any corporation at least a majority of whose securities having ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) are at the time owned by the Company and/or one or more of its other Subsidiaries.

"Termination Date" means September 30, 1988.

"Total Liabilities" mean at any time all obligations of the Company and its Consolidated Subsidiaries, on a consolidated basis, which would be classified as liabilities of such corporations on a consolidated balance sheet and in any event shall include (without duplication):

(i) All Debt guaranteed (directly or indirectly by any Guaranty) or endorsed (otherwise than for collection or deposit in the ordinary course of business) or discounted with recourse.

(ii) All Debt secured by any mortgage, lien, assignment, pledge, security interest, charge or encumbrance upon or in property owned by the respective corporation, even though it has not assumed or become liable for the payment of such indebtedness.

(iii) Capitalized Lease Obligations.

(iv) 300% of the excess of (A) the aggregate fixed rentals (excluding any portion of rentals payable on a basis dependent on sales or other like contingencies) payable under Operating Leases by the Company and its Consolidated Subsidiaries, determined on a consolidated basis, for the then current fiscal year over (B) the base amount (as defined immediately below) for such fiscal year. In this clause (iv) "base amount" means $13,000,000 as increased by successive increases of $1,000,000 each on the first day of each fiscal year, commencing with the first day of each fiscal year, commencing with the first such year subsequent to the fiscal year ending in 1980.

PROVIDED THAT Total Liabilities shall not include Subordinated Debt.

§2. REPRESENTATIONS. The Company represents, covenants and warrants that:

2.A. Corporate Existence and Power. The Company and its Subsidiaries are each, and each will continue to be, a corporation duly incorporated and validly existing under the law of the jurisdiction in which it is incorporated, in good standing therein, and duly qualified to transact business in all places where, in the opinion of the Company, such qualification is necessary for the conduct of its business. The Company has corporate power to make this Agreement and to incur and perform its obligations hereunder.

2.B Corporate Authority. The making and performance by the Company of this Agreement and the Note have been duly authorized by all necessary corporate action and will not violate any provision of law or regulation or of the Company's charter or by-laws or result in the breach of or constitute a default under or (except as expressly provided for herein) require any consent under any indenture or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries or their respective property may be bound or affected. This Agreement and the Note, when executed and delivered as contemplated hereby, will be legal, valid and binding obligations of the Company.

2.C. Financial Condition. The Base Financials are complete and correct and fairly present the consolidated financial condition of the Company and its Consolidated Subsidiaries as at the date of the Base Financials and the consolidated results of their operations for the fiscal year ended on said date. No such corporation had on said date any contingent liabilities, liabilities for taxes, unusual forward or long-term commitments, or unrealized or anticipated losses from any unfavorable commitments, which are substantial in amount in relation to the consolidated financial condition of the Company and its Consolidated Subsidiaries, except as referred to or reflected or provided for in the Base Financials or as disclosed in Exhibit A. Except as disclosed in Exhibit A, since said date there has been no material adverse change in the consolidated financial condition of the Company and its Consolidated Subsidiaries from that shown by the Base Financials.

2.D Litigation. There are no suits or proceedings pending, or to the knowledge of the Company threatened, against or affecting the Company or any of its Subsidiaries which, if adversely determined, would have a material adverse effect on the consolidated financial condition or business of the Company and its Consolidated Subsidiaries, except as disclosed in Exhibit B or the Base Financials.

2.E. Liens. The properties and assets of the Company and its Consolidated Subsidiaries are not subject to any lien, security interest, mortgage or encumbrance of any kind securing any indebtedness, obligation or liability whatsoever, other than those permitted by §9.K.

2.F. Use of Loans. The proceeds of any extension of credit under this Agreement will be used to purchase notes issued by the Company to Clabir Corp. or to former shareholders of Hickory Farms Sales Corp. Proceeds of any extension of credit under this Agreement in excess of the amounts required to purchase such notes will be used for the general working capital purposes of the Company. Neither the Company nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any extension of credit under this Agreement will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock (unless the requirements of said Regulation U are met to the satisfaction of the Bank). If requested, the Company will furnish to the Bank at the time of each borrowing hereunder a Form U-1 statement duly completed by the Company in accordance with said Regulation U with respect to such borrowing.

2.G. Taxes. The Company and each of its Subsidiaries have filed all tax returns required to be filed and paid all taxes shown thereon to be due, including interest and penalties, or provided adequate reserves for payment thereof. Except as set forth in the Base Financials or disclosed in Exhibit B, no such corporation is a party to any material action or proceeding by any governmental authority for the assessment or collection of taxes, nor has any material claim (which remains pending) for assessment or collection of taxes been asserted against any such corporation.

2.H. Subsidiaries. Exhibit C is a complete and correct list, as of the date of this Agreement, of all Subsidiaries, except inactive Subsidiaries. Except as disclosed in Exhibit C, the Company owns, directly or through one or more Subsidiaries, free and clear of all liens, charges, encumbrances and rights of others whatsoever, all the shares of its Subsidiaries, and all such shares are validly issued and fully paid.

2.I. Credit Arrangements. Exhibit D is a complete and correct list of all credit agreements, indentures, purchase agreements, guaranties and other instruments, agreements and arrangements

presently in effect providing for or relating to extensions of credit (excluding agreements and arrangements for the purchase of goods and services in the normal course of business, but including agreements and arrangements for the issuance of letters of credit, for acceptance financing and for financing by way of Capitalized Lease Obligations) in respect of which the Company or any of its Subsidiaries is or may become directly or contingently obligated (provided that no such instrument, agreement or arrangement is separately described unless the credit in question exceeds or may exceed in aggregate principal or face amount $500,000 at any one time). The maximum principal or face amounts of the credit in question, outstanding or to be outstanding, are correctly stated, and all mortgages, security interests or other liens given or agreed to be given as security therefor are correctly described or indicated, in Exhibit D.

2.J. Titles, etc. The Company and its Subsidiaries have good title to their respective properties and assets, free and clear of all mortgages, liens and encumbrances, except such as are permitted by §8.K and except covenants, restrictions, rights, easements and minor irregularities in title which do not materially interfere with the occupation, use and enjoyment by the respective corporations of such properties and assets in the normal course of business as presently conducted or materially impair the value thereof for such business.

2.K. Governmental Regulation. No consent, approval, authorization, permit or license from any federal, state or other regulatory authority is required in connection with the making or performance of this Agreement by the Company.

2.L. ERISA. Except as described in the Base Financials, the Company and each of its Subsidiaries has met its minimum funding requirements under ERISA with respect to all its Plans and has not incurred any material liability to PBGC under ERISA in connection with any such Plan.

§3. EXTENSIONS OF CREDIT.

3.A. Advances. The Bank agrees, on the terms of this Agreement, at the Lending Office, in care of the office of The Royal Bank of Canada at 68 William Street, New York, New York or such other office or affiliate as the Bank may from time to time designate by written notice to the Company, during the period from the date of this Agreement to and including the Termination Date, to make Advances to the Company, at such times, in such amounts and for such Interest Periods as the Company shall request, subject to the following limitations:

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(a) From the date hereof to September 30, 1984, the aggregate amount of Advances at any time outstanding shall not exceed the amount of the Commitment;

(b) On October 1, 1984 and annually on October 1 of each of the next four years thereafter, the maximum aggregate amount of Advances which may be outstanding at any time shall be reduced by an amount equal to one fifth of the amount of the Commitment as it existed on the Commitment Termination Date.

(c) The aggregate amount of Advances at any time outstanding after the Commitment Termination Date may not exceed the aggregate amount of Advances outstanding on such date; and

(d) The maximum aggregate amount of Advances which could otherwise be outstanding pursuant to clauses (a), (b) and (c) above shall be reduced by the amount of any Advance maturing after the Commitment Termination Date which is not renewed at maturity by the Company.

The principal amount of each Advance shall be due and payable upon the expiration of the Interest Period elected by the Company with respect to such Advance. The Company shall make such prepayments of Advances as may be required to reduce the aggregate amount of Advances outstanding at any time to the maximum amount permitted hereunder. Any such prepayment shall be governed by the provisions of §5. Within the foregoing limits, the Company may borrow, prepay, and reborrow under this §3.A. Each borrowing under this §3.A shall be in an aggregate amount of $1,000,000 or a multiple thereof. The following provisions shall apply to such loans:

(1) Interest. The Company shall pay interest on the unpaid principal amount of each Advance from the date of such Advance until such principal amount is paid in full at an interest rate per annum equal at all times during the Interest Period for such Advance to the sum of the LIBO Rate for such Interest Period plus: (i) 3/4 of 1% per annum from the date of this Agreement to September 30, 1983; (ii) 7/8 of 1% per annum from October 1, 1983 to September 30, 1986, and (iii) 1% per annum on and after October 1, 1986. Interest shall be payable (i) every 90 days after the making of such Advance, and (ii) upon repayment of the Advance in full (including upon repayment through the making of a new Advance).

(2) Note. The Advances shall be evidenced by a promissory note of the Company (herein called "a Note"), in substantially the form of Schedule 1, dated the date of the initial Advance, having a

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stated principal amount equal to the Commitment, stated to mature on the Termination Date, and otherwise duly completed and executed.

(3) Commitment. The Bank shall be obligated to make Advances hereunder up to but not exceeding $10,000,000 from the date of this Agreement to and including the Commitment Termination Date. The obligation of the Bank to make Advances up to such amount during such period (as reduced from time to time in accordance with this Agreement) is herein called the "Commitment".

(4) Commitment Fee. The Company shall pay to the Bank, in immediately available funds, a commitment fee on the daily average unused amount of the Commitment as from time to time in effect during the period from the date of this Agreement to the date such Commitment is terminated in full, at the rate of 1/2 of 1% per annum. Accrued commitment fee shall be paid quarterly on the last day of each March, June, September and December, commencing December 31, 1981, and on the date of termination in full of the Commitment.

(5) Change of Commitment. The Company shall have the right from time to time, upon not less than five business days' written notice to the Bank, to terminate the Commitment, in whole or in part. Any partial termination shall be in an aggregate amount of $1,000,000 or a multiple thereof.

3.B. Substitute Rate. In the event the Bank determines (a) adequate and fair means do not exist for ascertaining the LIBO Rate with respect to an Interest Period applicable to an Advance as requested by the Company or (b) U.S. Dollar deposits are not being offered to the Bank in the London Interbank Market for such Interest Period or (c) the LIBO Rate quoted by the Bank does not reflect the funding costs of the Advance, the Bank shall promptly give notice of such determination to the Company, and such determination shall be conclusive and binding on the Company. The Bank and the Company shall then negotiate in good faith for the purpose of agreeing on a mutually acceptable new means for determining the rate of interest to be paid on the Advance for the applicable Interest Period (the "Substitute Rate"). If at the end of five (5) Business Days the Bank and the Company have not agreed on such a Substitute Rate, the Bank shall not be obligated to make the Advance.

3.C. Illegality or Impossibility. Notwithstanding any other provision of this Agreement, if the introduction of or any change in or in the interpretation of any law or regulation applicable to the Bank or the Lending Office shall make it unlawful, or any governmental authority having jurisdiction over the Bank or the Lending Office

shall assert that it is unlawful, for the Bank or the Lending Office to perform its obligations hereunder to make Advances or to continue to fund or maintain Advances hereunder, then, on notice thereof and demand therefor by the Bank to the Company, (i) the obligation of the Bank to the Company to make Advances shall terminate and (ii) the Company shall forthwith prepay in full all Advances then outstanding, together with interest accrued thereon.

§4. PROCEDURES.

4.A. Notices, etc. The Company shall give the Bank, at the office specified in §3.A, at least three (3) business days' prior written notice specifying the amount and date of each borrowing under such §3.A and the Interest Period. Notices given under this §4.A shall not be effective until received.

4.B. Availability, etc. The Bank shall make the proceeds of the Advances available to the Company at the Lending Office upon delivery to the Bank, if at the time called for under the terms hereof, of an appropriate Note payable to the order of the Bank.

§5. PREPAYMENTS. The Company shall have the right at any time or from time to time, upon five (5) business days' notice to the Bank (which notice, if not in writing, shall be promptly confirmed in writing), to prepay the Note in whole or in part, without penalty or premium, provided that (i) except as otherwise requested by the Company in writing each partial prepayment of the Note shall be applied to the Advances in the inverse order of their maturity; (ii) interest on the amount prepaid, accrued to the prepayment date, shall be paid on such prepayment date; and (iii) each partial prepayment of the Note shall be in an aggregate amount of $1,000,000 or a multiple thereof. If any such prepayment is made on any date other than the last day of the Interest Period for the Advance being prepaid, the Company will pay to the Bank on demand the amount of any loss or expense (including, without limitation, any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Bank to fund or maintain such Advance) incurred by the Bank as the result of such prepayment. The Bank shall deliver to the Company a certificate as to the amount of, and the basis of determination of, the loss or expense so incurred, and such certificate shall be conclusive in the absence of manifest error.

§6. PAYMENTS, ETC.

6.A. Payments. All payments of principal, interest and other amounts under this Agreement or the Note shall be made to the Bank in lawful money of the United States of America and in immediately available funds. Interest on the Note and other charges per annum shall be calculated on the basis of actual days elapsed and a year of 360 days, except that commitment fees shall be calculated on the basis of actual days elapsed and a year of 365 days. If any principal of or

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any interest on the Note, or any commitment fee or other amount payable by the Company hereunder, falls due on a Saturday, Sunday or public holiday at the place of payment thereof, then such due date shall be extended to the next succeeding full business day at such place and, in the case of such an extension as to principal, interest shall be payable in respect of such extension provided, however, that if such next succeeding full business day shall fall in the month following the month in which the payment date falls, the due date shall instead be the last full business day preceding the payment date.

6.B Indemnity for U.S. Reserve Costs. The Company shall pay to the Bank from time to time (as set forth below) amounts equal to the costs incurred by the Bank (or any affiliate of the Bank) in connection with the making, funding, or maintaining of each Advance and resulting from the Bank's or such affiliate's complying with the reserve requirements of the Board of Governors of the Federal Reserve System, as in effect from time to time. The amounts of such costs from time to time shall be determined in good faith by the Bank and, for such costs incurred during any Interest Period, shall be notified by the Bank to the Company within ten (10) Business Days after the earlier of the last day of such Interest Period or of the calendar quarter. The Company will pay each amount so notified to it within five (5) Business Days after the date of such notification. A certificate as to the amount and calculation of such cost, submitted to the Company by the Bank shall be conclusive and binding for all purposes, except for manifest error.

6.C. Increased Costs. If there shall be any increase in the cost to the Bank (or any affiliate of the Bank) of agreeing to make or making, funding or maintaining Advances, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation or (ii) the compliance with any written guideline or request from any governmental authority having jurisdiction over the Bank, the Lending Office or such affiliate (whether or not such guideline or request has the force of law), then the Company shall from time to time, upon notice by the Bank, pay to the Bank additional amounts sufficient to reimburse the Bank for such increased cost. The amount of such cost incurred during any Interest Period shall be notified by the Bank to the Company within ten (10) Business Days after the earlier of the last day of such Interest Period, or of the calendar quarter. A certificate as to the amount and calculation of such increased costs, submitted to the Company by the Bank, shall be conclusive and binding for all purposes, except for manifest error. The Bank shall provide the Company semi-annually with information regarding existing or proposed changes in laws, regulations or written guidelines of governmental authorities having jurisdiction over the Bank, Lending Office or Affiliate which are known to the Bank and which the Bank believes may result in increased costs of the type referred to above in this Section 6.C. No error or omission of the Bank in providing such information shall affect the obligations of the Company hereunder.

6.D. Taxes. (a) Any and all payments by the Company hereunder or under the Note shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding income or franchise taxes imposed on the Bank by Canada or by the jurisdiction of the Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Company shall be required by law to deduct any Taxes from or in respect of any sum payable to the Bank hereunder or under the Note (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this section) the Bank receives an amount equal to the sum it would have received had no such deductions been made and (ii) the Company shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Company agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made by it hereunder or under the Notes or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or the Note (hereinafter referred to as "Other Taxes").

(c) The Company will indemnify the Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable by the Company under this section) paid by the Bank (or any affiliate of the Bank) or any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within thirty (30) days from the date the Bank makes written demand therefor. The Bank agrees to notify the Company of any such Taxes or Other Taxes when the Bank receives notice of their imposition from the taxation authority or other authority asserting them, and agrees to furnish the Company the basis of the calculation of such Taxes or Other Taxes if such basis is known to the Bank.

(d) Without prejudice to the survival of any other agreement of the Company hereunder, the agreements and obligations of the Company contained in this section shall survive the payment in full of principal and interest hereunder and under the Notes.

(e) The Bank shall provide the Company semi-annually with information regarding existing or proposed changes in laws, regulations or written guidelines of governmental authorities having jurisdiction over the Bank, Lending Office or affiliate which are known to the Bank and which the Bank believes may result in increased taxes of the type referred to above in this Section 6.D. No error or omission of the Bank in providing such information shall affect the obligations of the Company hereunder.

§7. CONDITIONS.

7.A. Initial Loans. The obligation of the Bank to make the initial loan to be made by it under §3 is subject to the following conditions precedent:

(1) Signatures. The Company shall have certified to the Bank the name and signature of each officer of the Company authorized to sign this Agreement and the Note and to borrow and effect other transactions hereunder. The Bank may conclusively rely on each such certification until it receives notice in writing to the contrary.

(2) Company Counsel. The Bank shall have received from William H. Bertin, Vice President and General Counsel of the Company, a favorable written opinion, satisfactory to the Bank and its counsel, as to

(a) Those matters concerning the Company and its Subsidiaries (except inactive, immaterial Subsidiaries) which are referred to in §2.A and (to the extent of such counsel's knowledge) §§2.D, 2.E and 2.H (all as at the time of the making of the initial loan hereunder).

(b) The due authorization, execution and delivery by the Company of this Agreement, the due authorization, execution and delivery by the Company of the Note, and the validity and binding nature as regards the Company of this Agreement and of the Note (when issued in accordance herewith) in accordance with their respective terms (subject to limitations as to enforceability which might result from bankruptcy, insolvency or other similar laws affecting creditors' rights generally).

(c) The necessity of any authorization or approval by any public regulatory body of the making or performance of this Agreement by the Company, and as to the sufficiency of any which have been obtained.

(d) To the extent of such counsel's knowledge (after due inquiry), the absence of any requirement for consent and of any default, by reason of the transactions contemplated hereby, under any credit agreements, indentures, purchase agreements, guaranties or other instruments to which the Company or any of its subsidiaries is a party or by which any such corporation may be bound or affected (or, if any such consents are required, that the same have been duly given and copies thereof are attached).

(e) The Note being entitled to the benefits of the subordination provisions relative to all Subordinated Debt at the time outstanding, *pari passu* with all other Debt entitled to the benefits of such subordination provisions.

(f) Such other matters incident to the transactions hereby contemplated as the Bank or its counsel may reasonably request. For purposes of such opinion counsel to the Company may rely as to factual matters upon certificates of officers of the Company and public officials and may also rely upon opinions of counsel in other jurisdictions, provided that such other counsel are satisfactory to counsel to the Bank and copies of their opinions are furnished to such counsel.

(3) Bank Counsel. The Bank shall have received from its counsel a favorable written opinion as to

(i) The due authorization, execution and delivery by the Company of this Agreement, the due authorization by the Company of the Note, and the validity and binding nature as regards the Company of this Agreement and, when duly executed and delivered for value by the Company to evidence loans made under the Agreement, the Note (subject to limitations as to enforceability which might result from bankruptcy, insolvency or other similar laws affecting creditors' rights generally).

(ii) Such other matters incident to the transactions hereby contemplated as the Bank may reasonably request.

For purposes of such opinion counsel to the Bank may rely as to factual matters upon representations contained in this Agreement and upon certificates of public officials and as to legal matters (other than matters of New York or federal law) upon the opinion of counsel to the Company referred to in clause (2) immediately above (and the other opinions referred to in the last paragraph of such clause).

(4) Proof of Corporate Action. The Bank shall have received certified copies of all corporate action taken by the Company to authorize the execution, delivery and performance of this agreement and the Note and borrowing hereunder, and such other papers as the Bank or its counsel shall reasonably require.

7.B. Each Loan. The obligation of the Bank to make each loan to be made by it under §3.A (including the initial loan) is subject to the following conditions precedent: no event of default specified in §9, and no event which with notice or lapse of time or both would become such an event of default, shall have occurred and be continuing; the representations of the Company in §2 shall be true on and as of the date of the making of such loan with the same force and effect as if made on and as of such date; and a senior officer of the Company shall have so certified to the Bank.

§8. PARTICULAR COVENANTS OF COMPANY. From the date hereof and until the termination of the Commitment and the payment in full of the Note and the performance of all other obligations of the Company under this Agreement, the Company agrees that, unless the Bank shall otherwise consent in writing:

8.A. <u>Financial Statements, etc.</u> The Company shall deliver to the Bank:

(1) As soon as available and in any event within sixty (60) days after the end of each of the first three quarterly accounting periods in each fiscal year: Consolidated Financials for the respective accounting period, certified by a senior accounting officer of the Company, subject, however, to changes resulting from year-end audit adjustments, which certificate shall include: a statement that such officer has no knowledge, except as specifically stated, of any default in the observance of any of the provisions in this Agreement, in the Notes or in any other agreement or instrument evidencing or relating to Debt of the Company or any of its Subsidiaries; and, as to any default specifically stated in such certificate, a statement as to what action the Company proposes to take with respect thereto.

(2) As soon as available and in any event within 120 days after the end of each fiscal year: Consolidated Financials for the respective year, accompanied by (A) an opinion as to such Consolidated Financials of independent certified public accountants of recognized standing, together with a statement by said accountants that their investigations for purposes of their opinion did not disclose, except as specifically stated, any default in the observance of any of the provisions in this Agreement, in the Notes or in any other agreement or instrument evidencing or relating to Debt of the Company or any of its Subsidiaries, and (B) a certificate signed by a senior financial officer of the Company stating that said Financials fairly present the financial condition and results of operations of the respective corporations as at the end of such year and for the year involved and that such officer has no knowledge, except as specifically stated, of any such default, and, as to any default specifically stated in such certificate, stating what action the Company proposes to take with respect thereto.

(3) Each set of Financials furnished pursuant to clause (1) or clause (2) immediately preceding shall be accompanied by computations (certified as complete and correct by a senior financial officer of the Company) showing in detail satisfactory to the Bank whether or not the Company is at the time in compliance with §§8.K(ii), 8.L, 8.M and 8.N.

(4) Promptly after their becoming available:

(a) Copies of all financial statements, reports and proxy statements which the Company shall have sent to its stockholders generally.

(b) Copies of all registration statements and regular and periodic reports, if any, which the Company shall have filed with the Securities and Exchange Commission, or any governmental agency substituted therefor, or with any national securities exchange.

(5) From time to time, with reasonable promptness, such information regarding the business, affairs and financial condition of the Company, each of its Subsidiaries and each other firm or company in which the Company has a material investment (direct or indirect) as the Bank may reasonably request.

8.B Taxes and Claims. The Company shall pay and discharge, and cause each of its Subsidiaries to pay and discharge, all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any property belonging to it, prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become a lien or charge upon the property of the Company or such Subsidiary; provided that neither the Company nor any such Subsidiary shall be required by this paragraph to pay any such tax, assessment, charge, levy or claim the payment of which is being contested in good faith and by proper proceedings.

8.C Insurance. The Company shall maintain, and cause each of its Subsidiaries to maintain, insurance in responsible companies (or by way of self-insurance maintained in accordance with sound principles of self-insurance) in such amounts and against such risks as is usually maintained by owners of similar businesses and properties in the same general areas in which the Company or such Subsidiary operates.

8.D. Maintenance of Existence; Conduct of Business. The Company shall, and shall cause each of its Subsidiaries to, preserve and maintain its corporate existence and all of its material rights, privileges and franchises necessary or desirable (in the opinion of the board of directors of the Company) in the normal conduct of its business, and conduct its business in an orderly, efficient and regular manner, provided that nothing in this paragraph contained shall prevent the termination of the business or corporate existence of any Subsidiary which in the judgment of the Company is no longer necessary or desirable.

8.E. Maintenance of Properties. The Company shall keep, and cause each of its Subsidiaries to keep, in good working order and condition, ordinary wear and tear excepted, all of its properties necessary, in the judgment of the Company, in its business.

8.F. Access to Books and Inspection. The Company shall, upon application by the Bank, give, and cause each of its Subsidiaries to give, any one or more representatives of the Bank access during normal business hours to, and permit such representative or representatives to examine, copy or make excerpts from, any and all books, records and documents in the possession of the Company or any such Subsidiary relating to its affairs, and to inspect any of the properties of the Company or any such Subsidiary, any information obtained under this paragraph which is confidential to be held confidential by the Bank (subject to disclosures required by law or regulation, disclosures in connection with litigation between the Company and the Bank or in connection with a transfer of any loan made hereunder and disclosures to professional experts retained by the Bank to advise it).

8.G. Compliance with Applicable Laws. The Company shall comply, and cause each of its Subsidiaries to comply, with the requirements of all applicable laws, rules, regulations and orders of any governmental authority, a breach of which would materially and adversely affect its business or credit, except where contested in good faith and by proper proceedings.

8.H. Litigation. The Company shall promptly give the Bank notice in writing of all litigation and of all proceedings before any governmental or regulatory agency affecting the Company or any of its Subsidiaries, except litigation or proceedings which, if adversely determined, would not have a material adverse effect upon the consolidated financial condition of the Company and its Consolidated Subsidiaries.

8.I. Transactions with Affiliates. Notwithstanding any other provisions of this Agreement, the Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly (i) make any loan, advance, extension or credit or capital contribution to or other investment in an affiliate (as below defined); (ii) transfer, sell, assign or otherwise dispose of any assets to an affiliate (excluding payments to an affiliate of dividends, to the extent permitted by this Agreement, and payments to an affiliate when due of principal of and interest on any indebtedness incurred prior to the date of this Agreement); (iii) merge or consolidate with or purchase or acquire assets from an affiliate; or (iv) enter into any other transaction directly or indirectly with or for the benefit of an affiliate (including, without limitation, guaranties and assumptions of obligations of an affiliate). As used in this paragraph: (a) "affiliate" means any person (other than a Subsidiary of the Company) which directly or indirectly controls, or is under common control

with, the Company; and (b) "control" (including, with correlative meaning, "under common control with") means possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of voting securities, by contract or otherwise); provided that, in any event: (x) any person or affiliated group of persons which owns directly or indirectly 25% or more of the securities having ordinary voting power for the election of directors of a corporation shall be conclusively presumed to control such corporation, (y) no person shall be deemed to be an affiliate of a corporation solely by reason of being an officer or director of such corporation, and (z) no person shall be deemed to be an affiliate solely because the Company controls such person. No provision of this Agreement shall prevent the Company from repurchasing common stock of the Company from stockholders (including any affiliates); provided that, immediately after each such repurchase and giving effect thereto, no event of default specified in §9, and no event which with notice or lapse of time or both would become such an event of default, will have occurred and be continuing.

8.J. ERISA. The Company shall, and shall cause each of its Subsidiaries to, comply with the provisions of ERISA with respect to each of its Plans; and as soon as possible after the Company knows or has reason to know that any Reportable Event with respect to any Plan of the Company or any such Subsidiary has occurred, the Company shall furnish to the Bank a statement signed by a senior officer of the Company setting forth details as to such Reportable Event and the action, if any, which the Company or the respective Subsidiary proposes to take with respect thereto, together with a copy of the notice of such Reportable Event furnished to PBGC.

8.K. Liens. The Company shall not, and shall not permit any of its Consolidated Subsidiaries to, create or suffer to exist any assignment, mortgage, pledge, security interest, conditional sale or other title retention agreement, lien, charge or encumbrance upon any of its property or assets, now owned or hereafter acquired, securing any indebtedness or obligation (all such security being herein called "liens"), except

(i) Materialmen's, suppliers', tax and other like liens arising in the ordinary course of business securing obligations which are not overdue or are being contested in good faith by appropriate proceedings, liens arising in connection with workmen's compensation, unemployemnt insurance, appeal and release bonds, and other liens incident to the conduct of business or the operation of property or assets and not incurred in connection with the obtaining of any advance or credit.

(ii) Liens existing on assets at the time of acquisition thereof by the Company or a Consolidated Subsidiary and not created in contemplation of such acquisition (provided that any such liens on current assets shall be discharged within 180 days after the date of acquisition).

(iii) Additional liens on fixed or capital assets provided that the aggregate principal amount of the Debt secured by each such lien shall be at least equal to 90% of the net book value of the assets which are subject to such lien (determined at the time such Debt is incurred), except that (a) such requirement shall not apply to any lien on a particular asset if the aggregate principal amount of the Debt secured by such lien does not exceed $300,000 and (b) liens on convenience stores may secure Debt in an aggregate principal amount less than 90%, but at least equal to 75%, of the net book value of the respective store or stores which are subject to such liens (determined at the time such Debt is incurred) so long as the aggregate net book value of the assets which are subject to all such liens referred to in this subclause (b) shall not exceed $10,000,000 at any time.

8.L. Working Capital. As at the end of each quarterly accounting period the Company shall cause: (i) current assets of the Company and the Consolidated Subsidiaries, on a consolidated basis, to be an amount at least equal to 150% of their current liabilities, on a consolidated basis; and (ii) such consolidated current assets to exceed such consolidated current liabilities by an amount at least equal to $40,000,000. For purposes of this §8.L, investments in stocks issued by any person shall not be treated as current assets except that any such investments in stock of corporations less than 5% of the voting shares of which are held by the Company and Consolidated Subsidiaries (in the aggregate) may be included in current assets to the extent permissible under generally accepted accounting principles. For purposes of §8.L., current liabilities shall be calculated in accordance with generally accepted accounting principles, except that all borrowings by the Company (a) under the revolving credit provisions of the Existing Agreement or other similar revolving credit agreements (heretofore or hereafter entered into) which by their terms are not payable within one (1) year, or (b) under other agreements with banks with a term of less than one (1) year which the Company has heretofore or may hereafter enter into, which borrowings under (a) and (b) above in the aggregate do not exceed the aggregate of the Company's borrowing limits under the revolving credit provisions of the Existing Agreement and other similar revolving credit agreements referred to in subsection (a) above, shall be excluded and deemed to be long term debt.

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9.M. Net Worth. The Company shall not permit Net Worth to be less than the specified amount (as defined immediately below). In this paragraph "specified amount" means: (a) $45,000,000 through and including December 25, 1981; (b) $57,000,000, $62,000,000 and $70,000,000 during the Company's fiscal years ending in December 1982, 1983 and 1984 respectively, such interim fiscal year amount thereafter increasing by $5,000,000 as of the first day of each succeeding fiscal year; and (c) $57,000,000, $62,000,000 and $70,000,000, as of the last day of the Company's fiscal years ending in December, 1981, 1982 and 1983respectively, such fiscal year end amount thereafter increasing by $5,000,000 as of the last day of each succeeding fiscal year.

8.N. Total Liabilities. The Company shall at no time permit:

(A) Total Liabilities to exceed:

(i) the specified percentage (as defined immediately below) of Net Worth. In this clause (i) "specified percentage" means: 375% during any of the Company's fiscal years; provided that as of the last day of the Company's fiscal years ending in (a) December 1981, the specified percentage shall be 300%; (b) December, 1982, the specified percentage shall be 295%; (c) December, 1983 and each fiscal year end thereafter the specified percentage shall be 290%; or

(ii) the specified percentage (as defined immediately below) of the sum of Net Worth plus Subordinated Debt. In this clause (ii) "specified percentage" means: (a) 175% during the Company's fiscal year ending in December, 1981 and during each fiscal year thereafter; (b) 150% and 145% as of the last day of the fiscal years ending in December, 1981 and 1982, respectively; and (c) 120% as of the last day of the Company's fiscal years ending in December, 1983 and each fiscal year thereafter.

(B) The sum of Total Liabilities plus Subordinated Debt to exceed the specified percentage (as defined immediately below) of Net Worth. In this subparagraph (B) "specified percentage" means: (a) 500% during the Company's fiscal year ending in December, 1981 and during each fiscal year thereafter; and (b) (i) 375% and 370% as of the last day of the Company's fiscal years ending in December, 1981 and 1982, respectively; and (ii) 365% as of the last day of the Company's fiscal year ending in December 1983 and each fiscal year end thereafter.

8.O. Acquisitions, Sales, Mergers. The Company shall not, and shall not permit any Consolidated Subsidiary to, consummate any Acquisition, or sell, lease, assign, transfer or otherwise dispose of

(whether in one transaction or in a series of related transactions) all or any material part of its assets, whether now owned or hereafter acquired, or be a party to any merger or consolidation, except that

(i) The Company and the Consolidated Subsidiaries may sell inventory (as defined in the Uniform Commercial Code) in the ordinary course of business.

(ii) Any Consolidated Subsidiary may be merged into, or transfer assets to, the Company or any other Consolidated Subsidiary, or the Company may transfer assets to any Consolidated Subsidiary all of the stock of which is owned, directly or indirectly, by the Company.

(iii) Any corporation not a Consolidated Subsidiary may merge into or consolidate with the Company or a Consolidated Subsidiary pursuant to an Acquisition permitted by clause (iv) immediately below.

(iv) The Company or any Consolidated Subsidiary may effect Acquisitions; provided that, immediately after each such Acquisition and giving effect thereto, the Company will be in compliance with its agreements herein, and, in the case of any merger or consolidation to which the Company is a party, the Company will be the continuing or surviving corporation.

(v) Notwithstanding the provisions of this paragraph and paragraphs 8.D. and 8.E. of this Agreement, the Company may sell or otherwise dispose of all or any part of the stock, assets or business of its Cudahy Company subsidiary.

8.P. Default, etc. The Company shall forthwith notify the Bank if any event of default specified in §9, or any event which with notice or lapse of time or both would become such an event of default, shall have occurred, specifying what action the Company proposes to take with respect thereto.

§9. DEFAULTS. If any one of the following "events of default" shall occur and be continuing, namely:

9.A. Any representation or warranty made by the Company in §2 shall prove to have been incorrect, or shall be breached, in any material respect, or any statement or certificate furnished by or on behalf of the Company under this Agreement shall prove to have been incorrect in any material respect; or

9.B. Either (i) default in the payment when due of any principal of the Note or (ii) default in the payment when due of any interest on the Note and the continuance of such default for two days or (iii)

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default in observance of the limitations on the aggregate amount of Advances which may be outstanding at any one time contained in §3.A; or

9.C. Default by the Company in the performance of any agreement in §§8.K. through 8.O, inclusive,. which shall remain unremedied for 10 days after the first day the Company became aware or should have become aware of the existence of such default;

9.D. Default by the Company in the performance of any other agreement in this Agreement which shall remain unremedied for 30 days after written notice thereof shall have been given to the Company by the Bank; or

9.E. A judgment or judgments for the payment of money in excess of $500,000 in the aggregate shall have been rendered against the Company or any of its Consolidated Subsidiaries (each such corporation being hereinafter in this §9 called "a Corporation"), and the same shall have remained unsatisifed and in effect, without stay of execution, for any period of 30 consecutive days; or

9.F. Any bond, debenture, note or other evidence of Debt of any Corporation shall have become due before stated maturity by the acceleration of the maturity thereof by reason of default or shall have become due by its terms and shall not be promptly paid or extended; or

9.G. Any default or event of default under any indenture, credit or loan agreement or other agreement or instrument under which Debt of any Corporation is outstanding or by which the same is evidenced (excluding this Agreement) shall have occurred and shall have continued for a period of time sufficient to permit the holder or holders of the respective Debt (or a trustee on their behalf) to accelerate the maturity thereof; or

9.H. Any Corporation shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of itself or of its property, (ii) be unable, or admit in writing inability, to pay its debts as they mature, (iii) make a general assignment for the benefit of creditors, (iv) be adjudicated a bankrupt or insolvent, or (v) file a voluntary petition in bankruptcy or a petition or answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency law or an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization, arrangement or insolvency proceeding; or corporate action shall be taken by it for the purpose of effecting any of the foregoing; or

9.I. Without the application, approval or consent of the respective Corporation, a proceeding shall be instituted in any court of competent jurisdiction, seeking in respect of any Corporation: adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a re-adjustment of debts, the appointment of a trustee, receiver, liquidator or the like of such Corporation or of all or any substantial part of its assets, or other like relief in respect of such Corporation under any bankruptcy or insolvency law, or an order for relief shall have been entered in respect of any Corporation under Title 11 of the United States Code; and, if such proceeding or such order for relief is being contested by such Corporation in good faith, the same shall continue undismissed, or unstayed and in effect, for any period of 30 consecutive days; or

9.J. All or any material part of the property of any Corporation shall have been condemned, seized or otherwise appropriated, or custody or control of such property shall have been assumed, by any court or governmental agency of competent jurisdiction, and such property shall have been retained for a period of 30 days; or

9.K. Any corporation shall, for any period of at least 30 consecutive days, have failed in a material respect to meet its minimum funding requirements under ERISA with respect to any of its Plans, or any of its Plans shall be the subject of voluntary or involuntary termination proceedings which may result in an uninsured payment or repayment liability of such Corporation to PBGC in an amount which is material in relation to Net Worth,

THEREUPON:

(1) In any case referred to in §9.H. or §9.I. as to which the Company is "the Corporation" involved, the Commitment of the Bank shall immediately terminate and the principal of and interest on all the Note and all other obligations of the Company hereunder shall become immediately due and payable, without notice or demand.

(2) In any other case referred to in §§9.A. through 9.K. inclusive, the Bank may, by written notice to the Company, terminate the Commitment of the Bank and/or declare the principal of and interest on the Note and all other obligations of the Company hereunder to be immediately due and payable. Upon any such declaration the Note and other obligations shall become immediately due and payable, without protest, presentment, notice or demand, all of which are expressly waived by the Company.

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10. NOTICES. Except as otherwise specified herein, all notices, requests and demands shall be given to or made upon the respective parties hereto at their respective addresses specified after their signatures or, as to any party, at such other address as may be designated by it in a written notice to each other party. Unless otherwise expressly provided herein, all notices, requests, consents and demands hereunder shall be effective when duly deposited in the mails, registered mail postage prepaid, or transmitted by telex, addressed as aforesaid, except that notices under §4 shall not be effective until received.

§ 11. MISCELLANEOUS.

11.A. Waivers, etc. No failure on the part of the Bank to exercise, and no delay in exercising, and no course of dealing with respect to, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

11.B. Expenses. The Company agrees to pay, whether or not any loan is made hereunder, (i) the reasonable fees of counsel for the Bank in connection with the making and administration of this Agreement; (ii) all documentary stamp or like taxes, if any, upon any documents or transactions pursuant to this Agreement; and (iii) costs of collection (including reasonable counsel fees) if default is made in payment of the Note.

11.C. Offsets, etc. Nothing in this Agreement shall be deemed a waiver or prohibition of the Bank's right of banker's lien or offset.

11.D. Governing Law. This Agreement and the Note shall be governed by and construed in accordance with the substantive law of the State of New York.

11.E. Amendments, etc. This Agreement may not be amended or modified, nor may any of its terms be waived, except by written instruments signed by the parties.

11.F. Successors. This Agreement shall be binding upon and inure to the benefit of the Bank, the Company and their respective successors and assigns. The Bank may assign its rights under this Agreement and under the Note, but the Company may not transfer its right to borrow under this Agreement without the prior written consent of the Bank.

11.G. <u>Accounting</u>. Unless otherwise expressly provided in this Agreement, or unless the Bank shall otherwise consent in writing, all financial statements and reports in respect of the Company and/or its Subsidiaries furnished to the Bank hereunder shall be prepared, and all computations and determinations hereunder shall be made, in accordance with generally accepted accounting principles and practices (including, when applicable, principles of consolidation), applied on a basis consistent with that applied in preparing the Base Financials.

11.H. <u>Counterparts</u>. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

GENERAL HOST CORPORATION

LAW DEPT.

By ____________________

Title: Treasurer

22 Gate House Road
Stamford, Connecticut 06902

RBC FINANCE B.V.

By ____________________

Title:

c/o The Royal Bank of Canada
55 East 52nd Street
New York, New York 10055

SCHEDULE 1

Form of Credit Note

$........ ...., 19..

FOR VALUE RECEIVED, the undersigned, a New York corporation ("the Maker"), hereby promises to pay to the order of RBC Finance B.V. ("the Payee"), on or before September 30, 1988, at the office of The Royal Bank of Canada at 68 William Street, New York, N.Y. 10005, the unpaid principal amount of each of the Advances made by the Payee to the Maker pursuant to the Agreement (as defined below), in lawful money of the United States, and to pay interest from the date hereof on the principal amount of each Advance, or the unpaid balance thereof, in like money, at said office, (i) every 90 days after the making of such Advance, and (ii) upon the repayment of each such Advance in full (including upon repayment through the making of a new Advance), at such rates as are specified in the Agreement. Overdue principal shall bear interest at a rate 2% per annum above the LIBO Rate on that day for an Interest Period of 90 days (as such terms are defined in the Agreement).

This note is the Note referred to in the Credit Agreement dated as of November 13, 1981 between the Maker and the Payee (the "Agreement"), and is entitled to the benefits provided in said Agreement.

By execution and delivery of this note the Maker hereby authorizes the Payee to endorse on the reverse side of this note the amount of each of the Advances made hereagainst by the Payee under §3.A of said Agreement and the amount of each payment of principal received by the Payee on account of said Advances. In the absence of manifest error, such endorsements shall be conclusive on the Maker and payments of principal of and interest on this note shall be made in reliance thereupon.

Upon the occurrence of an event of default, as defined in said Agreement, the principal hereof and accrued interest hereon may become or may be declared to be forthwith due and payable in the matter, upon the conditions and with the effect provided therein.

The Maker may at its option pay all or any part of the principal of this note before maturity upon the terms provided in the Agreement.

GENERAL HOST CORPORATION

By________________

Title:

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[Reverse of Form of Note]

Loans and Payments of Principal

Date of Advance	Date Due	Amount of Advance	Amount of Principal Paid	Unpaid Principal Balance	Notation Made by

EXECUTIVE COMPENSATION PROGRAM

Reference Document

January 1982

THE 1982 EXECUTIVE COMPENSATION PROGRAM

I. ELIGIBILITY AND PARTICIPATION

Individuals eligible to participate are the following:

- -Chief Operating Officer
- -Group Presidents
- -Operating Company Presidents
- -Designated Corporate Staff Members

The basis of participation for individuals who are permitted to enter the Plan during the year will be determined at time of entry by the Chief Operating Officer.

IIA. PROGRAM DESIGN - SENIOR EXECUTIVES AND INDIVIDUALS WITH DIRECT OPERATING COMPANY RESPONSIBILITIES

The program is designed to pay a bonus that ranges up to 60% of base salary. The amount of the bonus award will be based on three factors:

- -Operating Profit Goal Attainment
- -Specific Goal Achievement
- -Corporate Target Result Attainment

1) Operating Profit Goal Attainment

Participants can earn bonuses ranging up to 30% of base salary, based on the relationship between reported profit and the operating profit goals established by the Chief Operating Officer. Profit goals will be set for the 3%, 15% and 30% payment levels; payments for achievement of profits between the goals established for the 3% and 15% levels, and the 15% and 30% levels, will be interpolated to the nearest $100. Reported operating income will, in all cases, be computed (1) before provisions for Federal and State Income Taxes, (2) after provisions for payment of bonuses not payable under this Executive Compensation Program and (3) will be adjusted to reflect any variances for the year between actual and budgeted interest expense (both interest on working capital and outside interest expense). In the case of the Chief Operating Officer, provisions will also be made in the computation of operating profit for payment of bonuses to other participants in this Program, pursuant to Paragraphs IIA (1) and (2) and IIB (1).

In determining the extent to which an individual has met his profit goals, the Chief Operating Officer will, in unusual circumstances, have the discretion to reduce reported operating profit appropriately, for purposes of this Program, where reported profits were achieved by actions significantly at variance with planned profit achievement which did not receive prior review and approval of the Chief Operating Officer.

In addition, at the discretion of the Chief Operating Officer, operating profit for the performance year will be increased or decreased by 20% of the difference between the assets employed in the business at the beginning and end of the current performance year.

2) Specific Goal Achievement

a) Up to 20% of base salary will be paid for the achievement of specific goals. Operating profit levels will be established for each participant below which any bonus will be reduced by 50% and a level below which no bonus will be paid for specific goal achievement.

b) The specific goals will be developed between the participant and his immediate superior, and approved by the Chief Operating Officer. Goals shall not be more than five (preferably four) specific items; these items will have a weighted value approved by the Chief Operating Officer and recorded with the Administrators.

The participant, in conjunction with the Administrators, is to submit the degree of accomplishment and recommended award to the Chief Operating Officer within two weeks following the close of the year.

Goal revisions, where appropriate, are to be submitted and approved by the Chief Operating Officer.

3) Corporate Target Result Attainment

When the Corporate Target Result is achieved, any bonus otherwise earned under this Program is increased by 20%. The Corporate Target Result will be computed after provision for bonus payments due pursuant to Paragraphs IIA (1) and (2) and IIB (1).

The Chief Operating Officer determines the Corporate Target Result, subject to the approval of the Board of Directors. The Corporate Target Result will be recorded with the Administrators along with the operating profit goals and specific goals of each participant.

IIB. PROGRAM DESIGN - CORPORATE STAFF MEMBERS

The Program is designed to pay a bonus that ranges up to a maximum of either 24% or 36% of base salary depending on position. The amount of the bonus award will be based on specific goal achievement and corporate target result attainment.

1) <u>Specific Goal Achievement</u>

Depending on position, a maximum of 20% or 30% of base salary will be paid for the achievement of specific goals (see Paragraph IIA (2b) regarding establishment of specific goals). Any bonus payable under this Paragraph is also subject to the following limitations: (1) if less than 75% of the Corporate Target Result is achieved, any bonus otherwise earned is reduced by 50%; (2) the Chief Operating Officer will establish an operating profit level for the Corporate Staff below which no bonus will be paid. For purposes of this Paragraph IIB (1), provisions will be made for payment of bonuses (other than to the Chief Operating Officer) pursuant to Paragraph IIA (1) and (2), before determining the extent to which the Corporate Target Result has been attained.

2) <u>Corporate Target Result Attainment</u>

When the Corporate Target Result is attained, any bonus otherwise earned under the Program is increased by 20% (see Paragraph IIA, 3 above).

III. GENERAL PROGRAM CONTROLS

1) No awards will be paid with respect to achievement of specific goals in a year when cash dividends on Company Common Stock are not paid. If a dividend is paid for a portion of the year, any specific goal achievement bonus otherwise earned will be prorated.

2) Any bonus otherwise payable under this Program to the Chief Operating Officer or any Corporate Staff Member will be reduced proportionately to the extent necessary, if any, to prevent the Corporation from reporting a loss for the fiscal year in question.

3) Notwithstanding anything else in the Program, no bonus will be paid to any individual whose overall performance during the year, in the judgement and discretion of his supervisor and the Chief Operating Officer, was unsatisfactory.

IV. ADMINISTRATION

1) Individual awards will be based on base salary as of January 1.

2) The Plan must be approved by the Board of Directors. The Chief Operating Officer's goals and the Corporate Target Result must also be approved by the Board of Directors.

3) The Vice President - Human Resources and the Director - Planning will be the Administrators of the Program. They will prepare a report for the Chief Operating Officer by the end of January of each year documenting last year's results and presenting listings of:

   a) This Year's Participants
   b) Operating Income Objectives
   c) Specific Objectives for Each Participant
   d) Corporate Target Result
   e) Current Year's Bonus Possibilities for Each Participant

4) The Chief Operating Officer will have full and final discretion to determine the amount of bonus, if any, to be paid to any Participant who dies or retires during the year, or whose responsibilities are changed during the year, subject to the approval of the Board of Directors.

   In the event there is any dispute as to the amount of any bonus payable under this Program, the Board of Directors will have full and final discretion to resolve the matter as it deems equitable and appropriate.

5) Any bonuses payable under this Program will be payable a reasonable time after audited financial statements for the full year are available.

GENERAL HOST CORPORATION

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE

	Fiscal Years Ended Proximate to December 31			
	1981	1980	1979	1978
	(In thousands, except per share amounts)			
Computation of earnings:				
Income from continuing operations	$ 11,638	$ 11,416	$ 9,672	$ 2,512
Elimination of interest and debt expense:				
5% convertible subordinated debentures	200	207	207	207
11% convertible subordinated debentures			1,171	2,397
12 3/4% convertible subordinated debentures	4,799	2,610		
Income taxes	(714)	(1,296)	(634)	(1,250)
Pro forma income from continuing operations	15,923	12,937	10,416	$ 3,866
Discontinued operations		(16,846)	10,565	
Pro forma income before extraordinary gains	15,923	(3,909)	20,981	
Pro forma extraordinary gains	2,330	7,141	9,481	
Pro forma net income	$ 18,253	$ 3,232	$ 30,462	
Fully diluted shares:				
Average common shares and common share equivalents outstanding	4,733	5,703	4,846	3,477
Contingently issuable shares:				
Conversion of convertible subordinated debentures	2,805	1,661	1,463	2,840
Additional shares resulting from assumed exercise of stock options	36	62	115	90
Shares earned but not yet issued under employment contracts				4
Fully diluted shares	7,574	7,426	6,424	6,411
Fully diluted earnings per share:				
Income from continuing operations	$ 2.10	$ 1.74	$ 1.62	$ .60
Discontinued operations			1.65	
Income before extraordinary gains	2.10		3.27	
Extraordinary gains	.31		1.47	
Net income	$ 2.41		$ 4.74	

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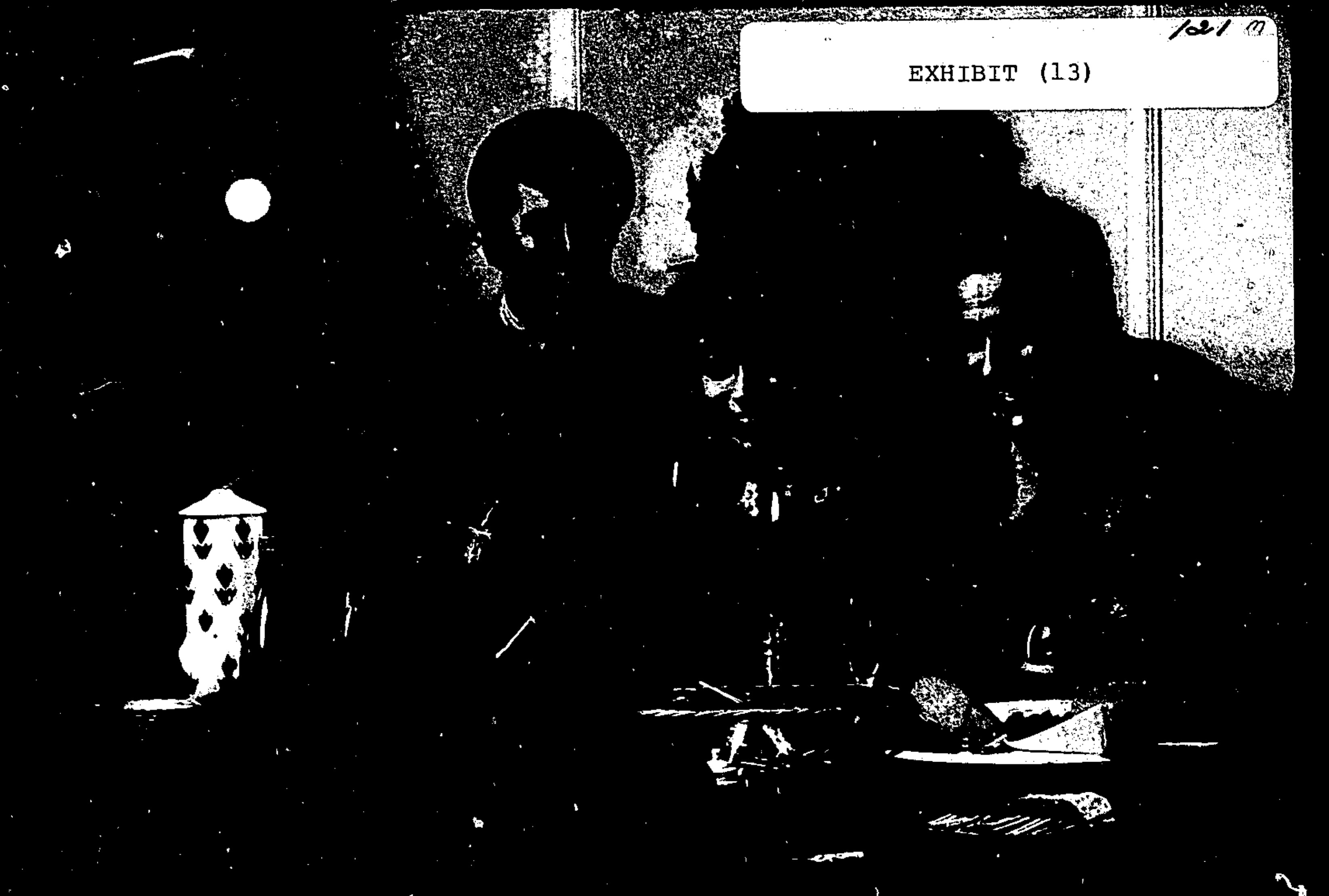
EXHIBIT (13)



GENERAL HOST

Annual Report for 1981

Financial Highlights
(In thousands, except per share amounts)

	1981	1980
Sales of continuing operations	$ 497,628	$ 424,713
Income from continuing operations before income taxes	$ 15,107	$ 22,005
Income taxes	3,469	10,589
Income from continuing operations	11,638	11,416
Discontinued operations, after income taxes		(18,142)
Income (loss) before extraordinary gains	11,638	(6,726)
Extraordinary gains	2,330	7,141
Net income	$ 13,968	$ 415
Primary earnings per share:		
Income from continuing operations	$ 2.46	$ 2.00
Discontinued operations		(3.18)
Income (loss) before extraordinary gains	2.46	(1.18)
Extraordinary gains	.49	1.25
Net income	$ 2.95	$ .07
Fully diluted earnings per share:		
Income from continuing operations	$ 2.10	$ 1.74
Extraordinary gain	.31	
Net income	$ 2.41	
Cash dividends	$ .45	$ .38¾
Working capital	$ 55,264	$ 48,251
Total assets	$ 266,527	$ 274,911
Long-term debt, including current portion	$ 124,237	$ 131,500
Shareholders' equity	$ 77,520	$ 64,026
Long-term debt as a percentage of total capitalization	62%	67%
Book value per share	$ 16.83	$ 14.05
Number of common shares outstanding	4,725	4,709

Unless specifically indicated or otherwise clear from the context, throughout this report all numbers of common shares and amounts per share reflect a two-for-one split of General Host stock accomplished by distributing additional shares on February 5, 1982.

Specialty Retailing Group

(Dollars in millions)

Specialty Food Stores	1981	1980
Sales	$ 90.7	$ 49.4
Percent of total	18%	12%
Operating income	$ 9.5	$ 13.4
Percent of total	25%	38%

Hickory Farms' 557 shops are located in high-traffic enclosed shopping malls. Hickory Farms is a major retailer of specialty foods and "gift paks" featuring a wide assortment of branded products, including the famous *Beef Stick* summer sausage as well as a broad line of cheeses.

Convenience Stores	1981	1980
Sales	$177.7	$163.1
Percent of total	36%	38%
Operating income	$ 8.3	$ 6.1
Percent of total	22%	18%

Little General operates 460 convenience stores in seven states, with over half of the stores located in Florida. About 45% of the stores feature self-service gasoline pumps, and an increasing number include snack food centers.

Hot Sam is the country's largest retailer of freshly baked soft pretzels. Hot Sam's 130 stores, located in enclosed shopping malls in 26 states, also sell other snack foods and beverages.

Food Products Group

(Dollars in millions)

Frozen Food Products	1981	1980
Sales	$ 77.7	$ 75.3
Percent of total	16%	18%
Operating income	$ 5.8	$ 2.5
Percent of total	15%	7%

Van de Kamp's is one of the country's leading producers of frozen foods. Van de Kamp's brands of fish and Mexican entrees and dinners are recognized for their high quality and fine taste. For good eating at home, Tambellini Foods has established a strong reputation as Pittsburgh's best producer of Italian frozen foods, especially pizza.

Salt and Agricultural Products	1981	1980
Sales	$ 76.3	$ 69.9
Percent of total	15%	16%
Operating income	$ 9.6	$ 8.7
Percent of total	26%	25%

Milk Specialties is a major producer of specialty feeds for young farm animals. Its primary product is milk replacer, which is fed to growing calves as a substitute for whole milk. Milk Specialties' *National* brand is the leading mink feed sold in the U.S.

American Salt is a regional producer of a full range of salt products for agricultural, water conditioning and food processing applications. It operates a rock salt mine and an evaporated salt plant in Kansas, and produces solar salt by channeling water from Utah's Great Salt Lake into solar evaporation ponds.

Specialty Food Products	1981	1980
Sales	$ 75.1	$ 67.0
Percent of total	15%	16%
Operating income	$ 4.3	$ 4.2
Percent of total	12%	12%

Cudahy Specialty Foods, a leading national processor of import-style deli-slicing hams under the *Cudahy* label, also produces a full line of consumer-size canned hams and luncheon meats. Under the *Margherita* and *Caruso* brands, Cudahy markets a broad line of high-quality dry sausages nationally.

Dear Shareholders:

It is with great satisfaction that we report the excellent results General Host achieved this year. At the outset of 1981, General Host set two major objectives for the year: to achieve earnings per share growth of 20% and to complete the divestiture of the fresh and processed meat segment of Cudahy Foods Co. We are pleased to tell you that both these goals were reached and exceeded during the year. The attainment of these short-term objectives will have a lasting impact on our future.

In 1981, primary earnings per share from continuing operations increased an impressive 23% to $2.46 ($2.10 fully diluted) versus $2.00 per share ($1.74 fully diluted) the previous year. Sales from continuing operations increased 17% to $498 million from $425 million.

In 1981, net income increased to $14 million from $415,000 in 1980, or to $2.95 per share ($2.41 fully diluted), versus $.07 per share in 1980.

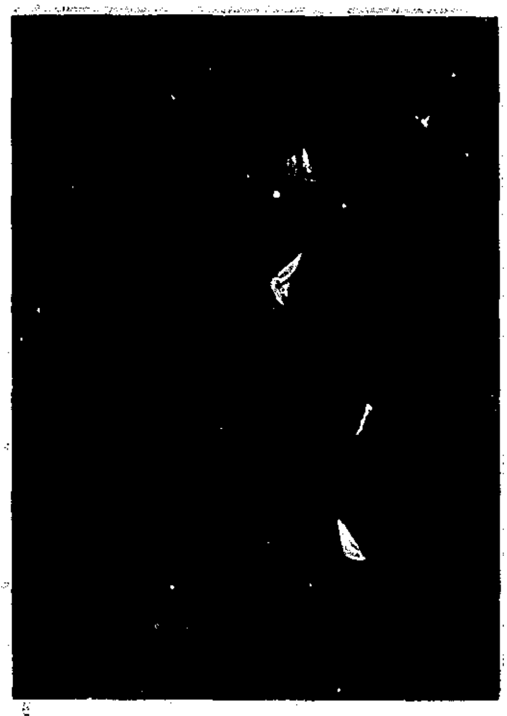
Despite losses of $2.9 million in the first three quarters due to high interest costs and Hickory Farms' seasonality, the Company's pretax income increased 40% in the fourth quarter—a significant achievement in any year, but particularly impressive in a recessionary environment which resulted in a poor Christmas selling season for many retailers.

Operating Performance

The sales and earnings contributions of our operations are now balanced, without undue dependence on any one business. That our specialty retailing businesses accounted for 54% of sales and 47% of operating income in 1981, reflects the growing importance of this segment in our overall business strategies. Hickory Farms of Ohio performed well despite a very weak economy and was the single largest contributor to operating income—about 25%. For the Christmas selling period, Hickory Farms sales from company-operated units totaled $43.5 million versus $32.4 million the prior year, or a 34% increase.

One of the most significant aspects of the past Christmas season was the increase in the number of Hickory Farms Christmas satellite stores to 1,012 from 698 last year. These units played a major role in the success of Hickory Farms during its most important season and contributed to the 12% earnings gain achieved by Hickory Farms in the fourth quarter.

Reflecting our continued confidence in Hickory Farms' potential, in November, General Host purchased 29 franchised stores in Chicago, Milwaukee and St. Louis, thereby increasing the Company's participation in major metropolitan markets. These stores bring the number of company-operated units to 224, or 40% of the total number of Hickory Farms stores. Most importantly, these purchases increase our position in Hickory Farms and our ability to maximize return on this exciting business.



Harris J. Ashton
Chairman of the Board, President and Chief Executive Officer

including current portion, was reduced by $7 million from the end of 1980; next year, debt repayments of only $3 million are scheduled. After repaying all seasonal borrowings, we finished the year with $32 million in cash and marketable securities.

Funds for 1982 seasonal working capital requirements are available without additional borrowings, and we anticipate that all 1982 requirements for capital expenditures will be met from internally generated funds.

Capital expenditures in 1981 totaled approximately $16 million, of which 63% was spent in the Specialty Retailing Group. In the coming year, capital spending should increase to approximately $25 million, with over 75% of the expenditures in the specialty retailing area.

Book value per share grew to $16.83 in 1981, a 20% rise and a reflection of the increased value of the Company.

On February 5, 1982, a two-for-one split of the Company's common stock was completed by means of a distribution of stock, as a result of which the Company now has approximately 4.7 million shares outstanding. We believe that the increased number of shares will facilitate trading and make our stock more attractive to investors.

Also in 1982, the Board of Directors voted to increase the quarterly cash dividend to $.12½ per share from $.11¼ per share, after the stock split. On an annual basis this brings the dividend to $.50 per share. By increasing the dividend, the Board of Directors has expressed its confidence in the continued growth of General Host. 1981 dividends were non-taxable because the Company realized for tax purposes a substantial portion of the Cudahy divestiture losses, which were provided for in the 1980 financial statements.

During the year, General Host continued its firm commitment to its role as a socially responsible Company. One of the many ways we demonstrated our corporate citizenship was through active participation in fundraising campaigns conducted by Hickory Farms and Little General, respectively, on behalf of the Muscular Dystrophy and Cerebral Palsy Telethons.

In sum, 1981 was an outstanding year for General Host. The Company established itself as a specialty retailer and specialty foods processor with an objective of increasing earnings per share 20% per year through 1984.

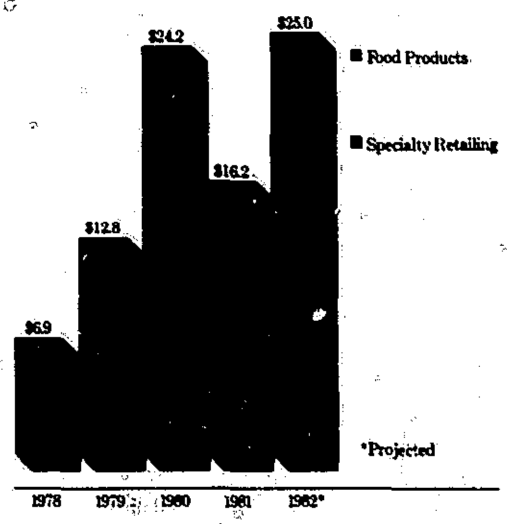
General Host's financial performance last year was in large measure the result of the substantial contributions of its employees. The Company's success was also made possible by the strong support and encouragement of our shareholders. To all, we express our sincere gratitude and look forward to 1982 as a year of even greater achievement.

Harris J. Ashton

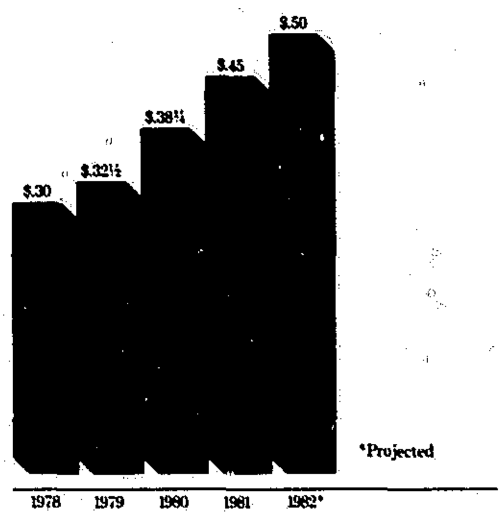
Harris J. Ashton
Chairman of the Board

March 10, 1982

Capital Expenditures of Continuing Operations Millions of dollars



Cash Dividends per Share Dollars

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Review of Operations

Hickory Farms of Ohio

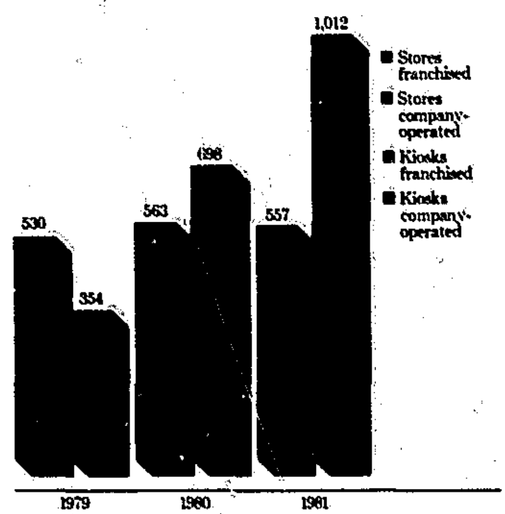
In 1981, Hickory Farms contributed 25% of General Host's operating income. The strength of Hickory Farms' consumer loyalty was demonstrated by its performance during the Christmas season, which accounted for 52% of the full year's revenues. Despite the generally lackluster Christmas season experienced by most retailers, Hickory Farms' company-operated units increased sales by 34%. Because we acquired Hickory Farms of Ohio in July 1980 and its principal franchisee, Hickory Farms Sales Corp., with its 113 stores, in December 1980, operating income was lower this year than in 1980. This reflects their operating losses for the first three quarters of 1981.

The single most important factor in the growth of Hickory Farms in 1981 was the increase in the number of temporary Christmas selling units, or satellite stores, to 1,012 from 698 the prior year. Most satellite stores are free-standing kiosks established for the holiday period to supplement permanent store locations. Kiosks typically have limited product selections and concentrate on holiday gift packages. Because customer traffic is heaviest at Christmas, the kiosk program is an effective strategy for capturing additional sales without adding significant overhead costs. Over the years, Hickory Farms has refined the placement of kiosks to minimize any reduction of permanent store sales.

One of the factors that contributed to Hickory Farms' success this year was a national television advertising program during the Christmas period. As the only company in its category with sufficient geographic coverage to justify advertising in national media, Hickory Farms was able to use television as an effective advertising medium, both on the national and local levels. The more aggressive approach was devised by Hickory Farms' new advertising agency, which repositioned the company's consumer image using new research data.

Hickory Farms store employees are specially trained to offer samples to customers as an inducement to purchase. An assortment of more than 125 cheeses gives the customer a broad selection from which to sample and buy.

Hickory Farms Store and Kiosk Growth



This is most apparent in the new advertising signature, *We'll give you a taste of old-time country goodness.* This tag line reflects customers' perception of Hickory Farms as a brand that people associate with tasty, homemade, traditional high-quality foods. Research also revealed that Hickory Farms has achieved an extremely high level of awareness among consumers, further corroborating the effectiveness of the advertising campaign.

Hickory Farms continues to be well positioned to take advantage of consumer trends. Specialty food stores have become the fastest growing segment of food retailing, with cheese the leading growth category. Much of this growth is attributed to the increase in at-home entertainment. In the last decade, per capita cheese consumption has grown dramatically, a trend that greatly benefits

Hickory Farms. Cheese presents a continuing growth opportunity, particularly in the natural chunk form in which Hickory Farms specializes. The shift in consumer tastes away from sweet goods toward natural, wholesome foods also favors Hickory Farms, *America's Leading Cheese Stores.*

An essential part of Hickory Farms' business is the sale of "gift paks" for Christmas. While most gift paks are sold during the Christmas period, increasing efforts are being made to promote them at other gifting occasions, such as Easter and Father's Day. In difficult economic times, consumers frequently choose practical gifts, such as food, a trend that also favors Hickory Farms.

Gift-giving by mail has become a $25 billion annual business, and by 1985 industry forecasters predict that 15% of all consumer purchases will be by mail. In an effort to capitalize on this trend, Hickory Farms introduced a mail order catalog last Christmas to test potential consumer response. The results were encouraging and more test mailings will be conducted in the coming year. A pilot program of sales to commercial customers also was successful and plans are under way to expand that effort next year.

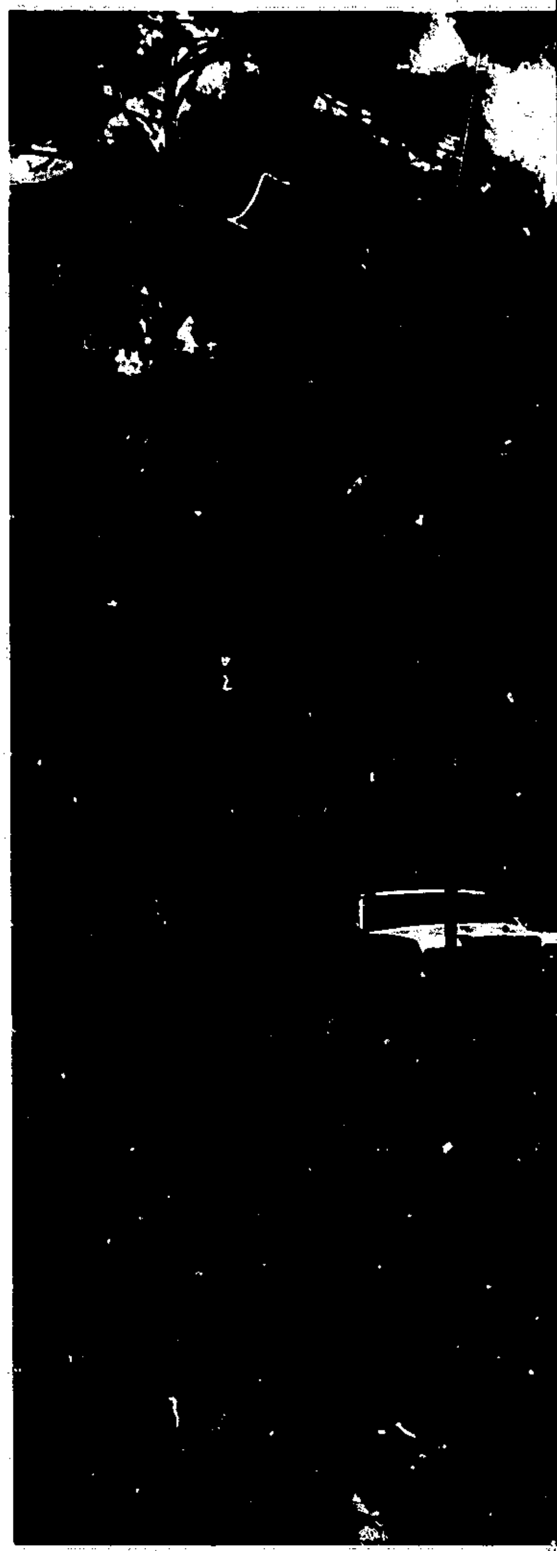
Hickory Farms' growth in 1982 will continue to be based on aggressive merchandising and advertising of its existing products, such as *Beef Stick* summer sausage, and the introduction of new products. Another important element will be a planned expansion of the number of kiosks to 1,500 for the 1982 Christmas season. Along with the opening of 20 new company-operated stores, Hickory Farms also intends to pursue aggressively the sale of franchises during the coming year. The continued expansion of Hickory Farms is an expression of confidence in its excellent future earnings potential.

Little General Stores

The rapid growth of convenience stores in the United States reflects an important shift in the shopping habits of Americans: the consumer is willing to spend more money in order to save time. Increasing affluence, mobility and the growing number of working women contribute to a trend that favors the continued growth of the convenience store industry. Demographic patterns suggest consumers are purchasing smaller packages and making more frequent shopping trips—trends which also favor the convenience store concept.

About 72% of Little General's 460 stores are located in the strong economic environments of Florida and Louisiana—and 25 new stores are planned for those states in 1982. Because of the nature of the business—convenience—the key to a successful store remains its location. Over the years, Little General has developed sophisticated evaluation methods for site selection. Most Little General stores are located near suburban neighborhoods, frequently at high-traffic intersections, and are intended to present easy access to both neighborhood customers and passing traffic.

The continued decline of "superettes" and the contracting number of retail gasoline outlets have created favorable conditions for future store growth. Because gasoline is a proven traffic builder, 45% of all Little General stores are equipped with self-service gasoline



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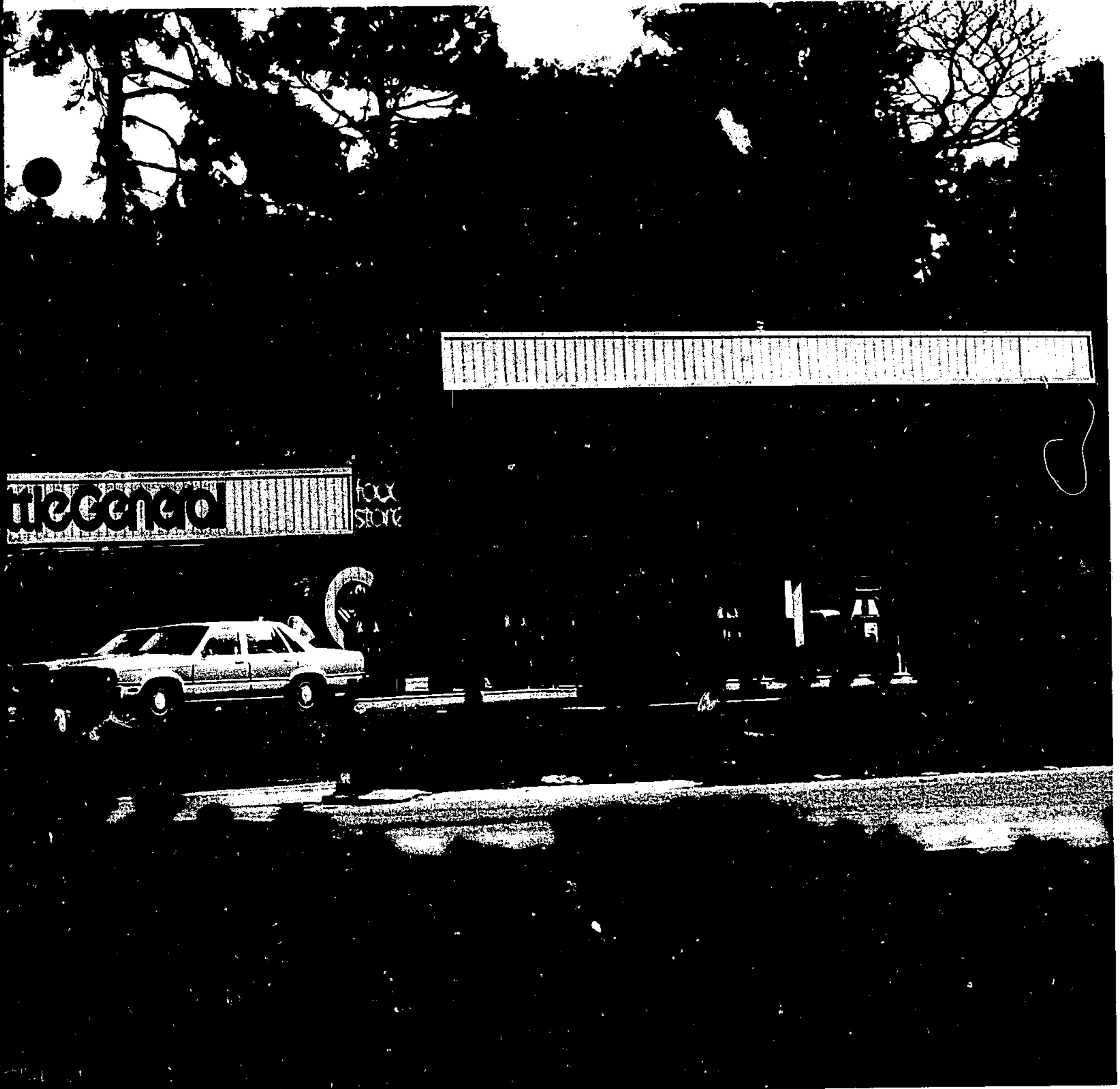

Above: Little General's appealing new store design attracts customer traffic and increases sales of convenience items and gasoline.

Left: Snack food centers are an important part of the overall convenience offered by Little General stores. Hungry customers can satisfy their appetites with hamburgers, sandwiches or a variety of snack foods.

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pumps, and all new stores, including 16 opened in 1981, are similarly furnished. To date, new units with pumps have averaged 50% greater volumes of gasoline than existing units. Although gasoline margins narrowed in 1981, about 28% of Little General's operating income came from gasoline sales.

In addition to location, a key factor in a convenience store's success is its design and visual appeal. As a consequence, Little General has embarked on an aggressive remodeling program. In 1981, 29 stores were remodeled using appealing new graphics and signage with 100 more scheduled for 1982. The decision to accelerate the program was based on the substantial sales gains experienced in remodeled stores.

In-store merchandising can frequently make the difference between success and poor results. Little General places strong emphasis on effective display of its merchandise and the placement of point-of-purchase materials. Frequent promotions, sometimes backed by media advertising, create customer interest and increase the dollar amount of the average purchase. Consumer satisfaction is closely linked with store inventory levels: a fully stocked store dramatically increases the probability of impulse purchases and a customer who will return. An important contributor to this year's 41% increase in operating income was improved in-stock condition in all stores.

A growing consumer trend is the desire for take-out fast food and beverages. Accordingly, many of Little General's stores now include a snack center featuring high-margin prepared foods.

Much of Little General's growth can be attributed to tightly controlled operating procedures and effective execution of merchandising strategies—practices that should continue to make Little General profitable in the future.

Hot Sam Companies

The Hot Sam concept is a simple one: sell a quality product with a high perceived value and gross margin, and present it in a unique format. Successful implementation of this "niche strategy" has made Hot Sam the largest retailer of freshly baked soft pretzels in the country. The viability of the concept is demonstrated by Hot Sam's consistently profitable performance.

The product Hot Sam emphasizes is the pretzel, which is the mainstay of its business. An expanding selection of beverages generates additional sales and traffic. Effective point of purchase materials and store graphics reinforce Hot Sam's dominant position as the nation's leading pretzel retailer—more than 15 million pretzels were sold in 1981. Much of this year's marketing efforts centered on creating "plus" sales through the addition of a new line of pretzel toppings, including cheese and chocolate. Without diluting the basic concept, these toppings dramatically increase the number of transactions and the amount of the average purchase. These marketing programs have been so successful that the *Hot Sam* name has become synonymous with soft pretzels.

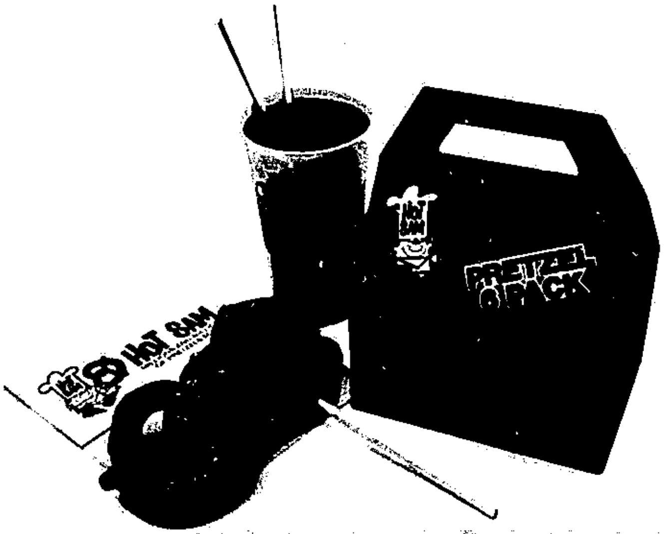
A key to Hot Sam's marketing effort is the image projected by its stores. In the competitive mall environment where Hot Sam's 130 stores are located, success is heavily dependent on the ability to attract customer attention. To that end, in 1980 Hot Sam began an aggressive program of remodeling all its stores, which will be completed in 1983. A contemporary design, bold graphics and effective lighting have resulted in an average 30% sales increase in the 23 stores remodeled in 1981. Hot Sam plans to open ten new stores and remodel 40 more in the coming year.

Operationally, Hot Sam continues to be an efficient, streamlined organization, which uses innovative techniques for training store personnel. By concentrating on its one-product concept, it can be expected to accelerate its historic growth pattern.

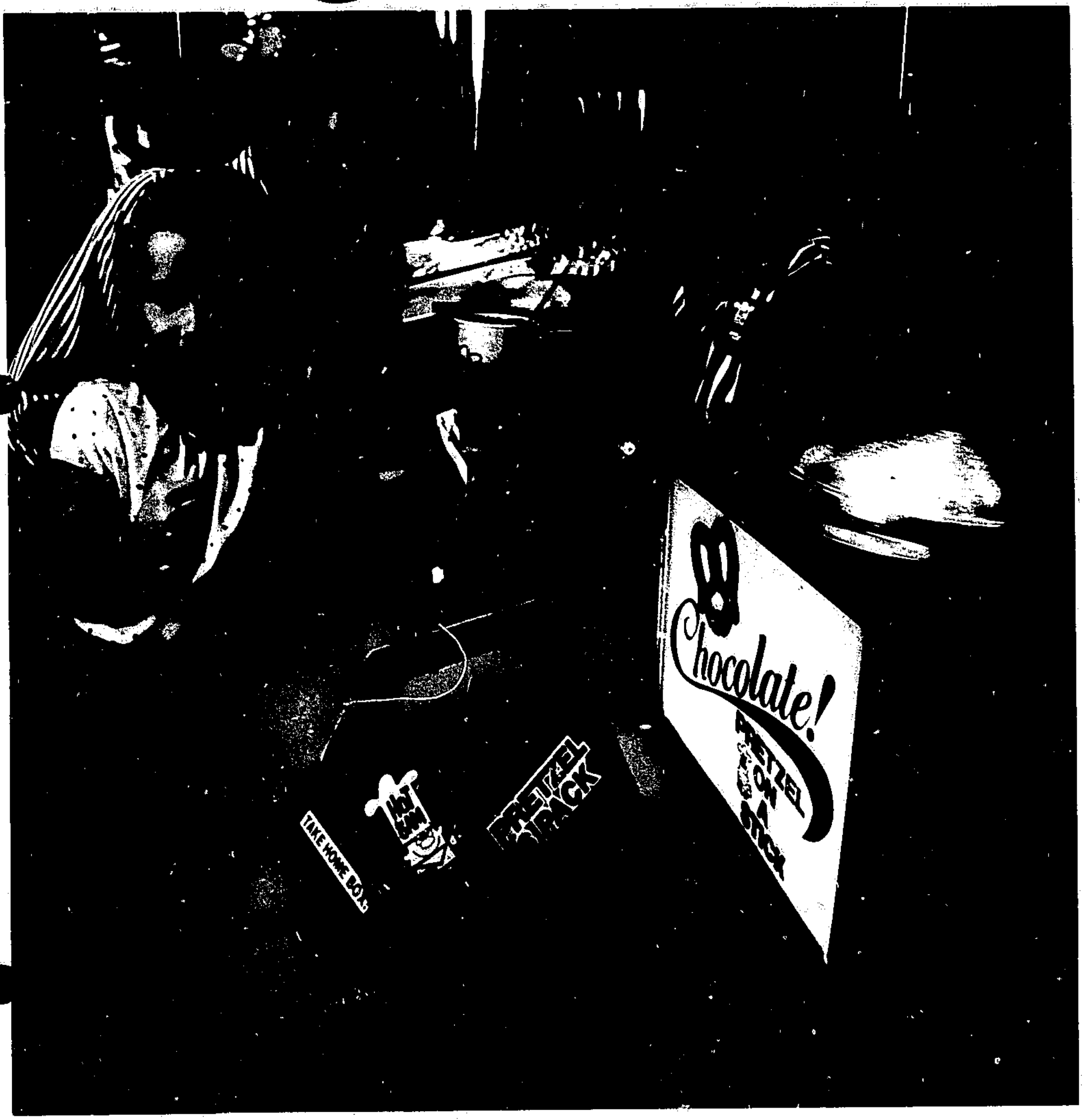
Van de Kamp's Frozen Foods

Van de Kamp's has continued to capture market share in the highly competitive frozen food business by means of a combination of superior products and aggressive marketing. Through its two primary product lines—fish and Mexican foods—Van de Kamp's further consolidated its position as a leading producer and marketer of national consumer brands. Van de Kamp's strategy of creating new products to minimize its vulnerability to market fluctuations yielded high returns in 1981.

Despite declines in frozen seafood sales due to a recessionary economy, Van de Kamp's strongly rebounded from its 1980 performance and more than doubled its operating income. The battered fish segment, which Van de Kamp's pioneered, declined 28% in 1981 as consumers traded down to less expensive products and, in particular, breaded fish. In anticipation of this shift in consumer demands, *Light & Crispy*, a high-quality breaded fish product with a unique formulation and outstand-



Hot Sam's customers can choose different toppings to add flavor to their pretzels. The chocolate-covered pretzel, the most recent product introduction, is proving very popular with children.



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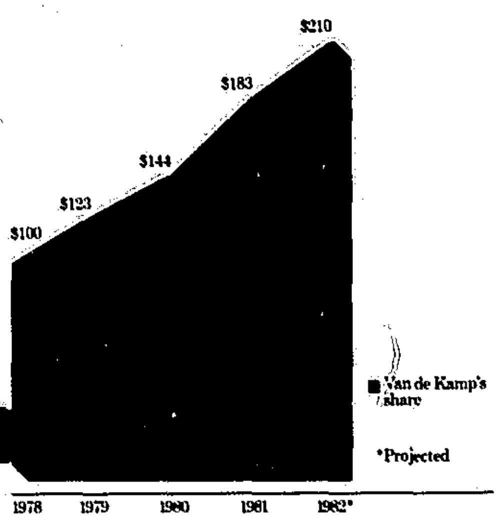
Mexican Classics is designed to appeal to the growing number of affluent single- and two-person households that place an emphasis on quality products.

ing taste characteristics, was introduced in 1980. Since then, *Light & Crispy* has gained a 7% share of the breaded fish category, which accounted for 47% of the total frozen fish market. The product, which was rolled out nationally in 1981, continues to gain distribution and shelf position. In 1982, Van de Kamp's will continue to assess growth opportunities and introduce new products that meet the demands of a changing marketplace.

Growth of U.S. Frozen Mexican Food Market Millions of dollars



The *Mexican Classics* introduction in 1980 was a response to consumer demands for quality frozen Mexican food. The rapid growth of Mexican restaurants and the increase of Mexican canned food sales, coupled with a population that is eager to experience new foods, all contribute to a bright potential for this market. In the last decade, the consumption of Mexican main dishes in the home has increased 88%. The current annual growth rate for frozen Mexican foods is 15%.

Since 1969, Van de Kamp's has processed and sold economy Mexican dinners, achieving significant market penetration—30% in the Los Angeles market alone. *Mexican Classics'* premium product line of frozen Mexican entrees was developed to appeal to the growing number of single- and two-person households with high levels of disposable income. Research has shown that these groups are more interested in quality and product satisfaction than in cost. Since its introduction 18 months ago, *Mexican Classics* has captured a 56% market share of the total U.S. premium market for frozen Mexican foods. This is an impressive accomplishment because, to date, the product line has been available only in limited markets.

The impact of *Mexican Classics* has been dramatic: in addition to creating a new market, it has increased Van de Kamp's share of the economy dinner line and enlarged the entire Mexican category in those markets where it has been introduced. Early in 1982, Van de Kamp's extended the *Mexican Classics* line from four to seven entrees by introducing a chicken enchilada, a soft burrito and a shredded beef taquito, or "rolled taco."

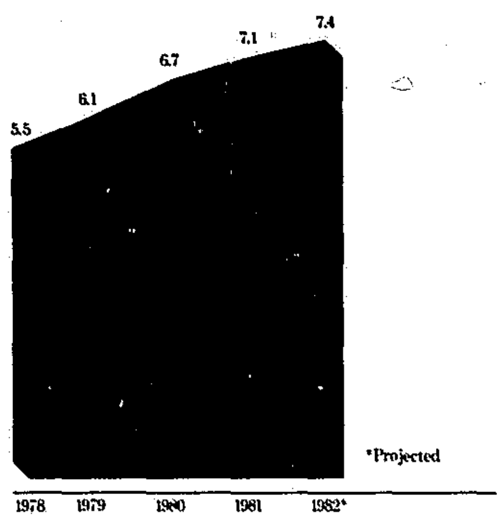
Tambellini Foods was acquired in 1980 to support the development of the frozen food business. Pittsburgh-based Tambellini is a regional producer of Italian frozen and refrigerated foods, primarily pizza. As a significant factor in its region, its strategic potential is currently being explored on a test basis in contiguous markets. A fundamental strength of Tambellini is its value as a source of technical and product know-how, particularly in ethnic foods. While still in the developmental stage, Tambellini offers potential growth beyond its current specialization.

Cudahy Specialty Foods Co.

The past year was one of transition for the newly independent Cudahy Specialty Foods as it successfully established an identity distinct from Cudahy's fresh and processed meat operations, which were divested during the year. At the same time it was a difficult year for Cudahy, with improved profits in its dry sausage business, but a shortfall in its canned ham business.

The industry as a whole experienced high raw materials costs, causing higher retail prices, which resulted in reduced consumption. The strength of the dollar increased foreign competition in the ham market, giving imported hams a marked price advantage at the retail level. Nevertheless, Cudahy's *Holiday* slicing hams have increased their overall market share in service delicatessens due to strong customer preferences.

Cudahy Specialty Foods' Share of U.S. Canned Ham Sales Percent



In a highly competitive market, Cudahy's dry sausage product line has strong brand recognition: *Margherita* pepperoni is one of the leading brands in the country. Cudahy's strategy is to capitalize on the success and reputation of the *Margherita* brand by introducing the entire family of

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Margherita dry sausage and slicing hams in service delicatessens. Pizza manufacturers continue to represent strong growth potential in the dry sausage business; pepperoni generates substantial volume from leading pizza producers. Cudahy sales to this segment grew approximately 20% in 1981 and are targeted to increase even more in the coming year.

Cudahy also serves as the American representative of several European and New Zealand companies for the sale of natural sausage casings in the United States. Although the strength of the dollar adversely impacted the U.S. casings industry in 1981, prospects for the coming year are improved.

Cudahy's sausage products and hams make a perfect addition to any eating occasion—outdoors or indoors.

Milk Specialties Company

Milk Specialties is a leading producer of nutritional feeds for young farm animals and is a major force in the milk replacer market as a private label manufacturer. Milk replacer is fed to dairy calves in place of whole milk, thus allowing the farmer to sell his whole milk production for more than the cost of milk replacer. The principal ingredient of milk replacer is whey, which is fortified with other protein sources and additional fats and vitamins.

In a business highly oriented toward private label production, assurance of product quality and exacting manufacturing specifications are basic customer requirements. Over the years, Milk Specialties has invested in research and, as a result, has become the acknowledged leader in a field in which nutritional expertise is of utmost importance. The largest feed companies have sufficient confidence in this expertise to put their own names on Milk Specialties' products.

A new plant in Huntley, Illinois, opened in 1981, incorporates new manufacturing techniques which should improve overall product quality while allowing greater flexibility in changing ingredient sources. As the market leader in milk-based specialty feeds, Milk Specialties also produces a line of feed for veal calf raisers and a milk-based diet supplement for young horses, *Start To Finish.*

Under the *National* brand, Milk Specialties is the leading domestic producer of mink feed, which represented 14% of overall Milk Specialties sales in 1981. Through its company-owned research facility, it has pioneered the development of a dry pellet feed. The high-protein fish meal-based pellets provide a complete mink diet. Because the pellets are readily usable in automated feeding systems, they result in substantial labor and cost savings for the rancher. Most importantly, mink fed with the pellets yield high-quality pelts. In 1981, volume growth of this product was 75%, clearly denoting acceptance by leading ranchers.

Since the introduction of pelletized mink feed, Milk Specialties has developed a considerable export business in the United Kingdom; last year, volume doubled in this market. A licensing agreement is currently under negotiation with a major Danish manufacturer for the production of mink feed pellets for the Northern European market.

Milk Specialties' salespeople emphasize customer contact as an important factor in their business success. This method of doing business is closely linked to service and continues to build customer trust and confidence for Milk Specialties. The marriage of a quality line of products with specialized selling has resulted in Milk Specialties becoming a major factor in a small but important segment of the agribusiness.

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American Salt Company

Although earnings of American Salt increased slightly in 1981, the year was a difficult one as a combination of drought conditions and depressed livestock markets reduced product demand. As a major supplier of salt for agricultural applications, American Salt's Lyons, Kansas facility experienced volume reductions. The shortfall was partially offset by the development of an expanded market for solar salt. American Salt produces solar salt from evaporation ponds, which use as their source water diverted from the Great Salt Lake in Utah. Under certain oil well drilling conditions, salt is used to saturate drilling mud. The surge in oil exploration in the Overthrust Belt of the Intermountain states has significantly increased the market for solar salt, which accounted for substantial volumes at American Salt in 1981.

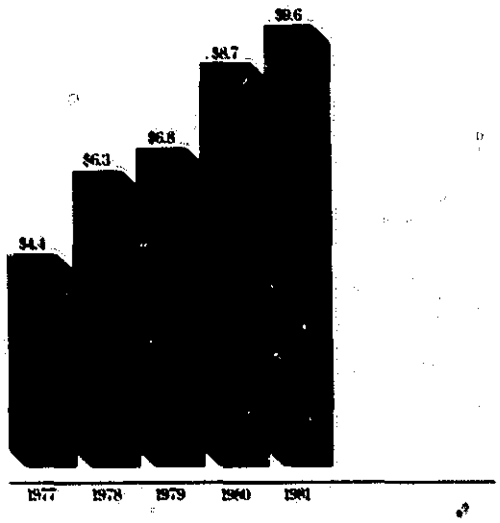
As part of its ongoing effort to remain an efficient producer, American Salt continues to seek methods to reduce manufacturing costs, particularly those relating to energy. In this regard, favorable long-term natural gas commitments were arranged during 1981.

American Salt has a diversified product line allowing it to take advantage of opportunities in the marketplace. This balance of rock and vacuum pan salt in Kansas and solar salt in Utah enables American Salt to weather changes in market demands. In addition to the agricultural market, American Salt is a major supplier of water softening and food processing salt.

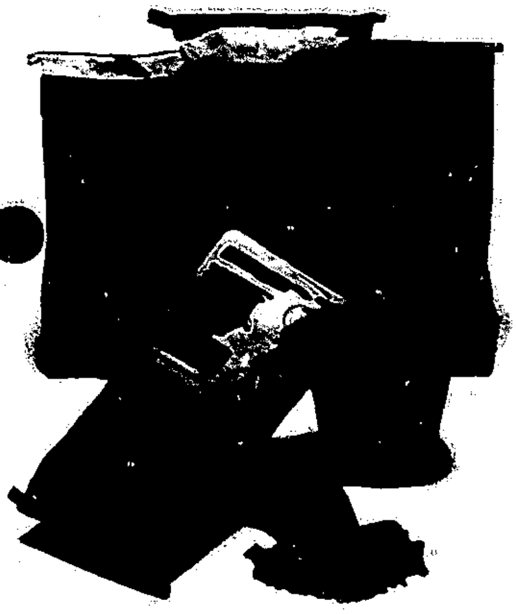
Water softening salt represents a substantial and growing market for high-margin products sold both under the American Salt label and through private distribution channels. More than seven million homes in the United States use water softening units, each of which requires up to 1,000 pounds of salt annually.

With the more exacting demands for food processing salt, American Salt's family of food grade salts has achieved a significant market position by providing consistent product flavor, high quality and low cost. These salts, including *Uni-Cube*, a major American Salt brand, afford food processors the advantage of even distribution of high-purity salt throughout the finished product. *Uni-Cube* is sold for use in a variety of foods ranging from crackers to canned goods.

Salt and Agricultural Products Operating Income Millions of dollars



In the price-sensitive salt industry, where freight is often the largest part of a customer's cost, shipping costs define marketing areas. Despite this limitation, American Salt continues to achieve market share gains in its trade area as a result of its stress on customer service and its dedication to low-cost production.



Milk Specialties' milk replacer is sold nationally under private labels to farmers who want to be assured of nutritionally superior feed for their calves.

A growing number of American homeowners are installing water softening units, which use salt as a conditioning agent. American Salt supplies substantial product to this market, which currently represents seven million American homes.

Financial Report

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Financial Summary

Over the past several years, General Host's financial profile has changed considerably. From a Company dominated by cyclical, commodity-driven businesses, General Host has evolved into a balanced specialty retailing and specialty foods processing company with a more predictable earnings stream. In large part, this has resulted from the acquisition of Hickory Farms of Ohio and its largest franchisee in 1980, their integration into General Host during 1981, and the divestiture of Cudahy's fresh and processed meat segment.

While Hickory Farms has made General Host more profitable, it has also made the Company's earnings more seasonal, since the major share of Hickory Farms' business is transacted during the Christmas period. For this reason, General Host's financial performance should be evaluated on an annual, rather than a quarterly, basis to obtain a true measure of the Company's progress.

To aid in understanding the financial impact of the changes in General Host's business, several key areas are highlighted below.

Sales and Income of Continuing Operations

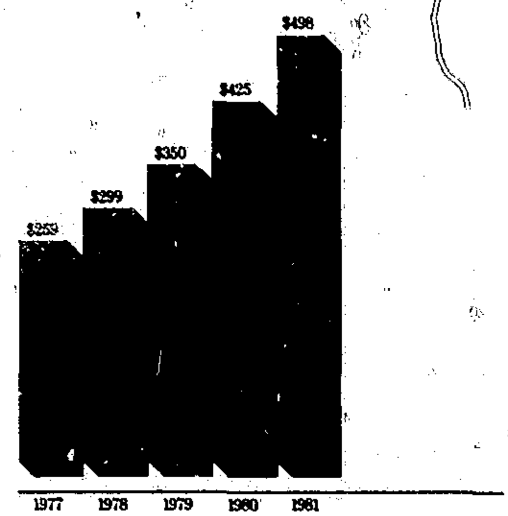
Sales of continuing operations grew to $498 million in 1981 from $259 million in 1977, an 18% per year compound growth rate. In 1981, sales rose 17% to $498 million from $425 million in 1980. Operating income grew to $37.6 million in 1981 from $14.6 million in 1977, a compound growth rate of 27% per year. In 1981, operating income increased 8% to $37.6 million from $34.9 million in 1980.

Income from continuing operations, which also includes other income, interest and debt expense, unallocated administrative expense and income taxes, rose to an $11.6 million profit in 1981 from a loss of $341,000 in 1977. Primary earnings per share from continuing operations improved to $2.46 in 1981 from a loss of $.10 in 1977. The year-to-year increase in primary earnings per share in 1981 was 23%, even though the improvement in income from continuing operations in total dollars was relatively modest. This was due to a one million share reduction in average shares outstanding as a result of major stock repurchases in June and November of 1980.

As a result of the effects of investment tax credit carryforwards, income tax provisions in the financial statements have fluctuated. In 1981, the Company realized $3.6 million of investment tax credit, resulting in a favorable effective tax rate of approximately 23% for the year. The Company has $1.7 million of additional investment tax credit carryforwards available to reduce future income tax provisions. However, even with anticipated 1982 investment tax credits, the Company's 1982 effective income tax rate should be closer to 40%.

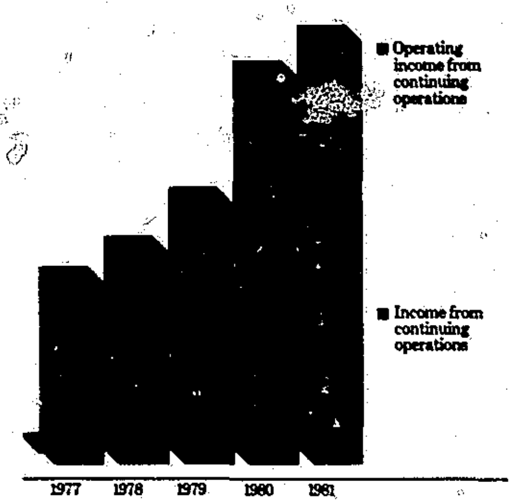
Sales of Continuing Operations

Millions of dollars



Income

Millions of dollars



Pro Forma Results of Continuing Operations

(In millions, except per share amounts)	Actual 1981	Actual 1980	Pro Forma 1980
Sales of continuing operations	$498	$425	$456
Operating income	$ 37.6	$ 34.9	$ 29.1
Income from continuing operations	$ 11.6	$ 11.4	$ 5.6
Primary earnings per share	$ 2.46	$ 2.00	$ .98

If the Hickory Farms businesses had been owned during all of 1980, their losses during the first three quarters of the year would have reduced General Host's 1980 operating income to $29.1 million. Operating income improved 29% over 1980 on this pro forma basis, even though consolidated sales increased only modestly in 1981. Using the same assumption, operating income of the Hickory Farms businesses grew 25% to $9.5 million in 1981 from approximately $7.6 million in 1980. Pro forma income from continuing operations, which also includes the cost of carrying the investment during the early part of the year, was about $5.6 million in 1980, and the $11.6 million of income from continuing operations in 1981 represented an increase of more than 100%. The corresponding improvement in primary earnings per share from continuing operations was more pronounced, an increase to $2.46 from $.98.

Capitalization

Long-term debt represented 73% of total capitalization at the end of 1977 and 62% at the end of 1981. If all convertible debentures outstanding were to be converted into common stock, the ratio would drop to 41%.

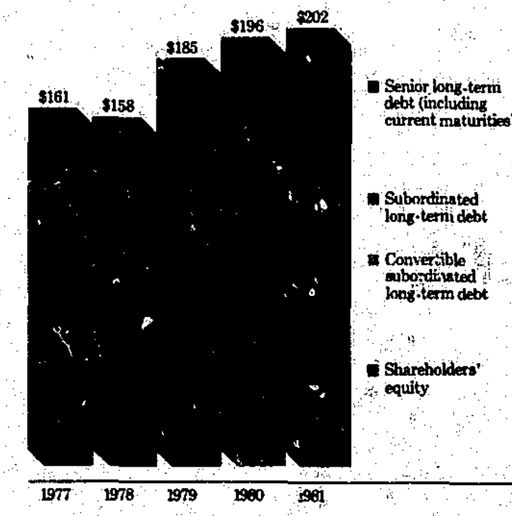
As of the end of 1981, only $14 million of long-term debt was subject to fluctuating interest rates. A one percentage point change in interest rates would increase or decrease the Company's interest expense by only $128,000 per year. The remaining $110 million of fixed rate debt had a weighted average interest rate of approximately 11%.

General Host continues to have $55 million of borrowing capacity under credit agreements with banks. However, the Company expects to meet its seasonal working capital needs and to finance capital additions without additional borrowings.

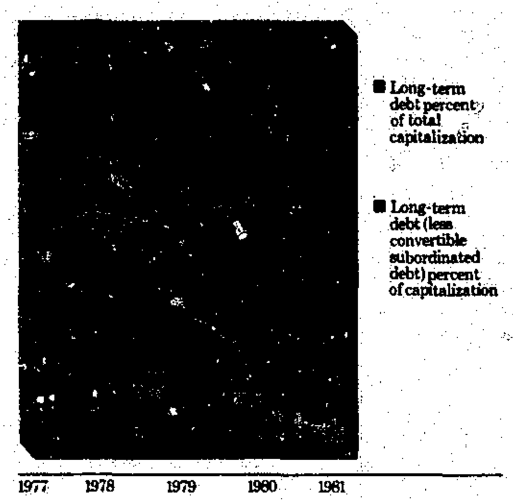
Over the past five years, book value per share has trended upward, reflecting the progress of the Company. Despite the Cudahy divestiture, book value per share grew to $16.83 in 1981, a 20% rise over 1980.

In summary, General Host's financial position is well structured to meet the uncertainties of the economy. An improved balance sheet and a more stable earnings stream should allow the Company to grow at rates well in excess of inflation and insulate itself from the most damaging aspects of the turbulent economic environment.

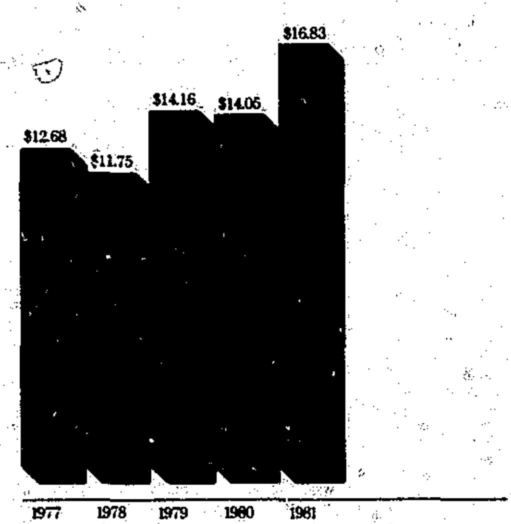
Capitalization Millions of dollars



Long-Term Debt as a Percentage of Capitalization (including current maturities) Percent



Book Value per Share Dollars



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Management's Discussion and Analysis of Financial Condition and Results of Operations

Capital Resources and Liquidity

The Company's continuing operations generated working capital of $27,796,000 in 1981, $29,128,000 in 1980 and $21,478,000 in 1979. Cash flow from operations was the primary source of financing for capital additions during this three-year period; additions to property, plant and equipment amounted to $16,176,000 in 1981, $29,512,000 in 1980 and $17,102,000 in 1979, including $4,250,000 in 1981 and $6,250,000 in 1980 financed with industrial revenue bond obligations.

Long-term debt as a percentage of total capitalization decreased to 62% at the end of 1981 from 67% at the end of 1980, as long-term debt was reduced approximately $7 million and shareholders' equity increased more than $13 million, due entirely to 1981 net income. At the beginning of 1980, long-term debt as a percentage of total capitalization was 55%. During 1980, long-term debt increased approximately $30 million, primarily due to financing for the Specialty Food Stores (Hickory Farms of Ohio) acquisitions (Note 2), and shareholders' equity decreased $18,856,000 as a result of purchasing 1,513,100 shares (restated for the two-for-one stock split) of the Company's common stock during 1980.

The Company's revolving credit and term loan agreements provide for borrowings of up to $70,000,000, of which $15,000,000 was outstanding at year-end. In addition, the Company has $8,000,000 of short-term lines of credit available. The Company's operations are highly seasonal and virtually all of its earnings are realized in the fourth quarter. In 1981, the Company borrowed various amounts, ranging as high as $25 million, to meet seasonal working capital needs. After repaying all of its 1981 seasonal borrowings, the Company ended the year with $32,125,000 in cash and marketable securities. The Company does not expect to borrow any significant amounts in 1982 to meet seasonal working capital needs or to finance capital additions.

As a result of discontinuing the fresh and processed meat business segment of Cudahy Foods Co. in 1980 (Note 4), the Company recovered approximately $16 million in cash from sales of assets during 1981, and expects to recover an additional $6 million in cash over the next few years. During 1981, the Company paid approximately $11 million of employee termination and other costs of discontinuing these operations, and expects to pay another $12 million over the next several years. After receiving the principal amount of a $6 million secured promissory note, due in annual installments in 1985 through 1991, and realizing income tax savings as items covered by the loss provision become deductible for tax return purposes, the Company expects a net cash recovery in excess of approximately $18 million.

For a discussion of the estimated impact of inflation on the Company's financial statements see pages 41 through 43 of this annual report, which contain the supplementary information on inflation that is required by Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices.

Results of Operations

1981 Compared with 1980. Sales of the Company's continuing operations for 1981 increased $72,915,000 or 17% compared with 1980, as sales increased at all of the Company's operations. The sales increase of $41,381,000 at the Specialty Food Stores operations reflects the benefit of including sales for the full year 1981, as compared with partial year sales after the dates of acquisition in 1980. Sales of the Company's Convenience Stores (Little General Stores and Hot Sam Companies) operations increased $14,686,000 or 9%, as average sales per store increased 10% at Little General convenience stores and largely offset a decline in the number of stores. Sales of the Company's Specialty Food Products (Cudahy Specialty Foods Co.) operations increased $8,082,000 or 12%, entirely because starting August 28, 1981 sales to Bar-S Foods Co. (Note 4) replaced intercompany inventory transfers to discontinued operations. Sales increased $6,368,000 at the Salt and Agricultural Products (Milk Specialties Company and American Salt Company) operations and $2,398,000 at the Frozen Food Products (Van de Kamp's Frozen Foods and Tambellini Foods) operations, due principally to higher selling prices at both these business segments.

Net income for 1981 increased to $13,968,000 compared with net income of $415,000 in the prior year. 1981 net income includes an extraordinary federal income tax benefit of $2,330,000 from utilizing loss carryforwards (Note 6), while 1980 net income includes an extraordinary gain of $7,141,000 from a debenture exchange (Note 5) and an after-tax loss from discontinued operations of $18,142,000 (Note 4). The 1980 loss from discontinued operations resulted from (1) the

$28,500,000 pre-tax loss provision established in connection with the discontinuation of the fresh and processed meat operations of Cudahy Foods Co. and (2) $1,756,000 of operating losses for 1980 (after including a $1,238,000 gain on sale of a Cudahy Foods distribution center in early 1980), less (3) income tax benefit of $12,114,000 (Note 6). Income from continuing operations in 1981 amounted to $11,638,000 compared with $11,416,000 in 1980. Operating income increased $2,689,000 in 1981, primarily due to increased operating profits at the Company's Frozen Food Products operations and Convenience Stores operations, which more than offset a decline at the Specialty Food Stores operations. Operating profit increased $3,188,000 at the Frozen Food Products operations and $2,254,000 at the Convenience Stores operations, both due to improved profit margins. Operating profits at the Company's highly seasonal Specialty Food Stores operations, acquired during the latter half of 1980 (Note 2), declined $3,860,000 because 1981 results included all of this business segment's operating losses for the first three quarters of the year. Operating profits increased $936,000 at the Salt and Agricultural Products operations due to improved profit margins. Other income in 1981 declined $4,433,000, due to (1) lower interest income on short-term investments and (2) lower investment gains (Note 3). Increases in interest and debt expense of $4,187,000 and unallocated administrative expense of $967,000 were more than offset by a lower provision for income taxes of continuing operations, including $3,629,000 utilization of investment tax credit in 1981.

Primary and fully diluted earnings per share in 1981 and 1980 have been restated to reflect the two-for-one stock split (Note 1). Average shares outstanding in 1981 reflect the full year effect of repurchasing 1,513,100 common shares (restated) during 1980.

1980 Compared with 1979. Sales of the Company's continuing operations for 1980 increased $74,338,000 or 21% compared with 1979. Of that increase, $49,363,000 represented sales of the Specialty Food Stores operations after they were acquired during 1980 (Note 2). Sales of the Convenience Stores operations increased $15,022,000 or 10%, as average sales per store increased. Sales of the Salt and Agricultural Products operations increased $9,106,000 or 15%, due principally to higher selling prices. Sales of the Specialty Food Products operations increased $1,223,000 or 2%, entirely as a result of increased unit volume. Sales of the Frozen Food Products operations declined $376,000, as a unit volume decline at Van de Kamp's Frozen Foods more than offset the increase in sales which resulted from the acquisition of Tambellini Foods in the first quarter of 1980.

Net income for 1980 amounted to $415,000 compared with net income of $29,470,000 in 1979. The decline in 1980 net income resulted primarily from the loss provision established in connection with the discontinuation of the fresh and processed meat operations of Cudahy Foods Co. (Note 4). Income from continuing operations amounted to $11,416,000 in 1980 compared with $9,672,000 in 1979. Operating income increased $11,559,000 in 1980, due principally to the Specialty Food Stores operations acquired in 1980 which contributed operating profits of $13,375,000 after their dates of acquisition. Operating profits of the Salt and Agricultural Products operations increased $1,919,000, due to improved profit margins. Operating profits of the Convenience Stores operations declined $2,245,000, as a result of reduced profit margins, and operating profits of the Frozen Food Products operations declined $2,049,000, due primarily to lower unit volume. Other income in 1980 declined $3,373,000, entirely as a result of lower investment gains in 1980 (Note 3). The 1980 after-tax loss from discontinued operations of $18,142,000 (Note 4) compares with income from discontinued operations in 1979 of $10,565,000, which included Yellowstone Park Company operating income for the year and the after-tax gain of $8,274,000 from the sale of the Yellowstone Park assets. Net income in 1980 also included an extraordinary gain of $7,141,000 from a debenture exchange, while net income in 1979 included an extraordinary federal income tax benefit of $9,233,000, which resulted from utilization of the Company's tax loss carryforwards (Note 6).

Primary and fully diluted earnings per share in both 1980 and 1979 have been restated to reflect the two-for-one stock split (Note 1). Primary earnings per share in 1980 also reflects (1) the full year effect of issuing 2,523,816 additional shares (restated) of common stock upon conversion of the Company's 11% Convertible Subordinated Debentures in the latter half of 1979 and (2) the partial year effect of repurchasing 1,513,100 common shares (restated) during 1980.

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Consolidated Statement of Income

(In thousands, except per share amounts)

General Host Corporation

Fiscal Years Ended December 26, 1981, December 27, 1980 and December 29, 1979	1981	1980	197[illegible]
Revenues:			
Sales of continuing operations	$ 497,628	$ 424,713	$ 350,375
Other income	2,180	6,613	9,986
	499,808	431,326	360,361
Costs and expenses:			
Cost of sales	393,556	326,439	281,216
Selling, general and administrative	65,244	63,982	46,783
Depreciation and amortization	10,770	7,956	5,802
Interest and debt expense	15,131	10,944	10,731
	484,701	409,321	344,532
Income from continuing operations before income taxes	15,107	22,005	15,829
Provision for income taxes	3,469	10,589	6,157
Income from continuing operations	11,638	11,416	9,672
Discontinued operations, after income taxes		(18,142)	10,565
Income (loss) before extraordinary gains	11,638	(6,726)	20,237
Extraordinary gains	2,330	7,141	9,233
Net income	$ 13,968	$ 415	$ 29,470
Primary earnings per share:			
Income from continuing operations	$ 2.46	$ 2.00	$ 2.00
Discontinued operations		(3.18)	2.1[illegible]
Income (loss) before extraordinary gains	2.46	(1.18)	4.[illegible]
Extraordinary gains	.49	1.25	1.90
Net income	$ 2.95	$ .07	$ 6.08
Fully diluted earnings per share:			
Income from continuing operations	$ 2.10	$ 1.74	$ 1.62
Discontinued operations			1.65
Income before extraordinary gains	2.10		3.27
Extraordinary gains	.31		1.47
Net income	$ 2.41		$ 4.74
Average shares outstanding	4,733	5,703	4,846
Fully diluted shares	7,574	7,426	6,424

See accompanying notes.

Consolidated Balance Sheet

(Dollars in thousands)

December 26, 1981 and December 27, 1980	1981	1980
Assets		
Current assets:		
Cash	$ 16,997	$ 11,220
Marketable securities	15,128	6,571
Accounts and notes receivable, less allowance for doubtful accounts of $916 and $427	27,400	27,629
Inventories:		
Raw materials and supplies	13,457	16,528
Finished products	33,687	27,715
	47,144	44,243
Prepaid expenses	2,030	1,951
Net current assets of operations discontinued in 1980		20,727
Total current assets	108,699	112,341
Net non-current assets of operations discontinued in 1980	3,242	13,193
Property, plant and equipment, less accumulated depreciation and amortization of $42,155 and $34,524	107,044	104,592
Intangibles, less accumulated amortization of $3,948 and $1,799	30,106	32,835
Other assets	17,436	11,950
	$266,527	$274,911
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 28,699	$ 29,629
Accrued expenses	21,653	27,650
Current portion of long-term debt	3,083	6,811
Total current liabilities	53,435	64,090
Long-term debt:		
Senior debt	61,287	63,799
Subordinated debt, less original issue discount	59,867	60,890
Total long-term debt	121,154	124,689
Other liabilities and deferred credits	14,418	22,106
Shareholders' equity:		
Common stock $1.00 par value, authorized 30,000,000 shares, issued 6,352,088 and 3,152,174 shares	6,352	3,152
Capital in excess of par value	67,057	68,390
Retained earnings, since December 28, 1975	20,131	8,294
	93,540	79,836
Cost of 1,627,234 and 797,556 shares of common stock in treasury	(14,016)	(13,678)
Notes receivable arising from exercise of stock options	(2,004)	(2,132)
Total shareholders' equity	77,520	64,026
	$266,527	$274,911

See accompanying notes.

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Consolidated Statement of Changes in Financial Position

General Host Corporation

(Dollars in thousands)

Fiscal Years Ended December 26, 1981, December 27, 1980 and December 29, 1979	1981	1980	19[illegible]
Working capital was provided by:			
Income from continuing operations	$ 11,638	$ 11,416	$ 9,672
Add items not affecting working capital:			
Depreciation and amortization	10,770	7,956	5,802
Non-cash provisions for income taxes	3,094	8,610	5,266
Amortization of intangibles	2,149	839	122
Amortization of original issue discount	145	307	616
Working capital provided by continuing operations	27,796	29,128	21,478
Working capital provided (used) by discontinued operations, including gains (losses) on disposals		(9,747)	18,281
Issuance of common stock, including exercises of stock options and 1979 conversion of debentures	178	655	16,842
Increase in long-term debt	21,554	83,718	3,051
Disposal of property, plant and equipment, including $7,311 in 1979 related to disposals of discontinued operations	3,258	2,217	10,076
Proceeds from sale of net assets of operations discontinued in 1980	22,727		
Other, net	1,785	(2,096)	1,623
Total working capital provided	77,298	103,875	71,351
Working capital was used for:			
Reduction of long-term debt, including $9,743 extinguishment of debt in 1980 and $16,859 conversion of debentures in 1979	25,234	42,908	26,448
Additions to property, plant and equipment	16,176	29,512	17,102
Purchase of acquired companies		46,928	
Increase in long-term receivables	6,491	450	2[illegible]
Net current assets of discontinued operations and disposal costs, including employee terminations, operating losses during phase-out periods and other costs	19,915		
Retirement of common stock and purchase of treasury stock	338	18,856	317
Cash dividends paid on common stock	2,131	2,172	1,346
Total working capital used	70,285	140,826	45,503
Increase (decrease) in working capital	7,013	(36,951)	25,848
Working capital at beginning of year	48,251	85,202	59,354
Working capital at end of year	$ 55,264	$ 48,251	$ 85,202
Increases (decreases) in working capital:			
Current assets:			
Cash	$ 5,777	$ 6,069	$ 1,019
Marketable securities	8,557	(32,010)	32,602
Accounts and notes receivable	(229)	(13,677)	6,006
Inventories	2,901	(7,789)	6,386
Prepaid expenses	79	48	952
Net current assets of operations discontinued in 1980	(20,727)	20,727	
Assets sold in 1979			(11,531)
	(3,642)	(26,632)	35,434
Current liabilities:			
Accounts payable	930	(3,152)	(5,557)
Accrued expenses	5,997	(11,071)	1,7[illegible]
Current portion of long-term debt	3,728	3,904	(5,8[illegible])
	10,655	(10,319)	(9,586)
Increase (decrease) in working capital	$ 7,013	$(36,951)	$ 25,848

See accompanying notes.

Consolidated Statement of Changes in Shareholders' Equity

General Host Corporation

(Dollars in thousands)

Fiscal Years Ended December 26, 1981, December 27, 1980 and December 29, 1979

	Shares of Common Stock Issued	Shares of Common Stock In Treasury	Common Stock Issued	Capital in Excess of Par Value	Retained Earnings (Deficit)	Common Stock in Treasury	Notes Receivable Arising from Exercise of Stock Options	Total Shareholders' Equity
Balance at Dec. 30, 1978	**2,213,396**	**(512,456)**	**$2,213**	**$63,686**	**$(19,419)**	**$(6,504)**	**$(922)**	**$39,054**
Net income					29,470			29,470
Dividends on common stock				(1,346)				(1,346)
Conversion of 11% Convertible Subordinated Debentures	1,261,908		1,262	15,549				16,811
Purchase of treasury stock		(21,000)				(317)		(317)
Shares issued under employment contract		1,000		(3)		13		10
Stock options exercised	70,150		70	563			(612)	21
Income tax benefit from stock options exercised				64				64
Note repayments							105	105
Balance at Dec. 29, 1979	**3,545,454**	**(532,456)**	**3,545**	**78,513**	**10,051**	**(6,808)**	**(1,429)**	**83,872**
Net income					415			415
Dividends on common stock					(2,172)			(2,172)
Conversion of 5% Convertible Subordinated Debentures	370			9				9
Retirement of common stock and purchase of treasury stock	(466,450)	(290,100)	(466)	(11,195)		(7,195)		(18,856)
Shares issued in connection with acquisition		25,000		175		325		500
Stock options exercised	72,800		73	862			(815)	120
Income tax benefit from stock options exercised				26				26
Note repayments							112	112
Balance at Dec. 27, 1980	**3,152,174**	**(797,556)**	**3,152**	**68,390**	**8,294**	**(13,678)**	**(2,132)**	**64,026**
Net income					13,968			13,968
Dividends on common stock					(2,131)			(2,131)
Conversion of 5% Convertible Subordinated Debentures	370			9				9
Purchase of treasury stock		(16,061)				(338)		(338)
Realization of investment tax credit arising prior to elimination of deficit as of December 27, 1975				1,547				1,547
Stock options exercised	23,500		24	269			(142)	151
Income tax benefit from stock options exercised				18				18
Note repayments							270	270
Two-for-one stock split declared December 10, 1981	3,176,044	(813,617)	3,176	(3,176)				
Balance at Dec. 26, 1981	**6,352,088**	**(1,627,234)**	**$6,352**	**$67,057**	**$20,131**	**$(14,016)**	**$(2,004)**	**$77,520**

See accompanying notes.

Notes to Financial Statements

Note 1: Accounting Policies
The consolidated financial statements include the accounts of General Host Corporation and its subsidiary companies. Intercompany balances and transactions are eliminated.

Marketable securities include time deposits which are carried at cost plus accrued interest and other marketable securities which are stated at the lower of cost or market.

Inventories are stated at the lower of cost or market, with cost determined using principally the first-in, first-out method.

Property, plant and equipment, including significant improvements thereto, is recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred. The cost of plant and equipment is depreciated over the estimated useful lives using the straight-line method for financial reporting purposes. The straight-line method is also used for income tax purposes for additions through 1980. Effective in 1981, the Internal Revenue Code was amended to specify Accelerated Cost Recovery System depreciation for additions after 1980. Leasehold improvements are amortized over the terms of the respective leases or, if shorter, the estimated useful lives (or, when required for tax purposes, the accelerated cost recovery period).

Intangibles, including costs in excess of net assets of acquired businesses, are amortized over the estimated periods of related benefit, ranging from 5 to 40 years, using the straight-line method.

Leases which meet the criteria for capital leases set forth in Statement of Financial Accounting Standards No. 13 are recorded as property, plant and equipment and the related capital lease obligations (the aggregate present value of minimum future lease payments, excluding executory costs such as taxes, maintenance and insurance) are included in long-term debt for financial reporting purposes. Depreciation and interest are charged to expense, and rent payments are treated as payments of long-term debt, accrued interest and executory costs. All other leases are accounted for as operating leases, and rent payments are charged to expense as incurred. For income tax purposes substantially all leases are accounted for as operating leases.

Pension expense is accrued and funded based on the actuarially determined costs of the plans. Unfunded prior service costs are being amortized over a 40-year period.

Income tax expense is based on income for financial reporting purposes less permanent differences between income for financial reporting and tax purposes. Income tax expense includes deferred income tax provisions, which recognize the tax effect of timing differences between financial and tax reporting. Investment tax credits are accounted for as a reduction of income tax expense using the flow-through method.

Earnings per share computations are based on the weighted average number of common shares and dilutive common share equivalents outstanding. Fully diluted earnings per share computations give effect to the assumed exercise of all dilutive stock options, and the assumed conversion of dilutive convertible debt. All earnings per share computations have been restated to reflect a two-for-one stock split declared on December 10, 1981 and accomplished by distributing additional shares on February 5, 1982.

Note 2: Businesses Acquired in 1980
In July of 1980, the Company purchased substantially all of the outstanding stock of Hickory Farms of Ohio, Inc., a specialty food franchisor and retailer, at a total cost of approximately $41,300,000. On December 3, 1980, the Company purchased all of the outstanding stock of Hickory Farms Sales Corp., a franchisee of Hickory Farms of Ohio, at a total cost of approximately $12,600,000.

Costs in excess of the net assets acquired are being amortized over 40 years, and franchise agreements and other intangibles are being amortized over periods ranging from 5 to 40 years, all using the straight-line method.

The income of these acquired businesses, which comprise the Company's Specialty Food Stores business segment, is included in the consolidated statement of income from the respective dates of acquisition.

Note 3: Other Income

(In thousands)	1981	1980	1979
	Fiscal Years		
Interest income	$1,753	$3,585	$2,538
Gains from sales of investments, net		1,687	6,416
Miscellaneous	427	1,341	1,032
	$2,180	$6,613	$9,986

Gains from sales of investments in 1980 includes $2,000,000 from sale of an investment in Ponderosa System, Inc., which after taxes increased income from continuing operations by $1,080,000, or $.19 per share ($.15 fully diluted).

Gains from sales of investments in 1979 includes $6,751,000 from sales of investments in National Convenience Stores and Host International, which together increased 1979 income from continuing operations by $4,227,000, or $.87 per share ($.66 fully diluted).

Note 4: Discontinued Operations

During 1980, the Company decided to discontinue the fresh and processed meat business segment of its wholly-owned subsidiary, Cudahy Company, and established a $28,500,000 loss provision in its 1980 financial statements. After income taxes, the loss provision reduced income by $17,745,000, or $3.11 per share ($2.39 fully diluted). Sales of these discontinued operations, amounting to $407,960,000 in 1980 and $401,640,000 in 1979, are eliminated in the consolidated statement of income, and their operating results are included in discontinued operations.

On August 28, 1981, Cudahy Company closed the last of its fresh and processed meat business segment manufacturing facilities and sold or leased a major portion of the net assets of this business segment to Bar-S Foods Co., a newly-organized independent corporation owned by former members of General Host and Cudahy management. The consideration for the sale consisted of $14,481,000 cash, a $6,000,000 secured promissory note, bearing interest at 15% and payable in annual installments from 1985 through 1991, and non-voting preferred stock which is carried in the financial statements at nominal value. The Company expects to complete the disposal of the remaining net assets of the discontinued operations by the end of 1982 and anticipates that the total losses from the sale to Bar-S and other dispositions, together with all related costs, will not exceed the $28,500,000 loss provision established in the 1980 financial statements.

During 1979, the National Park Service, United States Department of the Interior, terminated the concession contract under which the Company's Yellowstone Park Company subsidiary operated tourist facilities in Yellowstone National Park, discontinuing the Company's tourism business segment. Yellowstone Park Company's interest in buildings and its equipment were sold to the United States of America for $19,900,000, and the inventories and other assets were sold to the successor concessioner for approximately their carrying values. After income taxes, these sales resulted in a gain of $8,274,000, or $1.71 per share ($1.29 fully diluted). Sales of the discontinued Yellowstone Park Company operations, amounting to $16,405,000 in 1979, are eliminated in the consolidated statement of income, and its income is included in discontinued operations in 1979.

Operating results and gains or losses on disposals of these business segments are as follows:

(In thousands)	1980	1979
	Fiscal Years	
Operating income (loss) prior to disposals of businesses	$ (1,756)	$ 3,600
Gain from sale of Yellowstone Park Company assets		11,981
Provision for estimated loss on disposal of fresh and processed meat business segment	(28,500)	
	(30,256)	15,581
Less applicable income taxes (Note 6)	(12,114)	5,016
	$(18,142)	$10,565

Note 5: Extraordinary Gains

Both the 1981 and 1979 extraordinary gains are federal income tax benefit from utilizing loss carryfowards (Note 6).

In 1980, the Company issued $37,741,000 principal amount of its 12¾% Convertible Subordinated Debentures, due June 15, 1999, in exchange for $58,063,000 principal amount of its outstanding 7% Subordinated Debentures, due February 1, 1994, which had a carrying value of $47,735,000 after deducting original issue discount. This exchange resulted in an extraordinary gain on extinguishment of debt which amounted to $7,141,000, after deducting related expenses and $2,602,000 of income taxes.

Note 6: Income Taxes

The components of the Company's income tax provisions are as follows:

(In thousands)	Fiscal Years 1981	1980	1979
Provisions for income taxes of continuing operations:			
Charge in lieu of federal income taxes	$ 2,330	$ 8,610	$ 4,292
Current federal income taxes		613	64
Deferred federal income taxes			910
State and other income taxes	375	1,366	891
	3,469	10,589	6,157
Discontinued operations income tax provisions (benefits):			
Charge (credit) in lieu of federal income taxes		(10,654)	4,941
Deferred federal income taxes		(1,468)	
State and other income taxes		8	75
		(12,114)	5,016
Income tax provisions (benefits) included in extraordinary gains:			
Charge (credit) in lieu of federal income taxes	(2,330)	2,044	(9,233)
Deferred state and other income taxes		558	
	(2,330)	2,602	(9,233)
Total income tax provisions	$ 1,139	$ 1,077	$ 1,940

Charges in lieu of federal income taxes are equivalent to the provisions that would be required in the absence of losses from discontinued operations and loss carryforwards. Differences between the above provisions for income taxes of continuing operations and income taxes based on statutory federal income tax rates applied to income before taxes are as follows:

(In thousands)	Fiscal Years 1981	1980	1979
Federal income taxes based on statutory rate of 46%	$ 6,949	$10,122	$ 7,281
Increases (decreases) resulting from:			
Investment tax credits	(3,629)		
State and other income taxes, net of federal income taxes	203	738	481
Capital gains			(890)
Percentage depletion	(356)	(368)	(294)
Amortization of intangibles	464		
Other	(162)	97	(421)
	$ 3,469	$10,589	$ 6,157

The $28,500,000 provision for estimated losses on disposal of the fresh and processed meat business segment (Note 4) reported in the 1980 financial statements was not deductible for federal income tax purposes in 1980. The Company utilized all of the tax loss carryforwards then available to it and was required to provide $613,000 of current federal income taxes payable for 1980. After reflecting all accumulated differences between income for financial reporting and tax purposes, including the $28,500,000 loss provision, the Company ended 1980 with a loss carryforward for financial reporting purposes of approximately $5,000,000.

In 1981, the Company realized approximately $15,600,000 of the losses covered by the loss provision which, together with deductions for other smaller differences between income for financial reporting and tax purposes, resulted in a loss for tax purposes in 1981. The Company recognized a $2,330,000 extraordinary federal income tax benefit from utilizing the $5,000,000 loss carryforward for financial reporting purposes, and also provided deferred federal income taxes for a portion of the accumulated timing differences between income for financial reporting and tax purposes. The Company ended 1981 with a net operating loss carryforward for tax purposes of approximately $4,200,000, which expires in 1996. Since the carryforward results from accumulated differences between income for financial reporting and tax purposes, deferred income taxes will be provided in the financial statements when the carryforward is utilized to reduce future years' federal income tax payments. An additional $12,900,000 of losses covered by the loss provision will also reduce future years' federal income tax payments, when they are realized and become deductible for tax purposes.

The Company has investment tax credit carryforwards of approximately $5,300,000, expiring in 1990 through 1996, available to reduce future years' federal income tax payments. Of this amount, approximately $1,700,000 is also available to reduce future years' income tax provisions for financial reporting purposes.

The Company's federal income tax returns have been examined by the Internal Revenue Service through 1969. In the opinion of Management, adequate provision has been made for all tax liabilities.

Note 7: Marketable Securities

At December 26, 1981 and December 27, 1980, marketable securities consist of time deposits of $15,016,000 and $6,076,000 and marketable equity securities with carrying values of $112,000 and $495,000 (market values $315,000 and $534,000), respectively.

Note 8: Property, Plant and Equipment

(In thousands)	Dec. 26, 1981	Dec. 27, 1980
Land	$ 9,283	$ 8,837
Buildings	48,693	45,121
Machinery and equipment	67,787	58,814
Vehicles	629	3,208
Leasehold improvements	21,622	16,956
Construction in progress	1,185	6,180
	149,199	139,116
Less accumulated depreciation and amortization	42,155	34,524
	$107,044	$104,592

During the years ended December 26, 1981 and December 27, 1980, interest cost of $617,000 and $430,000, respectively, was capitalized as property, plant and equipment.

The above amounts include property, plant and equipment leased under capital leases as follows (Note 14):

(In thousands)	Dec. 26, 1981	Dec. 27, 1980
Land	$ 772	$ 772
Buildings	12,510	13,079
Machinery and equipment	2,855	2,983
Vehicles		2,516
	16,137	19,350
Less accumulated depreciation	5,838	6,519
	$ 10,299	$ 12,831

Note 9: Intangibles

(In thousands)	Dec. 26, 1981	Dec. 27, 1980
Costs in excess of net assets of acquired businesses	$ 18,274	$ 18,947
Franchise agreements and other intangibles	15,780	15,687
	34,054	34,634
Less accumulated amortization	3,948	1,799
	$ 30,106	$ 32,835

The decrease in costs in excess of net assets of acquired businesses results from finalizing amounts estimated in 1980 for the Hickory Farms acquisitions (Note 2).

Note 10: Accrued Expenses

(In thousands)	Dec. 26, 1981	Dec. 27, 1980
Taxes	$ 6,551	$ 7,616
Payroll	6,162	3,964
Interest	1,897	1,953
Estimated liabilities in connection with discontinued operations	2,707	9,111
Other	4,336	5,006
	$ 21,653	$ 27,650

Note 11: Long-Term Debt

(In thousands)	Dec. 26, 1981	Dec. 27, 1980
Senior debt:		
Notes payable to banks	$ 40,852	$ 34,845
Other notes payable	4,105	15,398
Industrial revenue bond financings	8,500	6,250
Capital leases (Note 14)	10,913	14,117
	64,370	70,610
Less current portion	3,083	6,811
	61,287	63,799
Subordinated debt:		
12¾% Convertible Subordinated Debentures, due June 15, 1999	37,741	37,741
7% Subordinated Debentures, due February 1, 1994, less original issue discount of $3,185 and $3,389	15,839	15,985
5% Convertible Subordinated Debentures, due June 15, 1988	3,214	4,024
6% Cumulative Income Subordinated Debentures, due December 1, 1990	3,073	3,140
	59,867	60,890
Total long-term debt	$121,154	$124,689

At December 26, 1981, notes payable to banks include a $20,000,000 term loan from a bank and $15,000,000 borrowed under two revolving credit and term loan agreements. The term loan bears interest at 11⅞% through September 1985, ¼ of 1% above the prime rate thereafter through September 1988 and ½ of 1% above the prime rate thereafter through March 1990, and is repayable in ten equal semi-annual installments commencing September 1985. The term loan agreement requires compensating balances of 5% of the amount outstanding through September 1985, and 10% thereafter. A $10,000,000 revolving credit and term loan bears interest at ¾ of 1% above the London Interbank Offered Rate (LIBOR) through September 1983, ⅞ of 1% above LIBOR through September 1986 and 1% above LIBOR thereafter through September 1988, and is repayable in five equal annual installments commencing October 1984. A $5,000,000 revolving credit and term loan bears interest between ⅝ of 1% and 1%, depending on the term of the borrowing, above LIBOR or the Federal Funds rate, or at the prime rate and is repayable in December 1985. When not in use, the revolving credit and term loan agreements require commitment fees of ½ of 1% and ⅜ of 1%, respectively.

In addition, the Company may borrow up to $55,000,000 under two bank agreements. Under a revolving credit and term loan agreement with a group of banks, the Company may borrow up to $45,000,000 with interest at the prime rate through March 1983 and ¼ of 1% above the prime rate thereafter through September 1984, at which time the outstanding balance is convertible into a three-year term loan bearing interest at ½ of 1% above the prime rate and repayable quarterly commencing December 31, 1984. The credit agreement requires a commitment fee of ½ of 1% of the unused portion of the available credit and the Company is required to maintain compensating balances of 5% of the credit available under this agreement plus 7% of borrowings outstanding. Under a revolving credit and term loan agreement with a bank, the Company may borrow up to $10,000,000, with interest at the prime rate through June 30, 1984, at which time the outstanding balance is convertible into a four-year term loan bearing interest at ¼ of 1% above the prime rate and repayable quarterly commencing September 30, 1984. The Company is required to maintain compensating balances of 7½% of the commitment under this agreement plus 5% of indebtedness outstanding.

Each of the above agreements requires the Company, among other things, to maintain minimum levels of working capital, tangible net worth and shareholders' equity, as well as certain minimum financial statement ratios. Under the most restrictive covenants in any of these agreements, working capital exceeded the required minimum by approximately $15,000,000 and tangible net worth exceeded the required minimum level by approximately $16,000,000 at December 26, 1981.

The Company also has available unsecured short-term lines of credit under which $8,000,000 may be borrowed at the prime rate from various banks. These arrangements require the Company to either pay commitment fees of ⅜ of 1% or maintain average compensating balances between 5% and 7½% of the credit lines plus up to 7½% of any borrowings thereunder.

During 1981, the Company borrowed various amounts under its credit agreements. Short-term borrowings, including borrowings pursuant to credit agreements, reached as much as $25,000,000 and averaged approximately $9,000,000 for the year, at a weighted average annual interest rate of 17%.

Industrial revenue bond financings of $4,250,000 bear interest at 9% through December 1987 and 75% of the prime rate thereafter, and are repayable in quarterly installments from March 1984 through December 1992. Another $4,250,000 of industrial revenue bond financing bears interest at 65% of the prime rate and is repayable in annual installments from July 1984 through July 1991.

The 12¾% Debentures are convertible, at the rate of $15 per share, into 2,516,046 shares of common stock, subject to adjustment in certain circumstances. The 12¾% Debentures are redeemable, at the Company's option, at a 4¾% premium through June 15, 1982 and at declining premiums thereafter.

The 7% Debentures are redeemable, at the Company's option, at a 2½% premium through February 1, 1983 and at declining premiums thereafter. Amortization of the original issue discount is based on an effective interest rate of 9% and amounted to $145,000 in 1981, $307,000 in 1980 and $471,000 in 1979. For income tax purposes unamortized original issue discount amounted to approximately $3,400,000 at December 26, 1981.

The 5% Debentures are convertible, at the rate of $13.43 per share, into 239,315 shares of common stock, subject to adjustment in certain circumstances. The 5% Debentures are redeemable, at the Company's option, at a 1¾% premium through June 14, 1982 and at declining premiums thereafter.

The 6% Debentures are redeemable through a sinking fund at the rate of $450,000 principal amount each year. In both 1981 and 1980, the Company delivered debentures to the Trustee to satisfy sinking fund obligations and at December 26, 1981, held an additional $1,370,000 principal amount to satisfy sinking fund obligations for approximately the next three years. At the Company's option, the 6% Debentures are redeemable earlier than required by the sinking fund at a 1.2% premium through December 1, 1984 and at declining premiums thereafter. The indenture provides that no dividends may be paid on any class of the Company's capital stock unless all interest and sinking fund obligations relating to the 6% Debentures have been paid.

Aggregate maturities of long-term debt for the five years subsequent to December 26, 1981, after subtracting 6% Debentures held by the Company and excluding capital lease obligations (Note 14), are $1,976,000 in 1982, $1,953,000 in 1983, $4,427,000 in 1984, $11,020,000 in 1985 and $8,024,000 in 1986.

Note 12: Other Liabilities and Deferred Credits

(In thousands)	Dec. 26, 1981	Dec. 27, 1980
Estimated liabilities in connection with discontinued operations	$ 9,208	$16,034
Deferred credits and other liabilities	5,210	6,072
	$14,418	$22,106

The reduction in estimated liabilities in connection with discontinued operations resulted primarily from charges related to the disposition of the fresh and processed meat business segment (Note 4).

Note 13: Shareholders' Equity

As of December 26, 1981, 2,516,046 shares of common stock are reserved for conversion of the 12¾% Debentures, at the rate of $15 per share, and 239,315 shares are reserved for conversion of the 5% Debentures, at the rate of $13.43 per share.

The Company's stock option plan provides for the issuance to key employees of options to purchase common stock at prices not less than fair market value on the dates of grant; options are exercisable after one year of employment. Options expire no later than ten years after grant. The Stock Option Committee of the Board of Directors has the discretion either to permit holders of options for 40,000 shares, at their request, or to direct holders of options for 487,000 shares, upon notice of exercise, to surrender their options for payment, in shares of common stock or a combination of shares of common stock and cash, equal to the excess of the fair market value on the dates of surrender over the option exercise prices.

Changes in stock options during the three years ended December 26, 1981 are as follows:

	Shares	Option Prices
Balance outstanding at December 30, 1978	205,450	$ 5.00–$14.19
Options granted	13,500	9.75– 16.44
Options exercised	(70,150)	5.00– 14.19
Options cancelled or expired	(52,000)	5.00– 9.19
Balance outstanding at December 29, 1979	96,800	9.06– 16.44
Options granted	67,500	14.75– 18.00
Options exercised	(72,800)	9.19– 14.75
Balance outstanding at December 27, 1980	91,500	9.06– 18.00
Options granted	245,500	22.44
Options exercised	(23,500)	9.19– 17.88
Options cancelled or expired	(31,500)	9.06– 22.44
Two-for-one stock split	282,000	
Balance outstanding at December 26, 1981	564,000	$ 4.59–$11.22*

*Restated for the two-for-one stock split.

Outstanding options granted prior to 1981 for 77,000 shares were exercisable at December 26, 1981 and outstanding options granted in 1981 for 487,000 shares are exercisable during the period January 1 through June 30, 1982. At December 26, 1981, a total of 313,000 shares are available for granting additional options.

The Company's certificate of incorporation authorizes the issuance of 1,000,000 shares of $1.00 par value preferred stock, none of which has been issued.

Note 14: Leases

The Company's capital leases are principally for offices and retail stores, for periods ranging from 10 to 25 years.

At December 26, 1981, future minimum lease obligations under capital leases, included in long-term debt (Note 11), are as follows:

(In thousands)		
Payable in	1982	$ 2,329
	1983	1,859
	1984	1,720
	1985	1,500
	1986	1,370
Payable after 1986		14,232
Total minimum lease obligations		23,010
Executory costs		(274)
Amount representing interest		(11,823)
Present value of net minimum lease obligations		$10,913

Aggregate future minimum rentals to be received under related subleases amount to $570,000.

The Company's operating leases are principally for retail store locations, for periods ranging from 5 to 20 years, and vehicles, for either one or two years. At December 26, 1981, future minimum rental commitments under operating leases with lease terms longer than one year are as follows:

(In thousands)		
Payable in	1982	$ 8,555
	1983	7,804
	1984	6,810
	1985	5,971
	1986	5,170
Payable after 1986		20,519
Total commitments		54,829
Future sublease rental income		(3,542)
Net commitments		$51,287

Rent expense of continuing operations was $12,886,000 in 1981, $9,361,000 in 1980 and $6,203,000 in 1979. Rent expense includes additional rentals based on retail store sales (in excess of the minimums specified in leases) of $1,143,000 in 1981, $1,174,000 in 1980 and $401,000 in 1979, and is reduced by sublease rental income of $152,000 in 1981, $192,000 in 1980 and $190,000 in 1979.

Note 15: Pension Plans

The Company and its subsidiaries sponsor two pension plans which cover substantially all salaried and certain hourly employees. Pension costs under these plans amounted to approximately $1,070,000 in 1981, $3,570,000 in 1980 and $3,120,000 in 1979 (including $2,510,000 in 1980 and $2,200,000 in 1979 applicable to discontinued operations). Total pension costs include normal costs, interest on unfunded prior service costs and amortization of prior service costs. A comparison of accumulated plan benefits with plan net assets and balance sheet accruals for each of the Company's pension plans is as follows:

	December 26, 1981	
(In thousands)	Salaried Plan	Hourly Plan
Actuarial present value of accumulated plan benefits:		
Vested	$16,100	$37,000
Not yet vested	700	600
	$16,800	$37,600
Net assets available for plan benefits and balance sheet accruals	$23,100	$29,900

	December 27, 1980	
(In thousands)	Salaried Plan	Hourly Plan
Actuarial present value of accumulated plan benefits:		
Vested	$15,300	$36,900
Not yet vested	400	400
	$15,700	$37,300
Net assets available for plan benefits and balance sheet accruals	$25,700	$28,600

The actuarial present values of accumulated plan benefits were determined using investment rates of return of 7% for the salaried employees' plan and 10% for the hourly employees' plan.

While the Company has no contractual obligations for benefit payments or contributions to trust funds beyond the terms of existing labor contracts, if its pension plans are terminated, the Company will be liable for unfunded vested benefits to an extent determined under provisions of the Employee Retirement Income Security Act of 1974.

Note 16: Litigation
On June 10, 1980, the Company purchased 267,850 shares (not restated for the stock split) of its common stock from a group of shareholders who had purchased the stock in conjunction with Clabir Corporation. The purchase price was $25.00 per share, of which $20.00 per share was paid in cash and the remaining $5.00 per share by three-year promissory notes, for a total purchase price of $6,696,000. The Company also acquired an option to purchase another 466,450 of its shares (not restated for the stock split) from Clabir. The price of the option was $2.50 per share, or $1,166,000. The Company exercised the option and, on November 10, 1980, purchased the 466,450 shares for an additional $22.50 per share, $17.50 per share in cash and $5.00 per share by three-year promissory notes, for a total additional purchase price of $10,495,000. Pursuant to the agreement granting the option, Clabir is prohibited from purchasing the Company's common stock for a five-year period.

Three lawsuits have been commenced challenging the propriety of these transactions. Each of the plaintiffs asserts claims derivatively as a shareholder of the Company for damages allegedly caused by the Board of Directors' authorization of the purchase of the Company's common stock at a price in excess of that at which the stock then was selling on the open market. The Board of Directors views the claims to be without merit. Two of the actions also seek to recover damages from Clabir for its role in the transactions, and one of these demands that "short-swing" profits allegedly received by Clabir in violation of Section 16 (b) of the Securities Exchange Act of 1934 as a result of the transactions be repaid to the Company. All three lawsuits are purportedly brought for the benefit of the Company, and if they were to result in decisions in favor of the plaintiffs, damages would be awarded to the Company. Additional lawsuits could be commenced against the Company. Although the possible effects of any such lawsuits cannot be determined, any such possible effects should not be material to the Company.

Unions representing former employees of Cudahy Company have filed unfair labor practice charges alleging violations of the National Labor Relations Act in connection with the Company's discontinuation of the fresh and processed meat business segment and the subsequent closing and sale of facilities to Bar-S Foods Co. (Note 4). The regional offices of the National Labor Relations Board which thus far have ruled on the charges have found that the sale of Cudahy assets was a bona fide transaction which did not violate the National Labor Relations Act. Certain of the filing unions have appealed these rulings to the National Labor Relations Board's national office; however, since the Company has complied with all provisions of the law, it believes the unions' charges before the National Labor Relations Board, as well as in grievance proceedings under labor contracts and a civil action raising similar issues, will be found to be without merit.

Note 17: Business Segment Information

(In thousands)	1981	1980	1979
Sales:			
Specialty retailing			
Specialty food stores	$ 90,744*	$ 49,363*	
Convenience stores	177,745	163,059	$148,037
Food products			
Frozen food products	77,700	75,302	75,678
Specialty food products	75,092	67,010	65,787
Salt and agricultural products	76,347	69,979	60,873
Total sales of continuing operations	$497,628	$424,713	$350,375
Operating income:			
Specialty retailing			
Specialty food stores	$ 9,515	$ 13,375	
Convenience stores	8,331	6,077	$ 8,322
Food products			
Frozen food products	5,754	2,566	4,615
Specialty food products	4,344	4,173	3,614
Salt and agricultural products	9,619	8,683	6,764
Total operating income	37,563	34,874	23,315
Other income	2,180	6,613	9,986
Interest and debt expense	(15,131)	(10,944)	(10,731)
Unallocated administrative expense	(9,505)	(8,538)	(6,741)
Income taxes	(3,469)	(10,589)	(6,157)
Income from continuing operations	$ 11,638	$ 11,416	$ 9,672

*Includes franchise fees of $6,157 in 1981 and $5,095 in 1980. For the full year 1980, this segment's sales amounted to $80,270, including franchise fees of $6,176. Total full year sales of franchisees and Company-operated stores amounted to $198,600 (unaudited) in 1981 and $183,500 (unaudited) in 1980.

	1981	1980	1979
Depreciation and amortization of property, plant and equipment:			
Specialty retailing			
Specialty food stores	$ 2,707	$ 711	
Convenience stores	3,248	2,803	$ 2,278
Food products			
Frozen food products	2,158	1,765	1,096
Specialty food products	683	692	656
Salt and agricultural products	1,436	1,465	1,256
Not identified with specific businesses	538	520	516
Continuing operations	10,770	7,956	5,802
Discontinued operations		2,504	2,775
Total depreciation and amortization	$ 10,770	$ 10,460	$ 8,577

(In thousands)	1981	1980	1979
Additions to property, plant and equipment:			
Specialty retailing			
Specialty food stores	$ 4,372	$ 1,774*	
Convenience stores	5,782	12,724	$ 6,271
Food products			
Frozen food products	1,044	3,384	3,438
Specialty food products	365	210	337
Salt and agricultural products	3,906	5,263	2,308
Not identified with specific businesses	707	848	423
Continuing operations	16,176	24,203	12,777
Discontinued operations		5,309	4,325
Total additions	$ 16,176	$ 29,512	$ 17,102
Total year-end assets:			
Specialty retailing			
Specialty food stores	$ 66,992	$ 69,124	
Convenience stores	49,287	46,465	$ 35,932
Food products			
Frozen food products	33,574	34,495	32,979
Specialty food products	22,250	20,483	17,647
Salt and agricultural products	39,849	39,462	35,015
Sub-total	211,952	210,029	121,573
Cash and marketable securities	32,125	17,791	43,732
Other assets not identified with specific businesses	19,208	13,171	13,008
Continuing operations	263,285	240,991	178,313
Discontinued operations	3,242	33,920	55,633
Total year-end assets	$266,527	$274,911	$233,946

*In addition to $19,200 property, plant and equipment of acquired businesses.

Report of Independent Accountants

To the Directors and Shareholders of
General Host Corporation

In our opinion, based upon our examinations and the report of other independent accountants referred to below, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in shareholders' equity and of changes in financial position present fairly the financial position of General Host Corporation and its subsidiaries at December 26, 1981 and at December 27, 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 26, 1981, 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. We did not examine the December 27, 1980 financial statements of Hickory Farms of Ohio, Inc., a consolidated subsidiary, which statements reflect total assets constituting 20% of consolidated assets and revenue constituting 7% of consolidated revenue in that year. These statements were examined by other independent accountants whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the December 27, 1980 amounts included for Hickory Farms of Ohio, Inc., is based solely upon the report of the other independent accountants.

Price Waterhouse
Price Waterhouse

986 Bedford Street
Stamford, Connecticut 06905
February 15, 1982

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Quarterly Information

(In thousands, except per share amounts)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
1981				
Sales	$ 163,943	$ 136,050	$ 99,319	$ 98,316
Income (loss) before income taxes	$ 18,921	$ (1,174)	$ (1,291)	$ (1,349)
Income (loss) before extraordinary gain	$ 14,551	$ (928)	$ (967)	$ (1,018)
Extraordinary federal income tax benefit	2,330			
Net income (loss)	$ 16,881	$ (928)	$ (967)	$ (1,018)
Primary earnings per share[1,2]:				
Income (loss) before extraordinary gain	$ 3.08	$ (.20)	$ (.20)	$ (.22)
Net income (loss)	$ 3.57	$ (.20)	$ (.20)	$ (.22)
Fully diluted earnings per share[1,2]:				
Income before extraordinary gain	$ 2.12			
Net income	$ 2.43			
Cash dividends per share[1]	$ .11¼	$ .11¼	$ .11¼	$ .11¼
Price range per share as traded on the New York Stock Exchange[1]	$10¼-$8¾	$11⅞-$8⅞	$12½-$9⅜	$10⅜-$8⅜

[1]Restated for the two-for-one stock split.
[2]Due to changes in the number of shares outstanding during the year, quarterly earnings per share do not necessarily add to the totals for year.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
1980				
Sales of continuing operations	$ 134,473	$ 126,010	$ 81,726	$ 82,504
Income from continuing operations before income taxes	$ 13,550	$ 602	$ 4,841	$ 3,012
Income (loss) from continuing operations	$ 5,375	$ (91)	$ 3,759[3]	$ 2,373
Discontinued operations, after income taxes	(18,102)[4]	(1,582)	810	732
Income (loss) before extraordinary gain	(12,727)	(1,673)	4,569	3,105
Extraordinary gain on extinguishment of debt	(1,187)[5]	3,852	4,476	
Net income (loss)	$ (13,914)	$ 2,179	$ 9,045	$ 3,105
Primary earnings per share[1,2]:				
Income (loss) from continuing operations	$ 1.05	$ (.02)	$ .62	$ .40
Income (loss) before extraordinary gain	$ (2.49)	$ (.30)	$ .75	$ .52
Net income (loss)	$ (2.72)	$ .39	$ 1.49	$ .52
Fully diluted earnings per share[1,2]:				
Income from continuing operations	$ .73	$ .11	$ .58	$ .38
Income (loss) before extraordinary gain		$ (.03)	$ .70	$ .49
Net income		$ .31	$ 1.38	$ .49
Cash dividends per share[1]	$ .10	$ .10	$ .10	$ .03¾
Price range per share as traded on the New York Stock Exchange[1]	$9⅝-$8⅜	$10-$8⅜	$9¼-$6¾	$10¼-$6½

[1] Restated for the two-for-one stock split.
[2] Due to changes in the number of shares outstanding during the year, quarterly earnings per share do not necessarily add to the totals for year.
[3] Includes $1,080 gain from sale of investment in Ponderosa System, Inc.
[4] Includes $17,745 after-tax loss provision for discontinued operations.
[5] Adjustment of third quarter income tax provision on extraordinary gain.

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Five-Year Financial Data

(In thousands, except per share amounts)

	1981	1980	1979	1978	1977
Sales of continuing operations	**$ 497,628**	$ 424,713	$ 350,375	$ 298,780	$ 258,5[illegible]
Income (loss) from continuing operations before income taxes	**$ 15,107**	$ 22,005	$ 15,829	$ 3,601	$ (169)
Income (loss) from continuing operations	**$ 11,638**	$ 11,416[1]	$ 9,672[2]	$ 2,512[3]	$ (341)
Primary earnings (loss) per share from continuing operations[4]	**$ 2.46**	$ 2.00	$ 2.00	$ .72	$ (.10)
Fully diluted earnings per share from continuing operations[4]	**$ 2.10**	$ 1.74	$ 1.62	$ .60	
Cash dividends per share[4]	**$ .45**	$ .38¾	$ .32½	$ .30	$ .30
Average shares outstanding[4]	**4,733**	5,703	4,846	3,477	3,340
Fully diluted shares[4]	**7,574**	7,426	6,424	6,411	
Working capital	**$ 55,264**	$ 48,251	$ 85,202	$ 59,354	$ 44,991
Ratio of current assets to current liabilities	**2.0-1**	1.8-1	2.6-1	2.3-1	2.0-1
Total year-end assets	**$ 266,527**	$ 274,911	$ 233,946	$ 201,783	$ 207,269
Long-term debt, including current portion	**$ 124,237**	$ 131,500	$ 101,579	$ 118,555	$ 118,070
Shareholders' equity	**$ 77,520**	$ 64,026	$ 83,872	$ 39,054	$ 43,3[illegible]
Long-term debt as a percentage of total capitalization	**62%**	67%	55%	75%	73%
Number of common shares outstanding[4]	**4,725**	4,709	6,026	3,402	3,489
Book value per share[4,5]	**$ 16.83**	$ 14.05	$ 14.16	$ 11.75	$ 12.68
Price range per share as traded on the New York Stock Exchange[4]	**$12⅛-$8⅜**	$10¼-$6½	$11½-$4⅞	$6-$4⅜	$6⅝-$4⅛

[1] Includes $1,080, or $.19 per share ($.15 fully diluted), gain from sale of investment in Ponderosa System, Inc.
[2] Includes $4,227, or $.87 per share ($.66 fully diluted), of gains from sales of investments in National Convenience Stores and Host International.
[3] After $590, or $.17 per share ($.09 fully diluted), provision for uncollectible note.
[4] Restated for the two-for-one stock split.
[5] Including notes receivable arising from exercise of stock options.

The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices, requires that supplementary information be presented to show the effects of inflation on selected elements of the consolidated financial statements. The objective of Statement No. 33 is to provide information which will demonstrate the estimated effects of inflation, since it is widely held that traditional historical dollar financial statements do not adequately reflect the impact of inflation. The supplementary data presented here should be viewed as an attempt to display some of the effects of inflation in general terms, and not as precise measures of such effects. The methods recommended in Statement No. 33 to quantify the effects of inflation are experimental in nature and will need to be improved over time, as preparers and users of the data gain experience.

Accounting Policies

The supplementary data set forth adjusted amounts for inventories and property, plant and equipment, and the related effects on cost of sales, depreciation expense and income, following two prescribed methods: (1) the "constant dollar" method which adjusts historical dollars spent at various times in the past to average current year dollars based on the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the U.S. Department of Labor and (2) the "current cost" method which adjusts for estimated changes in specific prices for inventories and property, plant and equipment. Adjusted amounts are also shown for sales, dividends, common share market prices, net assets and unrealized gains on net monetary liabilities, following the constant dollar method.

Sales of continuing operations are shown in constant dollars, but there are no adjustments to income to show any benefit from potential selling price increases to recover the higher costs resulting from application of the above methods.

Depreciation expense is calculated using the same estimated useful lives and the method used in the historical dollar financial statements.

Income tax expense is the same as shown in the historical dollar financial statements.

Constant Dollar Method

Constant dollar amounts are compiled by adjusting historical dollar amounts of inventories and property, plant and equipment to average current year dollars, based on changes in the Consumer Price Index since the approximate date of original purchase or manufacture. The effects of these adjustments on cost of sales and depreciation expense are also shown. All constant dollar amounts are expressed in *average* 1981 dollars.

When the average Consumer Price Index for the year increases, the constant dollar method always results in adjustments which increase cost of sales because both the "inflation" of the opening inventory and the "deflation" of the closing inventory to average current year dollars increase cost of sales (and decrease income).

Current Cost Method

The current cost of inventories, and the related effect on cost of sales, is based on the year-end costs for purchasing or manufacturing inventories. Due to the relatively high turnover of the Company's inventories, these costs are not substantially different from the historical dollar costs. The current cost of property, plant and equipment is based on estimates of the costs to acquire or reproduce assets identical to those presently in use. Current costs (1) do not necessarily represent either realizable value or the costs that would actually be incurred if existing property, plant and equipment were replaced today, (2) do not give consideration to the effects of technological improvements that may be available and (3) do not consider the availability or cost of financing or the manner which the Company might choose to replace such assets.

Several sources, including the use of various industrial cost indices and direct pricing of similar equipment or construction at current prices, are used to estimate the current cost of property, plant and equipment.

Commentary

The accompanying financial data set forth the approximate effects of inflation on the Company's income from continuing operations for 1981, 1980 and 1979, based on both the constant dollar and the current cost methods. Under either method income from continuing operations is lower than the corresponding amounts in the historical dollar financial statements. The reduction in income from continuing operations occurs because of increases in cost of sales and depreciation expense resulting from the application of the above methods. However, the unrealized gain on net monetary liabilities resulting from the decline in the purchasing power of the dollar is not reflected in the adjusted amounts of income from continuing operations.

Income tax provisions are not adjusted in these data because income taxes are not reduced to allow for the effects of inflation. The effective tax rates for continuing operations under the constant dollar and current cost methods are 42% and 37%, respectively, in 1981 (23% in the historical dollar financial statements), 67% and 66%, respectively, in 1980 (48% in the historical dollar financial statements), and 62% and 56%, respectively, in 1979 (39% in the historical dollar financial statements).

In 1981, 1980 and 1979, the increase in the current cost of inventories and property, plant and equipment was less (measured in average 1981 dollars) than the overall increase resulting from general inflation, as measured by the Consumer Price Index.

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Five-Year Inflation Data

(Dollars in thousands, except per share amounts)

General Host Corporation

	1981	1980	1979	1978	19
Sales of continuing operations:					
Historical dollars	$497,628	$424,713	$350,375	$298,780	$258,508
Constant dollars	$497,628	$468,578	$439,016	$416,518	$387,976
Income from continuing operations:					
Historical dollars	$ 11,638	$ 11,416	$ 9,672		
Constant dollars	$ 4,882	$ 5,654	$ 4,647		
Current cost	$ 5,836	$ 5,947	$ 6,054		
Primary earnings per share:					
Historical dollars	$ 2.46	$ 2.00	$ 2.00		
Constant dollars	$ 1.03	$ .99	$ .96		
Current cost	$ 1.23	$ 1.04	$ 1.25		
Fully diluted earnings per share:					
Historical dollars	$ 2.10	$ 1.74	$ 1.62		
Constant dollars	Anti-dilutive	$ .99	$ .87		
Current cost	Anti-dilutive	$ 1.03	$ 1.09		
Net assets (shareholders' equity):					
Historical dollars	$ 77,520	$ 64,026	$ 83,872		
Constant dollars	$116,711	$104,837	$141,768		
Current cost	$134,568	$125,402	$186,343		
Unrealized gain on net monetary liabilities (principally long-term debt) resulting from the decline in purchasing power of the dollar	$ 11,542	$ 12,522	$ 12,587		
Excess of increase resulting from general inflation over increase in current cost of inventories and property, plant and equipment	$ 3,665	$ 1,729	$ 4,708		
Cash dividends per common share:					
Historical dollars	$.45	$.38¾	$.32½	$.30	$.30
Constant dollars	$.45	$.42¾	$.40¾	$.41¾	$.45
December 31 closing market price per common share:					
Historical dollars	$9⅞	$ 9½	$ 9⅝	$4⅞	$4½
Constant dollars	$9⅛	$10	$11³/₈	$6½	$6⅝
Average consumer price index for the year	272.4	246.9	217.4	195.4	181.5

Note: All the above constant dollar and current cost amounts are expressed in *average* 1981 dollars.

Fiscal Year 1981 Inflation Data
(Dollars in thousands)

	Historical amounts reported in the consolidated financial statements	Historical amounts adjusted for General inflation (constant dollars)	Historical amounts adjusted for Changes in specific prices (current cost)
Income from continuing operations before income taxes	$ 15,107	$ 15,107	$ 15,107
Adjustments to reflect the effects of general inflation (constant dollars) and changes in specific prices (current cost):			
Increases to $393,556 historical cost of sales (inventory costs)		(2,843)	(767)
Increases to $10,770 historical depreciation and amortization		(3,913)	(5,035)
Income from continuing operations before income taxes	15,107	8,351	9,305
Provision for income taxes	3,469	3,469	3,469
Income from continuing operations	$ 11,638	$ 4,882	$ 5,836
Increase in current cost of inventories and property, plant and equipment held during 1981			$ 13,866
Increase resulting from general inflation			17,531
Excess of increase resulting from general inflation over increase in current cost			$ 3,665
At December 26, 1981:			
Inventories	$ 47,144	$ 45,747	$ 47,337
Property, plant and equipment—net	$107,044	$145,153	$168,395

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Directory

Directors

C. Whitcomb Alden, Jr.[3]
Financial consultant and private investor

Harris J. Ashton[1]
Chairman of the Board of Directors, President and Chief Executive Officer
General Host Corporation

William F. Downey[1]
Member, Lovejoy, Wasson, Lundgren & Ashton, P.C.

Christopher A. Forster[3]
Senior Vice President
Marsh & McLennan, Inc.

Weston E. Hamilton[2]
Senior Vice President
Zions First National Bank

Philip B. Harley[3]
Director of and consultant to various corporations

Richard W. Haskel[2]
Private investor

Edward H. Hoornstra
Vice Chairman of the Board of Directors
General Host Corporation

Charles B. Johnson[1,2]
President
Franklin Resources, Inc.

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Compensation Committee

Officers

Harris J. Ashton
Chairman of the Board of Directors, President and Chief Executive Officer

Edward H. Hoornstra
Vice Chairman of the Board of Directors and President, Specialty Retailing Group

Louis A. Guzzetti, Jr.
Executive Vice President and Secretary

Douglas W. Lauder
Vice President of the Corporation and President, Food Products Group

Anthony D. Battaglia
Vice President, Planning

William H. Bertin
Vice President and General Counsel

George K. Gill
Treasurer

Richard Gould
Vice President, Human Resources

James C. Hull
Vice President and Controller

Operating Company Presidents

Ronald K. Finley
Tambellini Foods

Randolph D. Herman
Hot Sam Companies

Edward H. Hoornstra
Acting President
Hickory Farms of Ohio

E. Kent Kinard
Little General Stores

Charles F. Lasbury
Cudahy Specialty Foods Co.

Vincent W. Nielsen
Milk Specialties Company

Steven H. Pokress
Van de Kamp's Frozen Foods

Otto M. Rueschhoff
American Salt Company

Operating Companies

Specialty Retailing Group

Hickory Farms of Ohio
Maumee, OH

Little General Stores
Tampa, FL

Hot Sam Companies
Tampa, FL

Food Products Group

Van de Kamp's Frozen Foods
Long Beach, CA

Cudahy Specialty Foods Co.
Phoenix, AZ

Milk Specialties Company
Dundee, IL

American Salt Company
Kansas City, MO

Design: Arnold Saks Associates
Photography: Gary Gladstone and Gary Perweiler

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General Host Corporation
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Subsidiaries.

COMPANY	STATE OF INCORPORATION	OTHER NAMES FOR TRANSACTING BUSINESS
Cudahy Company	Delaware	American Salt Company Milk Specialties Company Cudahy Specialty Foods Co.
Host Holding Corporation	New York	----------

The names of all other subsidiaries are omitted since, considered in the aggregate as a single subsidiary, they would not have constituted, as of the fiscal year ended December 26, 1981, a "significant subsidiary," as that term is defined in Rule 1.02(v) of Regulation S-X.

END