Hesston annual report

This annual report from the Hesston Corporation includes: financial highlights of the company and financial news to and from stockholders and employees. This publication funded by the National Historical Publications and Records Commission through the Kansas State Historical Records Advisory Board.

Creator: Hesston Corporation

Date: 1984

Callnumber: Hesston Public Library

KSHS Identifier: DaRT ID: 448437

Item Identifier: 448437

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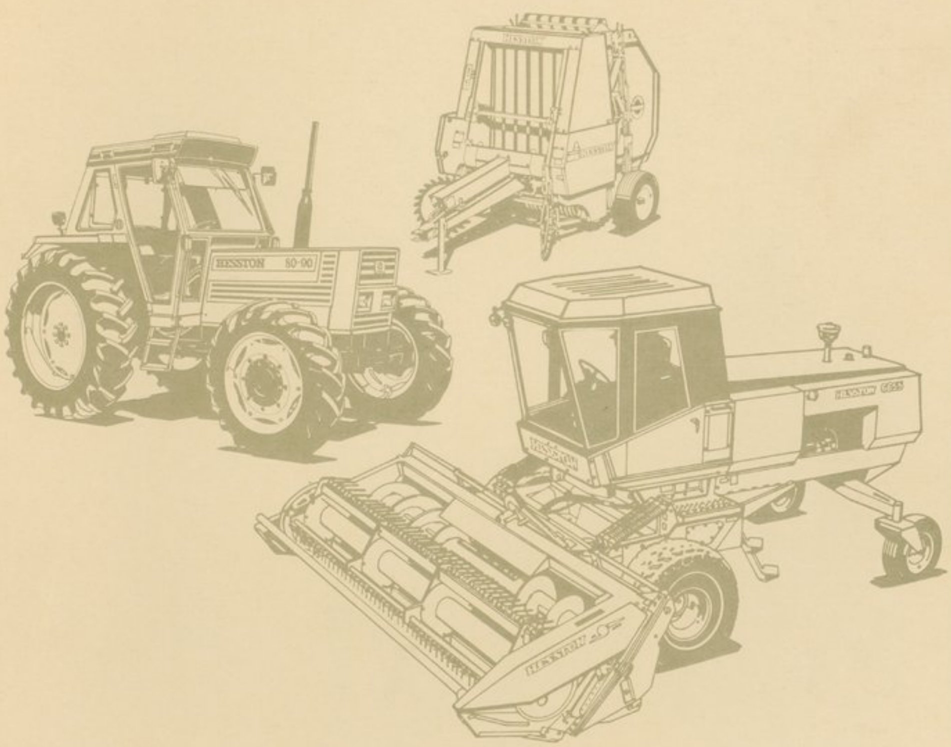
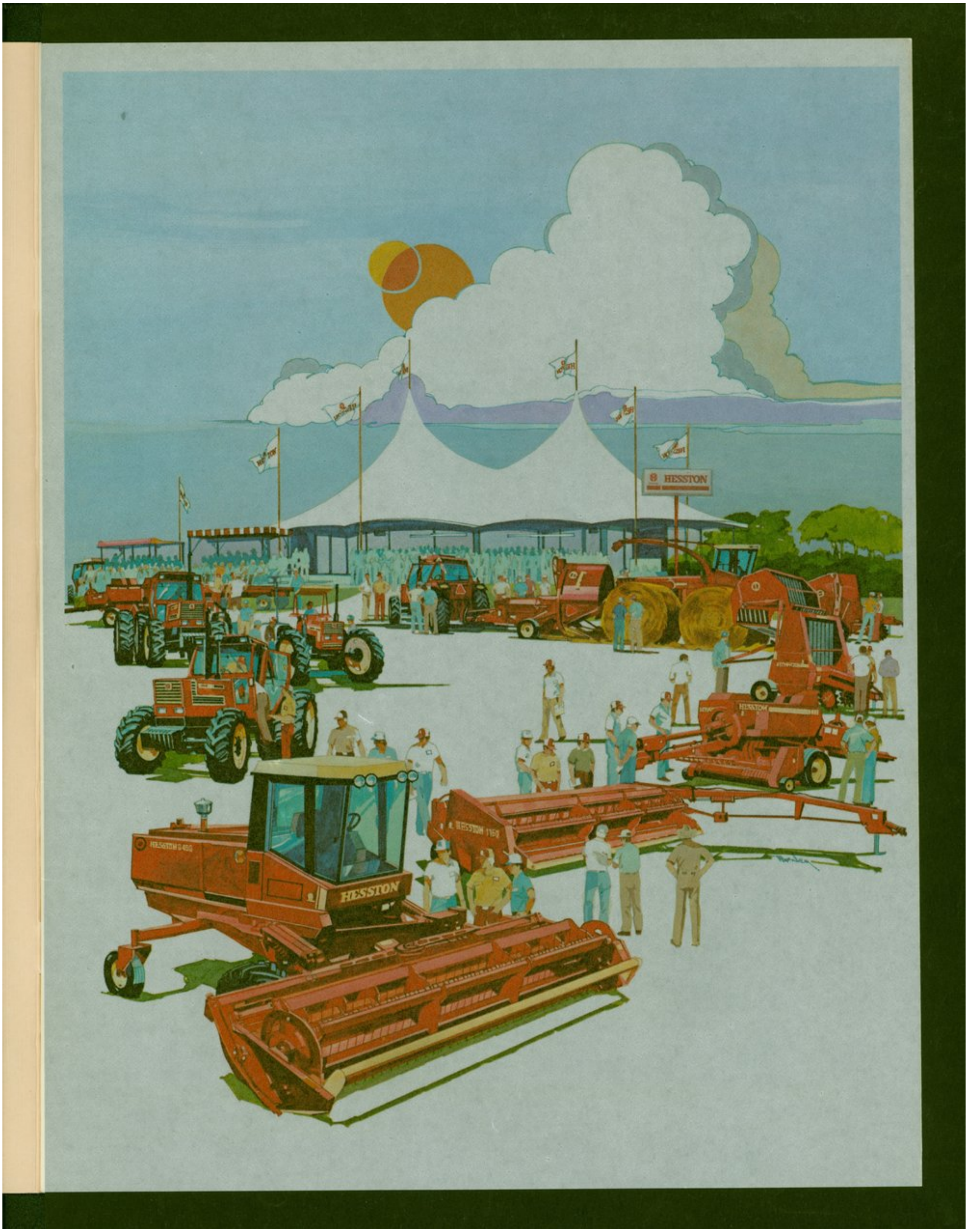
Hesston Corporation 1984 Annual Report



The Prime Line of Hesston farm equipment continues to improve and grow. In keeping with the Company's strategy to offer high quality, state-of-the-art equipment lines, more than 60 new or improved products for 1985 were introduced in August to the dealer organization during the North American Dealer Conference in Wichita.

Hesston annual report



The Annual Meeting of Stockholders of Hesston Corporation will be held at 1:30 p.m. local time on April 23, 1985, at the Hesston Corporation Communications Center, Hesston, Kansas.

A copy of Hesston Corporation's annual report to the Securities and Exchange Commission (Form 10-K) may be obtained by writing to Hesston Corporation, Attention: Mr. Richard Hrdlicka, Secretary, Hesston, Kansas 67062.

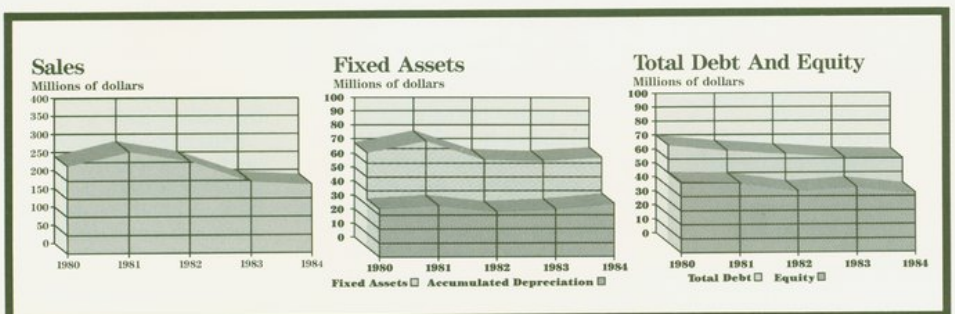
New York Stock Exchange - HES, HES Pr

HESSTON CORPORATION

HESSTON, KANSAS 67062, Phone: (316) 327-4000

Financial Highlights

Thousands of dollars except per share amounts	Years ended December 31, 1984	1983
Net sales	$ 191,052	$ 197,962
Income (loss) before income taxes and extraordinary item	$ (4,478)	$ 2,028
Charge equivalent to tax benefit of loss carryforward		465
Income (loss) before extraordinary item	(4,478)	1,563
Extraordinary item: Tax benefit of loss carryforward		465
Net income (loss)	$ (4,478)	$ 2,028
Net income (loss) per common share	$ (1.59)	$ .27
Common shares outstanding	3,499,640	3,421,669



Note: Amounts prior to 1983 include Hesston S.A., a French subsidiary sold in November, 1982.

Letter to our Stockholders

Howard L. Brenneman
President and Chief Executive Officer

Hesston is operating in a very difficult segment of the national economy. While much of the nation is recovering from the downturn of the early 1980s, agriculture remains in the greatest slump since the Depression of the 1930s.

Commodity prices are at their lowest levels in recent history. Demand is low and exports are sluggish as the dollar continues to increase in value on the international market, making U.S. farm commodities and products noncompetitive from a price point of view.

Consequently, the demand for farm equipment in North America is less than half of what it was in the late 1970s. This has led to intense competition for retail sales to farmers, particularly in the tractor markets. Hesston has had to engage in heavy discounting in order to retail its products. Additionally, high interest rates and increased dealer inventories have led to high sales financing costs.

Sales and Results

The continuing depressed state of the farm economy caused us to have a loss of $4,478,000, or $1.59 per share, on sales of $191,052,000 for the 1984 year. This compares to earnings of $2,028,000, or $.27 a share, on sales of $197,962,000 for 1983.

Although we are disappointed in the results, our loss would have been much greater had we not continued our ongoing expense reduction programs that began in 1981. These programs include reduction of indirect expenses and improved manufacturing efficiencies and purchasing practices, as well as careful and strict control of all other expenses of the Company.

Since the farm economy began its downward trend, Hesston has been profitable from operations in three of the last six years.

Inventories

Factory inventories are down from 1983. Hesston dealers' inventories are up primarily because of the development of the tractor market.

Dividends

No dividend payments were made during 1984. Our long-term loan agreement restricts payment of cash dividends to earnings accumulated after June 30, 1982.

North American Farm Equipment

Hesston is continuing with the strategic direction set some time ago. We are concentrating on product development in order to keep our hay and forage line up-to-date and modern, and on developing a quality distribution system for our full line of products, including tractors, hay, forage and tillage equipment. We are also determined to reduce our fixed costs and to control working capital.

In keeping with this strategy, we introduced more than 60 new or improved products for 1985 to our dealer organization in August, along with the new FIATAGRI symbol to emphasize our worldwide alliance with the Fiat agricultural sector.

Along with nine new "90" series tractors with two-wheel or four-wheel drive, we introduced twelve hay tools. These included three self-propelled windrowers and three mower-conditioner models. Of special significance is the all-new Model 1150, a high-capacity mower-conditioner with a 12-foot cutting width and very competitive pricing. These new or improved products permit Hesston dealers to compete with a model in every price range.

A new 4650 Model Beeline Baler that makes 16- x 18-inch bales is to be introduced in 1985. This baler follows the same innovative center-line design of the smaller 4600 Baler which has proven so popular in the small square baler market.

Another product that has gained considerable dealer enthusiasm since its announcement is our new Tilt-Tub Bale Processor with an exclusive self-loading feature to process round bales. This product will be available in the fall of 1985.

Other product lines have been updated, including the round baler and the forage lines. Four front-end loaders designed specifically for Hesston tractors have also been introduced.

Our new or improved products have given an additional boost to our dealer development program of franchising the full line of Hesston Prime Line products to quality dealers. We have developed some very aggressive parts merchandising and sales training programs, along with highly effective sales tools to help our dealers properly present Hesston products to their customers. Our telemarketing support program for dealers is succeeding in giving designated dealers greater assistance from the factory at less cost than keeping a salesperson in the field.

Hesston is continuing to strive for manufacturing efficiency. We are initiating a new "just-in-time" production plan that coordinates receiving and production of primary components with the time they are needed for final assembly and shipment. This will increase efficiency and reduce the cost of work-in-process inventory.

Oil Field Equipment

Sales of oil field equipment showed marked improvement in 1984. The Hesston/Sentry pumping units are marketed through an effective distribution system.

Woods Division

The Woods Division, headquartered in Oregon, Illinois and with a plant in Mt. Carroll, Illinois, continues to be profitable. Woods, an industry leader in the manufacture of rotary mowers and cutters, sells a significant portion of its products to nonagricultural markets and, therefore, has not been as adversely affected by the depressed farm economy. Woods is making its first entry into the self-propelled riding mower market in 1985 with a new product, "The Mow'n Machine," designed for the consumer and light commercial market.

Board Changes

During the year, Nathaniel Samuels, advisory director of Shearson Lehman Brothers Inc., was elected to the board of directors. He replaces Garfield Horn. Mr. Samuels was managing partner of Kuhn, Loeb & Co. prior to its merger with Lehman Brothers and has served as Under Secretary of State for Economic Affairs in the U.S. Department of State from 1969 to 1972. He is currently chairman or director of several other corporations, including Louis Dreyfus Holding Company, Jefferson Insurance Company and Global Bancorporation.

Outlook

As mentioned earlier, we are continuing with our strategy to improve our product line and to strengthen our dealer force. The FIATAGRI alliance provides us with the stability of one of the world's strongest companies. It allows us to offer Hesston customers one of the most modern tractor lines in the world and it provides us a worldwide market for other Hesston products.

We don't expect that farm equipment markets will return to the favorable circumstances of the 1970s, with the booming exports, high commodity prices and inflation-driven buying. We do, however, expect an eventual improvement. On the immediate horizon, we anticipate even greater discounting of prices as emerging business combinations within our industry begin unloading inventories of discontinued products on the market.

However, there is some hope that the cattle industry will have a resurgence in the coming months, which may have a favorable effect on hay and forage equipment sales. Commodity prices will remain low until we can reduce our surpluses and this can only be accomplished by increased exports. The continued strength of the dollar is a deterrent to grain sales in the international market. Until we can find some way to increase exports of farm commodities, our challenges will continue.

To our stockholders, we want to thank you for your continued support during these difficult days. To our employees who remain so loyal, we send a very special note of appreciation. And, to our dealers and their customers, we are deeply grateful for your confidence and faith in Hesston products.

Howard L. Brenneman

Howard L. Brenneman
President and Chief Executive Officer

Lyle E. Yost

Lyle E. Yost
Chairman of the Board

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

Liquidity and Capital Resources

Funds provided by operations were $5,410,000 lower than in 1983. Additional funds required in 1984 for net debt reductions, capital acquisitions and other requirements were obtained by reducing working capital. Lower working capital was achieved by reducing Company-owned inventories and accounts receivable. Also, short-term bank debt was increased. In 1983, funds provided by operations were $1,886,000 in excess of the amount necessary to meet obligations and maintain working capital balances.

At December 31, 1984, the Company had unsecured lines of credit for short-term borrowings totaling $14,254,000. Outstanding debt under these lines at December 31, 1984 was $5,000,000. Also the Company's credit subsidiaries had lines of credit of $14,470,000 with $13,103,000 outstanding at December 31, 1984.

The Company incurred new medium-term debt of $17,836,000 in 1984, $21,288,000 in 1983, and $29,505,000 in 1982 from affiliated companies. The balance of this debt was $37,080,000 and $39,687,000 at December 31, 1984 and 1983, respectively. These loans are repaid over a three-year period and have interest rates more favorable than the market rate at the date of borrowing.

There have been no significant additions to long-term debt to third parties during 1984 or 1983. Payments, including the annual principal reduction of $3,071,000 on the Prudential Insurance Company loan, have been made when due.

The Company sells most of its dealer trade receivables to unconsolidated credit subsidiaries, Hesston Credit Corporation and Hesston Credit, Ltd., who fund their purchases of receivables through an independent and an affiliated finance company and banks (see Note 3). The outstanding balance of these receivables was $134,058,000 at December 31, 1984, compared to $121,911,000 and $132,939,000 at December 31, 1983 and 1982, respectively. Retail financing of tractors and equipment sold by dealers is provided by independent finance sources. The Company retains some of the dealer trade receivables. These receivables ($29,348,000, $30,166,000 and $1,150,000 at December 31, 1984, 1983 and 1982, respectively) are available for sale and represent a source of available funds. A significant portion of the increase in total dealer receivables over the three-year period relates to the Company's tractor market development. The weak farm economy also contributed to the increase in total dealer receivables.

The interest rate on the Company's long-term debt increased slightly in 1984 following modest decreases in 1983 and 1982. The decreases in 1983 and 1982 were primarily the result of favorable rates on new medium-term debt. In 1984, additions of medium-term debt carried a less favorable rate compared with the earlier year. The interest rate on short-term debt changed from a weighted average of 15.2% in 1982 to 10.1% in 1983 to 10.4% in 1984, due primarily to changes in the U.S. prime rate. There were also similar changes in the interest rate for dealer trade receivables sold to finance companies in these years.

From December 31, 1979 to December 31, 1982, the Company's total North American debt increased by $21,481,000, while total equity decreased by $8,020,000. During this period of time, the debt to equity ratio increased from 1.1 to 1.4. This increase in borrowing was primarily used for operations, including financing the operations of Hesston S.A., a French subsidiary. From December 31, 1982 to December 31, 1984, total debt decreased $3,700,000, along with a decrease in equity of $1,967,000. The debt to equity ratio at December 31, 1984 remains at 1.4. Hesston S.A. was sold in 1982, resulting in the collection of approximately $20,000,000 in 1983, which improved the liquidity of the Company. The funds have been used in operations and to retain a portion of the dealer trade receivables. The current ratio declined to 1.9 at December 31, 1984, compared to 2.2 at December 31, 1983 and 2.1 at December 31, 1982. The decline in the current ratio in 1984 is primarily the result of the excess fund requirements for debt reductions and capital acquisitions over funds generated from operations.

The Company uses modern and efficient

equipment and maintains its facilities in excellent condition. Because of economic conditions, expenditures for capital assets in recent years have been held to the minimum necessary to maintain or increase manufacturing efficiency and replace worn machinery and equipment. Capital investment expenditures for continuing operations were \$3,924,000, \$2,465,000 and \$3,940,000 for the years ended December 31, 1984, 1983 and 1982, respectively. There were no material commitments for capital expenditures at December 31, 1984.

In 1982, the Company modified its long-term loan agreement with Prudential Insurance Company to ease restrictions on the amount of debt it can incur from other sources for expansion of its tractor business and its seasonal requirements. Also, the Company agreed to limit further cash dividends on common and preferred stock to earnings accumulated after June 30, 1982. The Company has operated at a cumulative loss of \$11,186,000 in the subsequent thirty months ended December 31, 1984. Dividend payments were suspended beginning in the third quarter of 1982. The total amount of dividends in arrears on the preferred stock was \$2,691,600 at December 31, 1984.

Results of Operations

The continuing depressed state of the farm economy has reduced markets for farm equipment in North America to less than half their size in the late 1970s. In this very difficult environment, the Company has developed strategies to generally maintain or increase market shares by offering high quality, innovative products and development of its dealer network. Strategies to achieve profitability in substantially smaller and more competitive markets include programs to increase overall efficiencies, carefully control costs and reduce the asset base needed for operations. The Company continued to develop markets for its tractors during 1984. Tractors manufactured by Fiat Trattori in Italy were introduced in 1980. Sales have consistently increased with new and additional model introductions and continuing development of the Hesston dealer network.

Price increases have generally paralleled inflation. Sales from continuing operations in 1984 were \$191,052,000 compared with \$197,962,000 in 1983 and \$202,081,000 in 1982. The decrease in sales reflects the general weakness and intense competition present in the farm equipment market which has caused the Company to offer costly incentive rebate and discount programs. Management expects these discount programs to continue until market conditions improve.

Continuation of intensive cost reduction and efficiency improvement programs started in 1981 has produced a trend of lower product costs. The effect of inflation on production costs and operating expenses generally has been less than the inflation in the economy as a whole. Lower costs and expenses in 1983 helped to improve earnings in that year. The operating loss in 1984 was primarily the result of higher discounts and rebates.

Gross margin percentage declined 1.5% in 1984 compared with 1983 and improved .9% in 1983 over 1982. Fluctuation in gross margin is caused by a combination of many factors. Primarily, these are changes in the mix of products sold, increased costs of incentive rebate and discount programs offered, cost reduction and increased manufacturing efficiency, and decreases in costs due to liquidation of LIFO inventory quantities.

The Company continued in 1984 to expand its activity in distributing tractors manufactured by Fiat Trattori. To help develop the market for these tractors in a highly competitive environment in North America, Fiat Trattori has in each of the past four years reimbursed the Company for certain discounts and marketing expenses related to establishing tractor dealers and increasing retail sales.

The Company uses the LIFO method of accounting for its inventories. Under this method, amounts charged to cost of sales approximate current costs and thus reduces distortion in reported income due to increasing costs. During the three-year period ended December 31, 1984, the Company's inventories have declined significantly, due to better inventory management and reduced levels of production. This reduction in inventories has resulted in liquidation of LIFO inventory quantities carried at lower costs than prevailed in prior years and has the effect of matching these lower costs against current year revenue, which results in increased income. As a result of reductions of LIFO inventory quantities, the 1984 and 1982 net losses were reduced by $2,258,000 and $5,860,000, respectively, and the net income for 1983 was increased by $3,274,000.

The Company also sells oil field equipment, primarily pumping units. The percentage gross margin normally experienced on these sales is less than the margin normally experienced with the Company's farm equipment sales. However, the operating expenses and interest and finance costs associated with these sales are also lower.

Interest and finance costs include the cost of carrying dealer receivables sold to credit subsidiaries. Interest and finance costs were approximately the same in 1984 and 1983. These costs declined 17.1% in 1983, compared to 1982, primarily reflecting lower interest rates.

Other income in 1983 includes a gain of $483,000 related to the disposal of a warehouse facility.

No tax benefits were recorded in 1984 or 1982, due to the uncertainties of future realization of these benefits. The 22.9% tax rate in 1983 is principally due to recognition of investment tax credits. Also in 1983, offsetting the tax provision, is an extraordinary tax benefit arising from utilization of prior years' losses.

Supplementary Information

Market Price of the Company's Common Stock and Related Stockholder Matters

The Company's common stock is traded on the New York Stock Exchange. The high and low sales prices for the stock during the last two years are summarized below:

	Years ended December 31,			
	1984		1983	
	High	Low	High	Low
First Quarter	24⅞	10¾	9⅛	6⅞
Second Quarter	11⅝	7¾	12⅞	7½
Third Quarter......	9½	7⅝	16⅞	11⅜
Fourth Quarter	8	5¼	22⅛	16⅝

The approximate number of record holders of the Company's common stock at December 31, 1984 was 2,158.

Restrictions on the payment of dividends on the Company's common stock are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations under Liquidity and Capital Resources and are summarized in Notes 5 and 8 of Notes to Consolidated Financial Statements.

Hesston annual report

Five Year Summary of Significant Financial Information

Thousands of dollars except per share amounts

	Years ended December 31,				
	1984	**1983**	**1982**	**1981**	**1980**
Summary of Operations					
Net sales	**$191,052**	$197,962	$254,417	$280,144	$241,407
Cost of sales	**134,413**	136,270	178,070	196,402	163,992
Operating expenses	**39,837**	39,205	52,075	58,983	55,699
Depreciation	**5,148**	5,176	6,593	6,575	4,884
Interest and finance costs	**21,597**	21,389	30,963	29,960	24,632
Income tax expense (benefit)		465		(482)	475
Income (loss) before other credits	**(4,478)**	1,563	(7,947)	(4,798)	558
Other credits to income (see note)		465		8,590	
Net income (loss)	**(4,478)**	2,028	(7,947)	3,792	558
*Income (loss) as a % of net sales	**(2.3%)**	.8%	(3.1%)	(1.7%)	.2%
Income (loss) per common share:					
Primary	**(1.59)**	.27	(2.69)	.78	(.18)
Fully diluted	**(1.59)**	.27	(2.69)	.75	(.18)
Dividends, Equity, Net Book Value					
Dividends paid on common and preferred stock			918	1,837	1,668
Total equity	**42,684**	46,679	44,651	50,687	51,561
Book value per common share	**6.51**	7.99	7.44	9.36	9.58
Average common shares outstanding	**3,496,922**	3,394,254	3,388,263	3,388,175	3,387,952
*Return on average equity	**(10.0%)**	3.4%	(16.7%)	(9.4%)	1.1%
Other Data					
Total assets	**134,800**	142,076	144,078	166,401	167,318
Average asset turn	**1.38**	1.38	1.64	1.68	1.50
Net property, plant and equipment	**26,488**	27,632	30,522	39,245	33,232
Working capital	**50,492**	59,894	58,008	45,597	52,143
Current ratio	**1.9**	2.2	2.1	1.6	1.7
**Long-term debt	**30,957**	38,098	40,925	30,491	32,052
**Long-term debt/equity	**.73**	.82	.92	.60	.62
Employment (end of year)	**1,746**	1,834	2,245	2,944	3,041

*Amounts are from operations before other credits.

**Excluding current maturities of long-term debt.

Note: Other credits to income in 1983 are a reduction of income taxes arising from utilization of prior years' losses. Other credits in 1981 result from changes in methods of accounting for finance costs on receivables transferred to finance companies and for tooling charges. Beginning in 1981, the functional currency approach to translating foreign currency financial statements was used. In November 1982, the Company sold its French subsidiary Hesston S.A. (Note 16).

Report of Certified Public Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

1400 CharterBank Center
Kansas City, Missouri 64105

The Board of Directors and Stockholders
Hesston Corporation

We have examined the accompanying consolidated balance sheets of Hesston Corporation at December 31, 1984 and 1983, and related consolidated statements of operations, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1984. 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 statements mentioned above present fairly the consolidated financial position of Hesston Corporation at December 31, 1984 and 1983, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

February 18, 1985

Consolidated Balance Sheet

Thousands of dollars	December 31, 1984	1983
Assets		
Current assets:		
Cash	$ 616	$ 223
Accounts receivable	54,099	58,248
Inventories:		
Finished goods	23,071	24,255
Parts	8,843	9,192
Work in process	6,701	7,898
Raw materials	6,971	6,954
	45,586	48,299
Other current assets	4,863	4,247
Total current assets	105,164	111,017
Investment in unconsolidated credit subsidiaries	421	583
Other assets	2,727	2,844
Property, plant and equipment, at cost:		
Land and buildings	24,224	23,987
Machinery and equipment	30,715	29,027
Tooling	5,993	6,069
Office furniture and fixtures	3,995	3,316
	64,927	62,399
Less accumulated depreciation	38,439	34,767
Net property, plant and equipment	26,488	27,632
	$ 134,800	$ 142,076

Liabilities and Stockholders' Equity

	December 31, 1984	December 31, 1983
Current liabilities:		
Notes payable to banks	$ 5,000	$
Accounts payable	5,722	8,847
Accrued sales discounts and finance costs	7,878	7,324
Accrued payroll, profit-sharing and retirement contributions	7,590	8,323
Other accrued liabilities	4,347	3,842
Long-term debt payable within one year:		
Third parties	3,374	3,364
Affiliates	20,761	19,423
Total current liabilities	54,672	51,123
Long-term debt payable after one year:		
Third parties	14,638	17,834
Affiliates	16,319	20,264
Deferred income taxes and other liabilities	6,487	6,176
Contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, $2 par value, 2,000,000 shares authorized:		
$1.60 cumulative convertible preferred stock, 447,900 shares outstanding (466,900 in 1983), aggregate liquidation value $12,989,100	896	934
$.60 cumulative convertible preferred stock, 600,000 shares outstanding, aggregate liquidation value $6,900,000	1,200	1,200
Common stock, $2 par value, 8,000,000 shares authorized: 3,499,640 shares outstanding (3,421,669 in 1983)	6,999	6,843
Capital in excess of par value	34,359	33,994
Retained earnings (deficit)	(770)	3,708
Total stockholders' equity	42,684	46,679
	$ 134,800	$ 142,076

See notes to consolidated financial statements.

Consolidated Statement of Operations

Thousands of dollars except per share amounts	Years ended December 31, 1984	1983	1982
From continuing operations:			
Net sales	$ 191,052	$ 197,962	$ 202,081
Cost of sales	134,413	136,270	140,884
Gross profit	56,639	61,692	61,197
Operating expenses:			
Marketing and administration	35,433	35,276	35,572
Engineering	4,404	3,929	4,161
Total operating expenses	39,837	39,205	39,733
Operating profit	16,802	22,487	21,464
Other (income) deductions:			
Interest and finance costs	21,597	21,389	25,795
Net income of credit subsidiaries	(20)	(58)	(15)
Other - net (Note 14)	(297)	(872)	(78)
	21,280	20,459	25,702
	(4,478)	2,028	(4,238)
French subsidiary disposed of (Note 16)			(3,709)
Income (loss) before income taxes and extraordinary item	(4,478)	2,028	(7,947)
Charge equivalent to tax benefit of loss carryforward		465	
Income (loss) before extraordinary item	(4,478)	1,563	(7,947)
Extraordinary item - reduction of income taxes arising from utilization of prior years' losses (Note 7)		465	
Net income (loss)	$ (4,478)	$ 2,028	$ (7,947)
Income (loss) per common share:			
Income (loss) before extraordinary item	$ (1.59)	$ .13	$ (2.69)
Extraordinary item		.14	
Net income (loss)	$ (1.59)	$ .27	$ (2.69)

See notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

Years ended December 31, 1984, 1983 and 1982

Thousands of dollars

	Capital Stock and Capital in Excess of Par	Cumulative Translation Adjustment	Retained Earnings (Deficit)	Total
Balance, December 31, 1981	$ 42,971	$ (2,829)	$ 10,545	$50,687
1982 adjustment for foreign currency translation		(1,451)		(1,451)
Net loss and elimination of cumulative translation adjustment		4,280	(7,947)	(3,667)
Less cash dividends:				
Common stock ($.10 per share)			(339)	(339)
$1.60 preferred stock ($.80 per share)			(399)	(399)
$.60 preferred stock ($.30 per share)			(180)	(180)
Balance, December 31, 1982	42,971		1,680	44,651
Net income			2,028	2,028
Balance, December 31, 1983	42,971		3,708	46,679
Exercise of stock options (Note 9)	483			483
Net loss			(4,478)	(4,478)
Balance, December 31, 1984	$ 43,454		$ (770)	$42,684

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Thousands of dollars	Years ended December 31, 1984	1983	1982
Source of funds:			
Operations:			
Income (loss) before extraordinary item	**$ (4,478)**	$ 1,563	$ (7,947)
Nonfund transactions:			
Depreciation	**5,148**	5,176	6,593
Noncurrent deferred income taxes and other	**293**	(831)	828
Gain on sale of French subsidiary (Note 16)			(2,797)
Elimination of cumulative translation adjustment (Note 16)			4,280
	963	5,908	957
Extraordinary item - reduction of income taxes		465	
Funds provided by operations	**963**	6,373	957
Disposal of French subsidiary (Note 16)			5,182
Proceeds from long-term debt	**18,118**	22,185	32,505
Other	**780**	626	104
Total funds provided	**19,861**	29,184	38,748
Application of funds:			
Net additions to property, plant and equipment	**4,004**	2,286	4,314
Decrease in long-term debt	**25,259**	25,012	20,130
Dividends paid			918
Adjustments from foreign currency translation			975
Total funds applied	**29,263**	27,298	26,337
Increase (decrease) in working capital	**$ (9,402)**	$ 1,886	$ 12,411
Details of increase (decrease) in working capital:			
Cash	**$ 393**	$ 104	$ (96)
Receivables	**(4,149)**	12,573	13,736
Inventories	**(2,713)**	(10,583)	(28,007)
Other current assets	**616**	(638)	(462)
Notes payable to banks	**(5,000)**	5,500	19,458
Accounts payable	**3,125**	(839)	11,571
Accrued liabilities	**(326)**	1,189	3,032
Long-term debt payable within one year	**(1,348)**	(5,420)	(6,821)
Increase (decrease) in working capital	**$ (9,402)**	$ 1,886	$ 12,411

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of accounting policies

A. Principles of consolidation — The consolidated financial statements include the accounts of the Company and its subsidiaries, except for its wholly-owned credit subsidiaries, which are reported on the equity method.

B. Inventories — Inventories are stated at the lower of cost or market. Cost has been determined using the last-in, first-out (LIFO) method for U.S. inventories and the first-in, first-out (FIFO) method for other inventories. Market represents replacement cost in the case of raw materials and net realizable value in the case of other inventories. If the FIFO method of costing inventory, which approximates current cost, had been used exclusively by the Company, inventories would have been $13,134,000 higher at December 31, 1984. Due to a reduction of LIFO inventory quantities, the 1984 net loss was reduced by $2,258,000, the 1983 net income was increased by $3,274,000, and the 1982 net loss was decreased by $5,860,000.

C. Property, plant and equipment — Substantially all plant and equipment are depreciated on a straight-line basis for financial reporting purposes and on an accelerated basis for income tax purposes. Estimated useful lives for purposes of depreciation are as follows:

Buildings	10 - 40 years
Machinery and equipment	3 - 15 years
Tooling	5 years
Office furniture and fixtures	3 - 10 years

D. Investment tax credits — Investment tax credits are applied as a reduction of income taxes on the flow-through method.

E. Sales and finance costs — Sales are recognized at the time of shipment to dealers. Expenses related to incentive programs to stimulate retail sales are recognized at the time of retail sale. The Company recognizes finance costs it incurs on dealer receivables sold with limited recourse to its wholly-owned credit subsidiaries over the term of the receivables.

F. Income (loss) per common share — Income (loss) per share is based on the weighted average number of common shares outstanding during the period (3,496,922, 3,394,254 and 3,388,263 for the years ended December 31, 1984, 1983 and 1982, respectively) after giving effect to the dividend requirements of the $1.60 and $.60 Cumulative Convertible Preferred Stock. Fully diluted per share amounts for all periods presented are the same as per share amounts, assuming no dilution, since conversion of the preferred stock would have an antidilutive effect.

2. Trade receivables from dealers — Sales of farm equipment to the Company's dealers are made in accordance with terms prevailing in the industry. Trade receivables from sales to dealers are secured by the related equipment and are initially non-interest bearing for periods from nine months for tractors to fifteen months for other farm equipment, unless retail sale occurs sooner. Terms to dealers require payment of the balance at retail sale or due date, whichever occurs first.

As more fully described in Note 3, the Company sells, with limited recourse, most of its dealer trade receivables to wholly-owned credit subsidiaries. The outstanding balances of receivables transferred to finance companies were $134,058,000 and $121,911,000 at December 31, 1984 and 1983, respectively.

Receivables from dealers have been classified as current assets in accordance with recognized industry practice. Most receivables are collected within twelve months. However, because of the weak farm equipment market, the Company has extended interest-free periods and due dates of certain outstanding dealer receivables in order to assist its dealer organization. As a result of the adverse conditions in the farm equipment market, a portion of the dealer receivables at December 31, 1984 is expected to remain outstanding for more than one year. The timing of actual collection depends largely upon the amount of related equipment sold by dealers to retail customers. Intense competition in the farm equipment market has also caused the Company to offer special discounts and financing arrangements to retail customers to stimulate retail sales.

Notes to Consolidated Financial Statements (continued)

3. Credit subsidiaries — In 1984, the Company began financing U.S. dealer receivables by utilizing a wholly-owned domestic credit subsidiary, Hesston Credit Corporation. The Company now sells most of its dealer receivables to Hesston Credit Corporation and its wholly-owned subsidiary, Hesston Credit, Ltd. Previously, a significant portion of receivables from dealers was transferred with limited recourse to independent and affiliated finance companies. Hesston Credit, Ltd. provides floorplan financing for dealers in Canada. The credit subsidiaries fund their purchases of receivables by transferring with limited recourse most of the receivables to independent and affiliated finance companies, and through the use of various credit lines available from banks. Hesston Credit Corporation has the right to repurchase the transferred receivables from the finance companies. Hesston Corporation guarantees all bank borrowings and credit losses.

Condensed consolidated financial information for the credit operations is as follows in thousands of dollars. Beginning in 1984, proceeds from dealer receivables transferred with limited recourse to finance companies are reported as liabilities on the balance sheet of the credit subsidiaries, as now required by Statement No. 77 of the FASB. Finance charges are recognized as expense over the period of the borrowings. Under previous arrangements, such receivable transfers were recorded as sales, and the receivables and related liabilities were not reported in the balance sheets of the Company or the credit subsidiaries.

	December 31,	
	1984	**1983**
Financial Position		
Assets:		
Cash	**$ 18**	$ 105
Dealer receivables	**134,058**	126
Receivables from parent company	**1,239**	
Other assets	**95**	580
	$135,410	$ 811
Liabilities and equity:		
Notes payable to banks	**$ 13,103**	$
Payable to finance companies:		
Third party	**76,028**	
Affiliate	**45,000**	
Accrued interest and other liabilities	**858**	228
Capital stock	**401**	600
Retained earnings (deficit)	**20**	(17)
	$135,410	$ 811

	Years ended December 31,		
	1984	**1983**	**1982**
Operations			
Interest and service fee income	**$13,414**	$ 915	$ 1,887
Costs and expenses:			
Interest	**13,123**	804	1,815
General and administrative	**266**	69	90
Other, including exchange (gain) or loss	**4**	13	(48)
Income taxes	**1**	(29)	15
	13,394	857	1,872
Net income	**$ 20**	$ 58	$ 15

Notes to Consolidated Financial Statements (continued)

4. Short-term bank borrowing — The Company and its unconsolidated credit subsidiaries have established lines of credit with a number of banks in North America which can be withdrawn at the option of the banks. At December 31, 1984, there were no significant compensating balance requirements. The unused portion of short-term credit lines at December 31, 1984 is $9,254,000 for Hesston Corporation and $1,367,000 for its unconsolidated credit subsidiaries.

5. Long-term debt and restrictions — Long-term debt, including current maturities, in thousands of dollars is as follows:

	December 31,	
	1984	**1983**
10.75% promissory notes to insurance company, with annual payments of $3,071,000	**$12,287**	$15,358
7.75%-11.25% promissory notes to Fiat group companies payable in varying amounts to December 1987	**37,080**	39,687
Industrial revenue bond obligations, 7.125%-7.875%, payable in varying amounts to 1995	**1,833**	2,003
Other, 9.0%-14.0%, payable in varying amounts to 1989	**3,892**	3,837
	55,092	60,885
Portion due within one year	**(24,135)**	(22,787)
	$30,957	$38,098

The Company's loan agreement with the insurance company contains restrictions and covenants relating to, among other things, payment of cash dividends, maintenance of working capital, additional borrowing and acquisition of outstanding stock by the Company. This agreement limits future cash dividends on common and preferred stock to earnings accumulated after June 30, 1982. In the thirty months ended December 31, 1984, the Company incurred a cumulative net loss of $11,186,000.

Long-term debt maturing in each of the next five fiscal years is: 1985 - $24,135,000, 1986 - $15,084,000, 1987 - $11,381,000, 1988 - $3,406,000, and 1989 - $150,000.

6. Related parties — Fiat S.p.A., through its wholly-owned subsidiary Fiat Trattori S.p.A., owns a controlling interest (51.2%) in the Company. Fiat Trattori also has an option to purchase an additional 615,000 shares of common stock at the average market price for the thirty days preceding the date of exercise.

Some of the Fiat group companies buy and distribute the Company's products in certain foreign markets. Also the Company buys and distributes certain products produced by Fiat group companies. To help develop market penetration for these products, the Company receives reimbursement for certain sales discounts and marketing expenses.

Aggregate amounts of such transactions for the periods are summarized in thousands of dollars as follows:

	Years ended December 31,		
	1984	**1983**	**1982**
Sales	**$ 4,438**	$ 4,424	$10,092
Purchases, net of discounts and reimbursements	**21,055**	28,973	31,997

Certain dealer receivables are transferred by Hesston credit subsidiaries to a Fiat-owned finance company. The outstanding balance of receivables transferred was $45,000,000 and $40,000,000 at the end of 1984 and 1983.

Notes to Consolidated Financial Statements (continued)

7. Income taxes — No provision was made for income tax benefits for the 1984 and 1982 losses because of the uncertainty of future realization of tax benefits. In 1983, the provision in lieu of income taxes is equivalent to the extraordinary credit recognized for the tax benefit of operating and capital loss carryforwards.

Included in other current assets are deferred tax benefits of approximately $3,287,000 at December 31, 1984 and 1983. Also included in deferred income taxes and other liabilities are deferred taxes of approximately $2,930,000 at December 31, 1984 and 1983.

Reconciliation of the 1983 difference between the U.S. statutory tax rate and the effective rate for the provision in lieu of income taxes is as follows:

Expected federal income tax rate	46.0%
Operating losses for which no income tax benefit has been recognized	7.8%
Investment tax credit and other credits	(27.0%)
Capital gains	(5.5%)
Miscellaneous items	1.6%
	22.9%

At December 31, 1984, approximately $4,300,000 of expenses recorded for financial reporting purposes, for which tax benefits have not been recognized, will be deductible for income tax purposes in future years. In addition, tax operating losses of approximately $3,465,000 ($3,000,000 expiring after 1999 and the remainder expiring in varying amounts through 1988) are available for carryforward to offset future taxable income. Capital losses approximating $1,985,000 are available to offset future capital gains through 1987. Also available to offset future taxes payable are unused investment tax credits of approximately $2,240,000 expiring after 1992.

8. Preferred stock — The Company has outstanding 600,000 shares of voting $.60 Cumulative Convertible Preferred Stock, par value $2.00. This class of preferred stock is convertible into common stock on a one-for-one basis and is redeemable at the option of the Company at $10.00 per share plus, in each case, accrued dividends to the date of redemption.

The Company also has outstanding 447,900 shares of non-voting $1.60 Cumulative Convertible Preferred Stock, par value $2.00. This class of preferred stock is convertible into common stock at the rate of 1.025 shares of common stock for each share of preferred stock. During 1984, 19,000 shares of this preferred stock were converted into 19,471 shares of common stock (32,500 and 100 preferred shares were converted into 33,308 and 102 common shares in 1983 and 1982, respectively). This preferred stock is redeemable all or in part, at the option of the Company, at $25.00 per share plus accrued dividends to the date of redemption.

The Company may not acquire shares of preferred stock or common stock or pay dividends on common stock, unless all dividends on preferred stock for all past dividend periods have been paid or set apart for payment. Dividends on the $1.60 and $.60 Cumulative Convertible Preferred Stock have not been paid since June 1982. Therefore, dividends of $4.00 per share and $1.50 per share on the $1.60 and $.60 Cumulative Convertible Preferred Stock, respectively, are in arrears for a total of $2,691,600.

Under the terms of both classes of preferred stock, the holders have a right, voting separately as one class, to elect two directors to the Company's board when dividends have not been paid on such shares in an aggregate amount equal to six quarterly dividends. Two directors have been elected and will continue to be elected until all dividends in arrears have been paid.

9. Stock option plan — The Company maintains a stock option plan for certain employees. The maximum number of shares of common stock which may be issued and sold under the plan is 100,000. On March 30, 1977, options to purchase 72,500 shares of common stock were granted at an option price of $8.25 per share, fair market value at date of grant. Prior to 1984, options on 10,500 shares were forfeited due to termination of employment and during 1984 options on 58,500 shares were exercised. At December 31, 1984, options on 3,500 shares remain outstanding and expire in 1987.

Notes to Consolidated Financial Statements (continued)

10. Retirement and bonus plans — The Company and its subsidiaries have in effect several trusteed retirement profit-sharing plans, a supplementary retirement plan, a cash bonus profit-sharing plan and a thrift and supplementary retirement plan. The profit-sharing plans provide for annual contributions based on a percentage of return on assets, some by operating division (as defined by the plans). The minimum contribution to the retirement plans, as a percent of annual base compensation, was 3-1/2% in 1982 and 4% in 1983, 1984 and future years. The Company makes contributions to the thrift and supplementary retirement plan of 50% of amounts contributed by participating employees. The maximum amount contributed by the Company is 2% of the employee's eligible base compensation. The plans may be terminated at any time. Total charges against operations for the retirement plans are $2,901,000, $2,954,000 and $2,562,000 in the years ended December 31, 1984, 1983 and 1982, respectively.

11. Contingencies — Under wholesale finance agreements, the Company has a limited contingent liability to repurchase receivables. Based on past experience, it is not anticipated that losses under these agreements or other credit losses will be material.

The Company is party to various legal proceedings including product liability and other actions arising in the normal course of business. While the outcome of these matters cannot be predicted with certainty, management is of the opinion that any losses ultimately arising from such actions in excess of amounts insured will not materially affect the Company's financial position.

12. Research and development — Research and development costs of approximately $3,354,000, $2,726,000, and $4,622,000 for the years ended December 31, 1984, 1983 and 1982, respectively, were charged to operations. These costs include approximately $887,000 for 1982 that are included in costs and expenses of the French subsidiary disposed of in 1982.

13. Leases — Rents charged to costs and expenses for all operating leases are approximately $2,892,000, $2,928,000 and $3,248,000 for the years ended December 31, 1984, 1983 and 1982, respectively.

Future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1984, in thousands of dollars, are as follows:

Years ended December 31,	Land and Buildings	Machinery and Equipment	Total
1985	$ 687	$ 960	$1,647
1986	620	913	1,533
1987	517	688	1,205
1988	279	218	497
1989	148	14	162
Later years	134		134
	$2,385	$2,793	$5,178

Assets leased under industrial revenue bonds and capitalized were $1,643,000 and $1,867,000 at December 31, 1984 and 1983.

14. Other income — Income of $483,000 from the sale of a warehouse facility and currency exchange gains of $157,000 were in other income in 1983. Currency exchange losses of $1,250,000 were included in 1982.

15. Industry segment and geographic area information — The Company is engaged principally in the design, manufacture and sale of farm equipment, which is its dominant industry segment. The Company also produces oil field equipment, primarily pumping units.

Subsequent to the disposal of the French subsidiary in 1982 as described in Note 16, foreign operations have not been of such significance as to merit separate reporting.

Hesston annual report

Notes to Consolidated Financial Statements (continued)

16. Sale of French subsidiary — In November 1982, the Company sold its French subsidiary, Hesston S.A., to a subsidiary of Fiat Trattori S.p.A. for $3,800,000 cash. Pursuant to the sale, the Company does not intend to carry on manufacturing or marketing activities in Europe, the Mideast and Africa, areas which are served by Hesston S.A. The gain on sale and working capital provided were computed as follows in thousands of dollars:

Sale proceeds, net of sale expenses and other adjustments	$ 3,729
Working capital deficiency eliminated	1,453
Working capital provided	5,182
Noncurrent items disposed of:	
Fixed assets	(4,174)
Long-term debt	1,789
Gain on disposal	$ 2,797

The consolidated statement of operations for 1982 includes the following amounts relating to the French subsidiary, in thousands of dollars:

Net sales	$ 52,336
Costs and expenses	54,562
	(2,226)
Gain on disposal (see above)	2,797
Elimination of cumulative translation adjustment	(4,280)
Loss	$ (3,709)

Directors of Hesston Corporation

Howard L. Brenneman[1]
President and Chief Executive Officer of the Corporation

Marco F. Colombo
President of Fiat U.S.A., Inc.

Stefano Decio[1 3]
Director of Operations, Farm Machinery of Fiat Trattori S.p.A.

Vittorio Di Iorio[1]
Director of Marketing of Fiat Trattori S.p.A.

Harold P. Dyck[2 3]
Western Regional Manager of The Mennonite Foundation, Inc. — Investments

Richard F. Hrdlicka[4]
Senior Vice President — General Counsel and Secretary of the Corporation

Renato Iodice[1]
Vice President of Fiat U.S.A., Inc.

Daniel C. McKay[2]
Partner, Frankel and McKay Ltd. Attorneys-at-Law

George Reuland[2]
Management Consultant

Nathaniel Samuels
Advisory Director Shearson Lehman Brothers Inc.

Evasio Sattanino
Director of Finance of Fiat Trattori S.p.A.

Gian Carlo Vezzalini
Fiat Central Director and Chairman of Fiat Trattori S.p.A.

Melvin H. Voth[4]
Senior Vice President — Finance, Treasurer and Assistant Secretary of the Corporation

Lyle E. Yost[1]
Chairman of the Board of Directors

[1]Member of the Executive Committee
[2]Member of Audit Committee
[3]Member of Compensation and Organization Committee
[4]Member of Retirement and Investment Committee

Transfer Agents
The Chase Manhattan Bank, N.A.
New York, New York

The Fourth National Bank & Trust Company, Wichita, Kansas

Registrars
The Chase Manhattan Bank, N.A.
New York, New York

The First National Bank in Wichita
Wichita, Kansas

Officers of Hesston Corporation

Howard L. Brenneman
President and Chief Executive Officer

Richard F. Hrdlicka
Senior Vice President — General Counsel and Secretary

Melvin H. Voth
Senior Vice President — Finance, Treasurer and Assistant Secretary

Max E. Bennett
Vice President — Operations

James D. Gaeddert
Vice President — Sales

Nelson D. Galle
Vice President — Administration

Fred Scharer, Jr.
Vice President and General Manager — Woods Division

Carl D. Wohlgemuth
Vice President — Planning

Donald L. Schmidt
Controller

FIATAGRI HESSTON