1966

Accounting trends and techniques, 20th annual survey, 1966 edition

American Institute of Certified Public Accountants

1966 ACCOUNTING TRENDS & TECHNIQUES AICPA

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TWENTIETH EDITION

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1966

ACCOUNTING TRENDS & TECHNIQUES

Twentieth annual cumulative survey of the accounting aspects of the annual reports of 600 industrial and commercial corporations. The reports analyzed are those with fiscal years ending within the calendar year 1965.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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PREFACE

Accounting Trends and Techniques in Published Annual Reports — 1966 is the Twentieth Edition of a study of the accounting aspects of financial reports released annually by 600 industrial companies to their stockholders. This study is a continuation of the long-range program initiated by the Council in 1946 for the analysis of corporate annual reports. The current edition has been prepared under the direction of William H. Hird, C.P.A., Consultant, *Accounting Trends and Techniques,* American Institute of Certified Public Accountants.

Significant accounting trends, as revealed in the reports of the companies included in the survey, are presented in numerous comparative tabulations throughout the study. These tables show the current trends in corporate reports in such diverse accounting matters as the various types of financial statements presented, their form and terminology, and the accounting treatment afforded the transactions and items reflected in the statements. An industry classification of companies included in the survey is also presented. As noted in the Tenth Edition, the statistics for the years 1946 and 1950 are now preserved as they were presented in that edition. Also, the statistics for the years 1955 and 1960, and the years thereafter, will not be subject to further adjustment. This change in policy was adopted because of the difficulty in obtaining copies of reports for all of the prior years whenever new companies are substituted in the group, and because of the immateriality of the changes involved.

Accounting techniques employed by the 600 survey companies are presented in the form of quotations and examples taken directly from the 1965 reports. *These illustrations, and the statistics shown in the tables, are not presented as recommended methods for handling specific items but are of an informative and objective nature.* Nevertheless, examples generally have been selected for the purpose of illustrating related accounting techniques. Variety of presentation was a secondary consideration. In selecting examples, opinions of auditors have been deemed to cover the acceptability of the accounting techniques employed. Accordingly, no attempt has been made to distinguish, through selection, between the best technique in a given case, and an acceptable alternative. It will be observed, however, from the tables throughout the survey, that the trend has been toward the use of better techniques.

The 600 survey companies included in this edition are listed in the Company Appendix Section together with their respective fiscal years. An identification number is assigned to each company (in alphabetical order) and these numbers are used for reference throughout the text in the discussion of pertinent information. The list of corporations included remains fairly stable from year to year with the exception of eliminations occurring as a result of corporate liquidations, mergers, etc., and the addition of new companies as substitutes. New companies are identified in the Company Appendix Section. Companies eliminated are shown at the end of the Appendix.

Special acknowledgment is due to Lloyd O. Shirley, C.P.A., and Mrs. Emma Devilbiss, for their assistance in the analysis of the financial reports and preparation of the manuscript.

RICHARD A. NEST, C.P.A., *Director of Technical Services*
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Section 5: Auditors' Report

Section 1 FINANCIAL STATEMENTS

	SOME CHANGES AND TRENDS IN 1965 REPORTS	Table or Page Number
NEW—	Differences between accounting practices employed in annual financial reports to stockholders, and in financial statements filed with the Securities and Exchange Commission, *Proxy Rule 14 a-3*	pp. 33, 34
NEW—	*All* companies in the survey now *classify* their *surplus* accounts (none show unclassified surplus)	Tables 4 and 10
NEW—	Supplementary schedules containing information relative to *stock options* are now included in Table 18	Table 18
NEW—	Supplementary charts, schedules, etc., of *working capital* and of *property, plant and equipment* have been separated from "Miscellaneous," and shown separately in Table 20	Table 20
NEW—	More complete listing of the *titles* of the *income statement, balance sheet,* etc.	pp. 5, 10, 13, 17
TREND—	The use of the term "shareholders' equity" is steadily increasing	Table 9
TREND—	Growing use of terms to replace "surplus"	Tables 10 and 11

THIS SECTION OF THE SURVEY is concerned with the form, title, terminology, and frequency of use of the various types of financial statements presented in the published annual reports of the 600 companies which were included in the survey. The financial statements considered here comprise not only the statements covered by the auditors' reports, but also the summaries and supplementary schedules, etc., which are frequently included in the annual reports for the information of stockholders.

FINANCIAL STATEMENTS COVERED BY AUDITORS' REPORTS

Customary Statements

The customary financial statements are the balance sheet (or statement of financial position), the income statement, the retained earnings statement, the combined income and retained earnings statement, the "capital surplus" statement, the combined capital surplus and retained earnings statement, the surplus (unclassified) statement, the combined income and surplus (unclassified) statement, and the stockholders' equity statement.

The "funds" statement, frequently named the Statement of Source and Application of Funds, is not considered a customary statement in this and previous editions of the survey. The statement has, however, been used increasingly and is covered extensively in Section 3 of this report.

Combination of Customary Statements

Each of the 600 survey companies presented two or more of the customary statements in its annual report for 1965.

As noted in Table 1, the most frequent combination presented consisted of a balance sheet and combined income and retained earnings statement. The use of this form of presentation declined slightly in 1965 from the previous year, interrupting a trend of many years' duration. Table 1 also summarizes in detail the various other combinations of customary financial statements presented by the survey companies in their 1965 reports and the table shows in comparative form the various combinations for the years 1965, 1964, 1960, 1955, 1950, and 1946. Usually, company identifying numbers, except for the largest classification, are furnished at the foot of the table for each presentation. Listed in the Company Appendix Section are the names of the companies included in the survey and the numbers assigned to each company.

NOTES TO FINANCIAL STATEMENTS

The committee on auditing procedure of the American Institute of Certified Public Accountants, in its *Statements on Auditing Procedure No. 33* issued in 1963 (pages 54-55 and 71-72), discusses the necessity for adequacy of informative disclosure in financial statements. Such disclosures are generally presented in the form of notes to financial statements.

TABLE 1: CUSTOMARY FINANCIAL STATEMENTS

Combination of Statements*	1965	1964	1960	1955	1950	1946
A: Balance Sheet and Combined Income & Retained Earnings Statements	257	260	236	202	168	141
B: Balance Sheet, Income, and Retained Earnings Statements	153	149	154	169	191	157
C: Balance Sheet, Income, Retained Earnings, and Capital Surplus Statements	124	124	146	149	149	198
D: Balance Sheet, Income, and Stockholders' Equity Statements	24	25	23	19	15	6
E: Balance Sheet, Combined Income & Retained Earnings, and Capital Surplus Statements	26	25	24	22	20	22
F: Balance Sheet and Income Statement	8	7	7	19	21	20
G: Balance Sheet, Income, and Combined Retained Earnings & Capital Surplus Statements	1	1	2	4	15	30
Balance Sheet, Income, and Surplus (unclassified) Statements	—	1	1	8	14	15
Balance Sheet and Combined Income & Surplus (unclassified) Statements	—	—	1	4	2	2
H: Balance Sheet, Income, Retained Earnings, and Combined Capital Stock and Capital Surplus Statements	1	1				
I: Balance Sheet, Income, Retained Earnings and Stockholders' Equity Statements	1	3				
J: Balance Sheet, Combined Income & Retained Earnings & Stockholders' Equity Statements	1	1	6	4	5	9
K: Balance Sheet, Combined Income & Retained Earnings, and Common Stock Equity Statements	1	1				
L: Balance Sheet, Combined Income & Retained Earnings, and Stockholders' Equity Statements	3	2				
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: All 600 companies not specifically listed below under other captions; B: 1, 2, 3, 8, 11, 12, 16, 20, 21, 22, 38, 39, 44, 45, 46, 51, 54, 57, 61, 65, 70, 76, 79, 98, 102, 111, 112, 113, 119, 121, 126, 130, 131, 132, 137, 138, 140, 143, 144, 145, 148, 150, 152, 154, 155, 161, 172, 173, 174, 181, 184, 187, 188, 201, 207, 213, 215, 227, 231, 234, 236, 237, 238, 248, 252, 256, 257, 259, 260, 261, 262, 274, 275, 281, 286, 288, 303, 305, 306, 312, 317, 319, 325, 329, 332, 350, 352, 354, 355, 356, 358, 362, 367, 370, 373, 374, 376, 380, 382, 386, 388, 392, 393, 394, 396, 399, 422, 424, 428, 430, 432, 437, 439, 441, 453, 458, 462, 468, 469, 473, 474, 478, 480, 481, 485, 486, 487, 493, 495, 496, 501, 502, 505, 509, 515, 519, 522, 533, 538, 546, 548, 551, 563, 566, 571, 574, 581, 587, 589, 593, 595, 596, 597; C: 14, 28, 31, 33, 36, 37, 42, 53, 58, 66, 82, 88, 89, 92, 93, 95, 101, 109, 110, 115, 122, 123, 125, 135, 136, 147, 151, 156, 160, 163, 166, 170, 178, 185, 195, 199, 203, 211, 212, 214, 216, 217, 220, 222, 226, 230, 232, 233, 235, 243, 245, 249, 250, 253, 254, 255, 263, 278, 279, 284, 285, 287, 292, 293, 296, 299, 301, 302, 310, 321, 324, 328, 333, 334, 338, 344, 345, 357, 360, 372, 379, 381, 383, 387, 395, 397, 400, 401, 405, 408, 415, 421, 429, 434, 440, 443, 444, 445, 447, 459, 463, 472, 479, 488, 489, 510, 511, 526, 527, 532, 541, 542, 545, 549, 550, 554, 556, 560, 561, 562, 564, 565, 579, 598; D: 32, 67, 68, 75, 97, 193, 194, 225, 265, 272, 295, 300, 375, 411, 420, 456, 461, 476, 504, 516, 517, 544, 553, 572; E: 18, 47, 52, 55, 64, 71, 72, 114, 158, 175, 218, 221, 228, 258, 264, 297, 311, 331, 366, 407, 431, 465, 506, 523, 568, 576; F: 24, 63, 105, 270, 363, 419, 449, 569; G: 200; H: 525; I: 35; J: 531; K: 159; L: 15, 298, 543.

Regulation S-X, of the Securities and Exchange Commission, affirms the concept of full disclosure, and mentions the type of information which is normally required. This includes among other things:

(1) Changes in accounting principles
(2) Any material retroactive adjustments
(3) Significant purchase commitments
(4) Long-term lease agreements
(5) Assets subject to lien
(6) Preferred stock data—any callable, convertible, or preference features
(7) Pension and retirement plans
(8) Restrictions on the availability of retained earnings for cash dividend purposes
(9) Contingent liabilities
(10) Depreciation and depletion policies
(11) Stock option or stock purchase plans

The importance attached to the principle of adequate disclosure and the prominent part of notes to financial statements in the presentation of most of the annual reports to stockholders may be observed from the tabulation presented herewith, particularly with respect to notes with direct reference shown within related statements. The tabulation has been prepared from information supplied in the current and previous editions of *Accounting Trends and Techniques* and indicates noteworthy trends. In addition it should be noted that while some of the companies present no "notes" as such, they do incorporate the information normally found in the notes as part of the president's letter or financial review. The tabulation, this year, shows in what groups of statements the references appear. The tabulation also discloses those companies which refer to the financial review or review of operations.

Since notes to financial statements are reproduced throughout the book, no tabulation is presented here disclosing types of subjects covered. However, it may be mentioned that the balance sheet is usually the source of most of the references to notes.

Examples of the types of subjects dealt with and the points typically covered can be readily ascertained by reference to the Subject Index under the following headings:

Accounts payable—Current liabilities, Noncurrent liabilities
Capital stock—Carrying value greater than par, Conversions, Treasury
Consolidation of financial statements—Principles of
Federal and other income taxes—Assessments and refunds, Carry-back and carry-forward of operating losses
Fixed assets—Basis of valuation, Depletion, depreciation, etc.
Inventories—Methods of "cost" determination, Pricing basis
Long-term leases—Disclosure by lessees, Sale-and-leaseback, Treated as purchase

NOTES TO FINANCIAL STATEMENTS

Manner of Presentation*	1965	1960	1955
Notes with direct reference shown within related statements:			
A: In Balance Sheet only	83		
B: In Balance Sheet and Income Statement	64		
C: In Balance Sheet, Income Statement, and Retained Earnings Statement	49		
D: In Income Statement only	2	459	372
E: In Balance Sheet, and Combined Income and Retained Earnings Statement	149		
F: In other combinations of statements	81		
G: Notes included by general reference on accompanying statements	119	78	95
H: Notes included by placement within or at the foot of statements	10	35	59
I: No notes as such, but supplementary information provided at foot of statements	1	5	11
J: No reference to notes; however, they were provided separately	7	3	4
K: No notes presented	18	20	59
Reference is to Financial Review or Review of Operations:			
L: Direct reference shown within related statements	7	N/C	N/C
M: General reference on accompanying statements	10	N/C	N/C
Total	600	600	600

N/C—Information not compiled in previous years

*Refer to Company Appendix Section—A: 11, 18, 25, 27, 29, 31, 32, 40, 44, 45, 52, 53, 59, 60, 82, 85, 87, 92, 109, 124, 132, 139, 142, 146, 173, 185, 198, 207, 209, 219, 223, 252, 260, 274, 278, 287, 289, 300, 306, 311, 314, 320, 333, 346, 352, 356, 358, 361, 362, 365, 366, 370, 384, 393, 404, 407, 411, 424, 437, 438, 455, 456, 461, 464, 499, 507, 510, 512, 524, 529, 534, 538, 543, 556, 557, 559, 577, 578, 581, 584, 591, 592, 596; B: 2, 3, 20, 21, 24, 37, 38, 39, 51, 57, 61, 63, 67, 70, 79, 88, 93, 111, 140, 155, 163, 178, 187, 194, 195, 201, 211, 215, 216, 227, 235, 236, 237, 238, 261, 262, 270, 288, 301, 310, 317, 324, 329, 344, 354, 363, 375, 380, 394, 395, 405, 419, 445, 463, 478, 487, 493, 522, 527, 562, 565, 571, 589, 597; C: 8, 22, 46, 54, 102, 113, 121, 125, 126, 131, 138, 145, 150, 151, 152, 154, 161, 181, 184, 213, 220, 231, 234, 243, 248, 253, 254, 257, 259, 275, 321, 350, 355, 386, 388, 399, 408, 422, 432, 439, 469, 480, 485, 489, 519, 533, 542, 587, 595; D: 457, 537; E: All 600 companies not specifically listed above or below under other captions; F: 15, 28, 33, 35, 36, 55, 65, 66, 68, 89, 95, 101, 110, 114, 115, 123, 137, 147, 156, 159, 160, 166, 193, 199, 200, 203, 212, 214, 218, 222, 225, 228, 233, 245, 250, 255, 264, 265, 281, 284, 293, 296, 298, 302, 325, 331, 332, 338, 345, 367, 379, 383, 387, 396, 400, 415, 420, 421, 428, 434, 440, 443, 476, 479, 488, 495, 496, 502, 506, 509, 511, 526, 550, 560, 561, 566, 568, 574, 576, 579, 598; G: 1, 12, 16, 23, 48, 50, 56, 58, 72, 75, 76, 94, 97, 98, 100, 106, 112, 119, 122, 130, 135, 136, 141, 143, 144, 148, 153, 157, 162, 169, 170, 174, 176, 180, 182, 183, 188, 191, 196, 202, 205, 208, 217, 232, 247, 249, 251, 256, 267, 272, 277, 279, 285, 290, 292, 299, 303, 307, 312, 323, 328, 334, 342, 343, 347, 348, 360, 364, 372, 373, 374, 382, 390, 392, 397, 398, 401, 412, 418, 426, 429, 441, 442, 444, 446, 449, 452, 458, 459, 465, 471, 472, 473, 474, 481, 482, 501, 504, 513, 515, 516, 517, 521, 525, 531, 536, 539, 541, 544, 545, 546, 549, 551, 553, 554, 567, 572, 580, 583; H: 14, 104, 286, 377, 389, 462, 470, 477, 570, 593; I: 453; J: 5, 42, 133, 263, 468, 498, 532; K: 19, 103, 105, 120, 149, 165, 172, 226, 268, 291, 295, 319, 322, 376, 447, 486, 548, 564; L: 73, 230, 273, 305, 308, 555, 569; M: 116, 168, 246, 357, 381, 409, 414, 430, 505, 563.

Pension and retirement plans—Funded or unfunded
Post balance sheet disclosures—Litigation
Reserves and appropriations
Stock option plans—Option prices

INCOME PRESENTATION IN REPORTS

A separate statement of income or a combined statement of income and retained earnings was provided by 599 of the 600 survey companies in their 1965 annual reports. The trend towards the adoption of the combined statement of income and retained earnings was not continued in the current year. One less company presented a combined statement of income and retained earnings this year as compared to 1964.

The trend over the years towards the use of the combined statement may have been influenced by Paragraph 2, Section B, Chapter 2 of *Accounting Research and Terminology Bulletins, Final Edition,* published in 1961 by the American Institute of Certified Public Accountants, which reads: "2. The combining of these two statements, "income and earned surplus," where possible, will often be found to be convenient and desirable. Where this presentation is contemplated, however, certain considerations should be borne in mind if undesirable consequences are to be avoided." Paragraph 5, in part, states that: ". . . It distinguishes current charges and credits related to a company's more usual or typical business operations from material extraordinary charges and credits which may have arisen during the period by placing them in different sections of a continuous statement."

Details of the income presentation in the reports are presented in Table 2.

RETAINED EARNINGS PRESENTATION IN REPORTS

Table 3 sets forth the various methods of presentation of retained earnings in the 1965 annual reports. The increased use of the combined statement of retained earnings and income, noted in prior years, was reversed in 1965. One less company used the combined statement in 1965.

The nature of the transactions presented in the retained earnings statement are reviewed and classified in Section 4.

CAPITAL SURPLUS PRESENTATION IN REPORTS

The term "capital surplus" is used here to classify all surplus accounts exclusive of retained earnings.

Capital surplus was disclosed in the annual reports of 492 of the 600 survey companies. Separate statements of capital surplus either alone or in combination with retained earnings were presented by 151 companies. Capital surplus was shown as an item within the balance sheet by 311 companies, of which 72 companies either stated or indicated that there had been no changes in the account during the current year. Capital surplus was not disclosed separately in the balance sheet by five companies but was set forth in notes as part of an analysis of invested capital.

These and other methods of presentation as disclosed in the reports of the survey companies are shown in Table 4.

TITLE OF THE INCOME STATEMENT

The terminology used in the income statement titles of the 1965 annual reports is summarized in Table 5. The use of the term "income" as the key word in the title of the income statements of the 600 survey companies still predominates. However, the term "earnings" is gaining in acceptance, while the use of the term "profit and loss," originally high on the list, continues to decline.

TABLE 2: INCOME PRESENTATION IN REPORTS

Manner of Presentation*	1965	1964	1960	1955	1950	1946
A: As a separate statement of income	312	311	332	368	407	427
B: As a combined statement of income and retained earnings	287	288	264	224	187	164
C: As a combined statement of income and stockholders' equity	1	1	2	1	—	—
Other presentations of prior years	—	—	2	7	6	9
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: All 600 companies not specifically listed below under other captions; B: 4, 5, 6, 7, 9, 10, 13, 15, 17, 18, 19, 23, 25, 26, 27, 29, 30, 34, 40, 41, 43, 47, 48, 49, 50, 52, 55, 56, 59, 60, 62, 64, 69, 71, 72, 73, 74, 77, 78, 80, 81, 83, 84, 85, 86, 87, 90, 91, 94, 96, 99, 100, 103, 104, 106, 107, 108, 114, 116, 117, 118, 120, 124, 127, 128, 129, 133, 134, 139, 141, 142, 146, 149, 153, 157, 158, 159, 162, 164, 165, 167, 168, 169, 171, 175, 176, 177, 179, 180, 182, 183, 186, 189, 190, 191, 192, 196, 197, 198, 202, 204, 205, 206, 208, 209, 210, 218, 219, 221, 223, 224, 228, 229, 239, 240, 241, 242, 244, 246, 247, 251, 258, 264, 266, 267, 268, 269, 271, 273, 276, 277, 280, 282, 283, 289, 290, 291, 294, 297, 298, 304, 307, 308, 309, 311, 313, 314, 315, 316, 318, 320, 322, 323, 326, 327, 330, 331, 335, 336, 337, 339, 340, 341, 342, 343, 346, 347, 348, 349, 351, 353, 359, 361, 364, 365, 366, 368, 369, 371, 377, 378, 384, 385, 389, 390, 391, 398, 402, 403, 404, 406, 407, 409, 410, 412, 413, 414, 416, 417, 418, 423, 425, 426, 427, 431, 433, 435, 436, 438, 442, 446, 448, 450, 451, 452, 454, 455, 457, 460, 464, 465, 466, 467, 470, 475, 477, 482, 483, 484, 490, 491, 492, 494, 497, 498, 499, 500, 503, 506, 507, 508, 512, 513, 514, 518, 520, 521, 523, 524, 528, 529, 530, 534, 535, 536, 537, 539, 540, 543, 547, 552, 555, 557, 558, 559, 567, 568, 570, 573, 575, 576, 577, 578, 580, 582, 583, 584, 585, 586, 588, 590, 591, 592, 594, 599, 600; C: 531.

TABLE 3: RETAINED EARNINGS PRESENTATION IN REPORTS

Manner of Presentation*	1965	1964	1960	1955	1950	1946
A: As a separate statement of retained earnings	279	277	300	320	341	356
B: As a combined statement of retained earnings and income	287	288	264	224	187	164
C: As a combined statement of retained earnings and capital surplus	1	1	2	4	17	30
D: As a section within the statement of stockholders' equity (see Table 14)	24	25	23	19	14	5
E: As a section within the balance sheet	4	4	7	12	19	22
F: As an item within the balance sheet	4	3	1	7	6	4
G: As a combined statement of income, retained earnings, and stockholders' equity	1	1	1	2	1	1
Total Retained Earnings	600	599	598	588	585	582
Surplus not classified	—	1	2	12	15	18
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 1, 2, 3, 8, 11, 12, 14, 16, 20, 21, 22, 28, 31, 33, 35, 36, 37, 38, 39, 42, 44, 45, 46, 51, 53, 54, 57, 58, 61, 65, 66, 70, 76, 79, 82, 88, 89, 92, 93, 95, 98, 101, 102, 109, 110, 111, 112, 113, 115, 119, 121, 122, 123, 125, 126, 130, 131, 132, 135, 136, 137, 138, 140, 143, 144, 145, 147, 148, 150, 151, 152, 154, 155, 156, 160, 161, 163, 166, 170, 172, 173, 174, 178, 181, 184, 185, 187, 188, 195, 199, 201, 203, 207, 211, 212, 213, 214, 215, 216, 217, 220, 222, 226, 227, 230, 231, 232, 233, 234, 235, 236, 237, 238, 243, 245, 248, 249, 250, 252, 253, 254, 255, 256, 257, 259, 260, 261, 262, 263, 274, 275, 278, 279, 281, 284, 285, 286, 287, 288, 292, 293, 296, 299, 301, 302, 303, 305, 306, 310, 312, 317, 319, 321, 324, 325, 328, 329, 332, 333, 334, 338, 344, 345, 350, 352, 354, 355, 356, 357, 358, 360, 362, 367, 370, 372, 373, 374, 376, 379, 380, 381, 382, 383, 386, 387, 388, 392, 393, 394, 395, 396, 397, 399, 400, 401, 405, 408, 415, 421, 422, 424, 428, 429, 430, 432, 434, 437, 439, 440, 441, 443, 444, 445, 447, 453, 458, 459, 462, 463, 468, 469, 472, 473, 474, 478, 479, 480, 481, 485, 486, 487, 488, 489, 493, 495, 496, 501, 502, 505, 509, 510, 511, 515, 519, 522, 525, 526, 527, 532, 533, 538, 541, 542, 545, 546, 548, 549, 550, 551, 554, 556, 560, 561, 562, 563, 564, 565, 566, 571, 574, 579, 581, 587, 589, 593, 595, 596, 597, 598; B: All 600 companies not specifically listed above or below under other captions; C: 200; D: 32, 67, 68, 75, 97, 193, 194, 225, 265, 272, 295, 300, 375, 411, 420, 456, 461, 476, 504, 516, 517, 544, 553, 572; E: 63, 105, 419, 569; F: 24, 270, 363, 449; G: 531.

Changes During 1965

Changes made by the survey companies in the terminology used for their income statements for the year 1965 were not significant from the standpoint of the trends already established. As has been previously noted, the title "income" still predominates, while the use of the term "earnings" continues to grow. Ten companies used the term in 1946; 174 companies in 1965. Perhaps the most significant trend has been away from the use of the title "profit and loss," from 236 companies in 1946 to only five companies in 1965. Twenty-two of the companies changing the key word in the title of their income statements for the year 1965 are *1, 41, 53, 126, 150, 158, 160, 198, 202, 215, 236, 250, 285, 349, 403, 489, 555, 568, 571, 573, 581, 583. New companies replacing old companies accounted for the remaining changes in the titles.

Examples

The various titles of the income statements contained in the 1965 annual reports of the survey companies are quoted below. The examples show the manner in which the key words, which are summarized in Table 5, are supplemented with additional words or phrases to form the complete titles of the income statement.

*Refer to Company Appendix Section.

INCOME—(393 Companies):

- Comparative Consolidated Statement of Income and *Accumulated Earnings* (*524)
- Comparative Consolidated Statement of Income and *Retained Earnings Unappropriated* (*568)
- Comparative Statement of Consolidated Income (*39)
- Comparative Statement of Income and *Retained Earnings* (*139)
- Consolidated Comparative Statement of Income (*367)
- Consolidated Current and *Retained* Income (*276)
- Consolidated Income (*12, 45, 65, 136, 230, 274, 566)
- Consolidated Income Account (*144, 548)
- Consolidated Income and *Earned Surplus* (*450)
- Consolidated Income and *Net Income Employed in the Business* (*518)
- Consolidated Income and *Retained Earnings* (*52, 100, 176, 239, 311, 473, 513, 529, 567)
- Consolidated Income (Loss) (*519)
- Consolidated Income Statement(s) (*14, 58, 68, 226, 263, 392, 443)
- Consolidated Statement(s) of Income (*2, 20, 31, 46, 66, 75, 93, 95, 102, 121, 132, 137, 156, 161, 172, 174, 181, 193, 203, 207, 232, 250, 261, 270, 272, 273, 275, 279, 281, 285, 287, 293, 305, 315, 318, 319, 332, 355, 363, 366, 374, 376, 386, 393, 394, 399, 428, 429, 435, 439, 444, 458, 459, 486, 488, 495, 502, 505, 509, 515, 517, 523, 525, 533, 541, 542, 544, 545, 546, 549, 551, 554, 556, 560, 563, 566, 569, 572, 587, 595, 598)
- Consolidated Statement of Income and *Accumulated Earnings* (*361, 402, 442, 490, 499)
- Consolidated Statement of Income and *Accumulated Earnings Retained in the Business* (*590)

Consolidated Statement(s) of Income and *Earned Surplus* (*40, 47, 99, 104, 145, 177, 224, 229, 242, 282, 283, 326, 343, 347, 359, 497, 594)

Consolidated Statement of Income and *Earnings Employed in the Business* (*108)

Consolidated Statement of Income and *Earnings Invested in the Business* (*90, 484)

Consolidated Statement of Income and *Earnings Reinvested* (*23)

Consolidated Statement of Income and *Earnings Retained for Use in the Business* (*269, 271)

Consolidated Statement of Income and *Earnings Retained and Employed in the Business* (*464)

Consolidated Statement(s) of Income and *Earnings Retained in the Business* (*27, 258, 330, 351)

Consolidated Statement(s) of Income and *Income Reinvested in the Business* (*417, 599)

Consolidated Statement of Income and *Income Retained for Use in the Business* (*331)

Consolidated Statement of Income and *Reinvested Earnings* (*304)

Consolidated Statement(s) of Income and *Retained Earnings* (*5, 6, 9, 34, 48, 55, 73, 81, 83, 86, 91, 98, 106, 107, 116, 118, 128, 146, 165, 179, 196, 202, 204, 209, 241, 251, 260, 277, 297, 320, 327, 337, 342, 384, 403, 418, 425, 427, 466, 491, 500, 501, 514, 534, 536, 539, 552, 557, 559, 573, 576, 577, 582, 583, 586, 592)

Consolidated Statement of Income and *Retained Earnings Deficit* (*531)

*Refer to Company Appendix Section.

TABLE 4: CAPITAL SURPLUS PRESENTATION IN REPORTS

	Manner of Presentation*	1965	1964	1960	1955	1950	1946
A:	As a separate statement of capital surplus	150	149	169	183	170	224
B:	As a combined statement of capital surplus and retained earnings	1	1	2	4	16	31
	Total	151	150	171	187	186	255
C:	As a section within the statement of stockholders' equity (see Table 14)	25	24	20	17	17	7
	As an item within the balance sheet and changes set forth:						
D:	Under balance sheet caption	12	19	24	17	28	12
E:	In notes to financial statements	189	173	148	81	17	12
F:	In other statements or schedules covered by auditors' reports	3	2	2	4	1	1
G:	In letter to stockholders	3	1	2	2	2	—
H:	Not set forth in report	32	28	31	32	6	1
	As an item within the balance sheets:						
I:	Stated to be "Not changed during the year"	4	4	12	36	54	54
J:	With identical dollar balances for the current and prior year but no reference to such unchanged status	68	82	80	85	119	88
	Total	311	309	299	257	227	168
K:	*Not shown separately in the balance sheet,* but set forth in notes as part of analysis of the balance sheet item, "Common (or Capital) Stock"	5	6	—	—	—	—
	Number of Companies*						
	Presenting capital surplus	492	489	490	461	430	430
L:	Not presenting capital surplus	108	110	107	127	156	156
	Not classifying surplus	—	1	3	12	14	14
	Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 14, 18, 28, 31, 33, 36, 37, 42, 47, 52, 53, 55, 58, 64, 66, 71, 72, 82, 88, 89, 92, 93, 95, 101, 109, 110, 114, 115, 122, 123, 125, 135, 136, 147, 151, 156, 158, 160, 163, 166, 170, 175, 178, 185, 195, 199, 203, 211, 212, 214, 216, 217, 218, 220, 221, 222, 226, 228, 230, 232, 233, 235, 243, 245, 249, 250, 253, 254, 255, 258, 263, 264, 278, 279, 284, 285, 287, 292, 293, 296, 297, 299, 301, 302, 310, 311, 321, 324, 328, 331, 333, 334, 338, 344, 345, 357, 360, 366, 372, 379, 381, 383, 387, 395, 397, 400, 401, 405, 407, 408, 415, 421, 429, 431, 434, 440, 443, 444, 445, 447, 459, 463, 465, 472, 479, 488, 489, 506, 510, 511, 523, 526, 527, 532, 541, 542, 545, 549, 550, 554, 556, 560, 561, 562, 564, 565, 568, 576, 579, 598; B: 200; C: 15, 35, 67, 68, 75, 159, 194, 225, 265, 272, 295, 298, 300, 375, 411, 420, 456, 461, 476, 504, 516, 543, 544, 553, 572; D: 20, 63, 85, 132, 276, 336, 352, 409, 419, 469, 529, 600; E: 3, 6, 7, 9, 10, 11, 25, 26, 27, 38, 43, 48, 56, 57, 59, 60, 61, 65, 69, 70, 74, 77, 80, 83, 84, 86, 94, 96, 100, 106, 107, 111, 119, 121, 128, 129, 131, 133, 137, 140, 141, 144, 145, 150, 153, 162, 164, 171, 174, 180, 182, 183, 184, 187, 188, 190, 191, 192, 196, 197, 201, 206, 208, 213, 219, 231, 238, 240, 241, 242, 246, 252, 257, 260, 262, 267, 274, 275, 281, 289, 290, 294, 303, 305, 309, 313, 314, 315, 317, 318, 320, 323, 325, 329, 330, 337, 339, 340, 341, 342, 343, 348, 351, 353, 355, 359, 361, 362, 368, 378, 384, 385, 386, 388, 393, 396, 398, 399, 402, 404, 412, 413, 417, 418, 422, 425, 426, 427, 428, 433, 435, 438, 439, 442, 449, 450, 451, 452, 453, 454, 455, 457, 460, 466, 471, 474, 477, 478, 480, 481, 483, 484, 485, 487, 490, 492, 494, 495, 496, 498, 499, 500, 505, 508, 509, 512, 513, 515, 518, 520, 524, 528, 530, 538, 539, 540, 551, 559, 567, 574, 577, 578, 580, 583, 584, 587, 591, 593, 595; F: 142, 525, 548; G: 116, 416, 557; H: 16, 78, 98, 112, 118, 143, 148, 167, 168, 169, 176, 198, 202, 204, 215, 234, 237, 266, 277, 327, 347, 350, 373, 392, 406, 436, 473, 519, 536, 586, 589, 597; I: 99, 236, 259, 349; J: 5, 13, 17, 21, 29, 30, 40, 41, 46, 49, 54, 73, 76, 87, 103, 113, 120, 127, 134, 138, 146, 149, 155, 157, 165, 173, 177, 179, 181, 205, 207, 210, 223, 224, 239, 251, 256, 261, 270, 273, 280, 282, 288, 291, 308, 326, 346, 356, 376, 389, 390, 414, 446, 448, 462, 497, 503, 507, 514, 521, 533, 534, 537, 547, 563, 571, 575, 590; K: 50, 102, 139, 371, 517; L: All 600 companies not specifically listed above under other captions.

Consolidated Statement of Income and *Retained Earnings Used in the Business* (*289, 538)
Consolidated Statement of Income (Loss) and *Earned Surplus (Deficit)* (*192)
Consolidated Statement of Income (Loss) and *Retained Earnings* (*457)
Consolidated Statements of Income and *Surplus* (*302)
Consolidated Statements of Net Income (*421)
Income (*33, 76)
Income and *Earned Surplus Statements* (*368)
Income and *Income Retained in the Business* (*475)
Income and *Retained Earnings* (*264, 323, 365, 540, 585)
Income Statement(s) (*151, 303, 356)
Statement(s) of Consolidated Income (*8, 38, 51, 88, 119, 130, 152, 154, 173, 194, 200, 211, 213, 214, 222, 233, 245, 249, 253, 255, 278, 284, 296, 300, 321, 350, 370, 372, 375, 381, 411, 422, 432, 447, 461, 463, 478, 480, 481, 485, 510, 532, 565, 579, 589)
Statement of Consolidated Income and *Accumulated Deficit* (*180)
Statement of Consolidated Income and *Accumulated Earnings* (*535)
Statement(s) of Consolidated Income and *Earned Surplus* (*142, 149, 186, 267, 314, 410, 438, 462, 493, 584)
Statement of Consolidated Income and *Earnings Retained* (*189)
Statement of Consolidated Income and *Earnings Retained for Use in the Business* (*268, 404)
Statement of Consolidated Income and *Earnings Retained in the Business* (*159, 339, 452)
Statement of Consolidated Income and *Income Employed in the Business* (*294)
Statement of Consolidated Income and *Income Reinvested* (*77)
Statement of Consolidated Income and *Income Retained for Use in the Business* (*43)
Statement of Consolidated Income and *Income Retained in the Business* (*59)
Statement of Consolidated Income and *Reinvested Earnings* (*238, 341)
Statement(s) of Consolidated Income and *Retained Earnings* (*7, 18, 54, 56, 74, 78, 84, 96, 120, 133, 164, 171, 190, 237, 244, 353, 354, 364, 398, 409, 423, 448, 467, 477, 494, 512, 578, 600)
Statement(s) of Consolidated Income and *Retained Income* (*140, 182, 336, 380, 543, 591)
Statement(s) of Consolidated Income and *Surplus* (*395, 401)
Statement of Consolidated Income and *Unappropriated Retained Income* (*580)
Statement(s) of Income (*30, 105, 113, 123, 138, 170, 225, 234, 262, 299, 358, 453, 472, 476, 487, 561)
Statement of Income and *Accumulated Earnings Used in the Business* (*127)
Statement(s) of Income and *Earned Surplus* (*17, 167, 396)
Statement of Income and *Earnings Invested in the Business* (*291)

*Refer to Company Appendix Section.

TABLE 5: INCOME STATEMENT TITLE

Terminology Used	1965	1964	1960	1955	1950	1946
Income	393	394	382	361	329	317
Earnings	174	161	152	135	92	10
Profit and Loss	5	8	24	56	127	236
Operations	24	33	35	30	30	10
Income and Expense	2	3	2	5	8	5
Income and Profit and Loss	—	—	—	2	2	10
Income, Costs	—	—	1	1	1	—
Loss	1	—	1	2	1	—
Operating Results	—	—	—	3	3	3
Profit	1	1	2	3	4	2
Total	600	600	599	598	597	593
No Income Statement	—	—	1	2	3	7
Total	600	600	600	600	600	600

Statement of Income and *Earnings Reinvested in the Business* (*460, 521)
Statement of Income and *Earnings Retained* (*414)
Statement of Income and *Earnings Retained for Use in the Business* (*206)
Statement of Income and *Earnings Retained in the Business* (*223, 498)
Statement of Income and *Earnings Used in the Business* (*103)
Statement of Income and *Income Retained* (*198, 308)
Statement of Income and *Net Income Retained for Use in the Business* (*377)
Statement(s) of Income and *Retained Earnings* (*19, 94, 134, 183, 208, 228, 240, 257, 280, 298, 306, 362, 378, 407, 412, 413, 492, 508, 537)
Statement of Income and *Retained Earnings Consolidated* (*446)
Statement of Income and *Retained Earnings Deficit* (*528)
Statement of Income and *Summary of Income Reinvested in the Business* (*588)
Statement of Income and *Surplus* (*216)
Statements of Income and *Income Retained in the Business, and Other Capital* (*175)
Summary of Consolidated Income (*89)
Summary of Consolidated Income and *Earned Surplus* (*157)
Summary of Income and *Retained Earnings* (*169)
Summaries of Consolidated Income and *Surplus* (*292)

EARNINGS—(174 Companies):
Comparative Consolidated Statement of Earnings (*215)
Comparative Statement of Consolidated Earnings (*379)
Comparative Statement of Earnings and *Retained Earnings* (*570)
Consolidated Earnings (*25, 32, 53, 71, 92, 109, 122, 254, 345, 430, 550, 553)
Consolidated Earnings and *Earnings Retained for Use in the Business* (*426)
Consolidated Earnings and *Earnings Reinvested in the Business* (*470)
Consolidated Earnings and *Reinvested Earnings* (*454)
Consolidated Earnings and *Retained Earnings* (*218, 335, 348, 416)

Consolidated Earnings and *Summary of Earnings Retained in Business* (*153)
Consolidated Earnings Statement (*310)
Consolidated Net Earnings and *Retained Earnings* (*309)
Consolidated Statement of Current and *Retained* Earnings (*246)
Consolidated Statement(s) of Earnings (*16, 21, 22, 28, 35, 42, 44, 60, 110, 117, 125, 126, 150, 155, 166, 184, 191, 252, 312, 317, 333, 344, 352, 388, 397, 420, 434, 437, 449, 456, 469, 471, 496, 516, 522, 526, 547, 581)
Consolidated Statement of Earnings and *Earnings Invested in the Business* (*455)
Consolidated Statement of Earnings and *Earnings Reinvested in the Business* (*503)
Consolidated Statement of Earnings and *Earnings Retained in the Business* (*247, 555)
Consolidated Statement of Earnings and *Reinvested Earnings* (*219)
Consolidated Statement(s) of Earnings and *Retained Earnings* (*41, 72, 307, 530)
Consolidated Statement of Earnings and *Surplus* (*115)
Consolidated Statement of Net Earnings (*37, 135, 163, 235, 419, 511)
Consolidated Statements of Earnings and *Retained Earnings (Deficit)* (*210)
Consolidated Statements of Earnings and *Retained Income* (*197)
Consolidated Statements of Earnings and *Significant Data* (*178)
Current Earnings (*70)
Earnings (*79, 148, 373, 382, 445, 504)
Earnings and *Earnings Reinvested* (*316)
Earnings and *Reinvested Earnings* (*349)
Earnings and *Retained Earnings* (*114)
Net Earnings (*360)
Statement(s) of Consolidated Earnings (*1, 3, 24, 61, 69, 82, 131, 147, 160, 187, 201, 217, 220, 301, 329, 334, 387, 389, 400, 405, 408, 415, 474, 520, 596, 597)
Statement of Consolidated Earnings and *Accumulated Earnings* (*49, 221)
Statement of Consolidated Earnings and *Earned Surplus* (*10)
Statement of Consolidated Earnings and *Earnings Retained* (*4)
Statement of Consolidated Earnings and *Earnings Retained for Use in the Business* (*507, 575)
Statement of Consolidated Earnings and *Earnings Retained in the Business* (*13)
Statement(s) of Consolidated Earnings and *Retained Earnings* (*162, 288, 340, 371, 385, 431, 433, 436, 451)
Statement of Consolidated Earnings and *Unappropriated Retained Earnings* (*558)
Statement of Consolidated Net Earnings (*111)
Statement of Earnings (*63, 67, 101, 195, 205, 227, 231, 295, 322, 325, 357, 424, 468, 562, 564)
Statement of Earnings and *Earnings Invested in the Business* (*87)
Statement of Earnings and *Earnings Retained* (*80)

*Refer to Company Appendix Section.

Statement of Earnings and *Earnings Retained in the Business* (*29, 85, 483, 506)
Statement of Earnings and *Retained Earnings* (*15, 158, 313, 465)
Statement of Earnings (Consolidated) (*112)
Statement of Earnings (Loss) (*489)
Statement of Net Earnings (*97, 212, 236, 324, 338)
Statement of Net Earnings and *Retained Earnings* (*369)
Statement of Consolidated Earnings *and Reinvested Earnings* (*57)
Summary of Consolidated Earnings (*441, 479)

PROFIT AND LOSS—(5 Companies):
Consolidated Statement of Profit and Loss (*143, 243)
Consolidated Statements of Profit and Loss and *Earned Surplus* (*286)
Statement of Consolidated Profit and Loss (*527)
Statements of Profit and Loss and *Earned Surplus* (*406)

OPERATIONS—(24 Companies):
Comparative Statement of Operations (*199)
Consolidated Operations and *Reinvested Earnings* (*482)
Consolidated Results of Operations (*124, 141, 168)
Consolidated Results of Operations and *Summary of Net Income Employed in the Business* (*50)
Consolidated Statement of Operations (*11, 36, 188, 256, 265, 593)
Consolidated Statement of Operations and *Earnings Reinvested in Business* (*129)
Consolidated Statements of Operations and *Retained Earnings* (*64, 346)
Results of Operations (*248, 391)
Statement of Consolidated Operations and *Retained Earnings* (*62)
Statement(s) of Operations (*26, 266, 328, 383, 574)
Statement of Operations and *Retained Earnings* (*290)

VARIOUS OTHER—(4 Companies):
Comparative Consolidated Profit Statement (*259)
Comparative Statement of Income and Expense (*440)
Consolidated Statement of Loss and Special Charge (*571)
Consolidated Statements of Income and Expenses (*185)

FORM OF THE INCOME STATEMENT

In the published annual reports of the 600 survey companies, the form of the income statement falls into two general types, namely, the "multiple-step" form and the "single-step" form. The multiple-step form contains the conventional grouping of items with intermediate balances, whereas the single-step form consists of an income grouping over a single total and an expense grouping over a second total. As disclosed in Table 6, a substantial number of the survey companies presented a variation in the form of each of the above-described types of income statements, in that they contained a separate last section in which there were set forth tax items or various other special items, or both. One company, (*111), included dividends from a subsidiary in

TABLE 6: INCOME STATEMENT FORM

I: Form of Statement*	1965	1964	1960	1955	1950	1946
A: Multiple-step form	182	189	210	258	302	263
Multiple-step form with a separate last section presenting:						
B: Nonrecurring tax items	3	9	8	24	41	63
C: Nonrecurring tax and nontax items	19	18	20	23	11	57
D: Nonrecurring nontax items†	35	30	28	25	31	85
Total	239	246	266	330	385	468
E: Single-step form	286	286	276	218	177	76
Single-step form with a separate last section presenting:						
F: Nonrecurring tax items	1	12	13	22	13	13
G: Nonrecurring tax and nontax items	27	25	26	9	7	20
H: Nonrecurring nontax items†	47	31	18	19	15	16
Total	361	354	333	268	212	125
No income statement presented	—	—	1	2	3	7
Total	600	600	600	600	600	600
II: Current Year—Federal income tax estimate:*						
A: Listed among operating items	154	157	155	141	159	100
B: Presented in separate last section	408	398	414	437	423	450
Total	562	555	569	578	582	550
Negative provision presented:						
C: Listed among operating items	3	N/C	N/C	N/C	N/C	N/C
D: Presented in separate last section	8	N/C	N/C	N/C	N/C	N/C
E: Current estimate not required	27	45	30	20	15	43
No income statement presented	—	—	1	2	3	7
Total	600	600	600	600	600	600

†Includes minority interest and/or earnings of subsidiaries or equities in such net earnings.
N/C—Not Compiled.
*Refer to Company Appendix Section—I: Income Statement Form—A: 3, 6, 8, 12, 14, 20, 21, 22, 26, 27, 32, 33, 34, 35, 46, 47, 48, 49, 50, 53, 55, 58, 64, 66, 72, 77, 83, 85, 86, 89, 92, 99, 102, 105, 108, 111, 115, 118, 120, 123, 126, 128, 134, 142, 143, 144, 146, 147, 149, 151, 152, 154, 155, 157, 160, 161, 166, 167, 171, 172, 173, 178, 182, 197, 198, 200, 205, 207, 213, 220, 222, 223, 228, 229, 230, 237, 243, 245, 247, 250, 252, 257, 258, 260, 264, 266, 267, 269, 270, 273, 274, 282, 286, 290, 293, 296, 297, 298, 302, 303, 305, 307, 309, 316, 321, 325, 328, 330, 332, 333, 334, 337, 338, 342, 352, 353, 354, 366, 367, 368, 371, 378, 379, 380, 381, 383, 386, 392, 394, 396, 397, 398, 402, 403, 413, 421, 422, 423, 428, 434, 438, 439, 440, 443, 447, 452, 453, 458, 459, 466, 474, 477, 485, 489, 491, 499, 504, 513, 520, 521, 522, 524, 525, 537, 540, 541, 542, 545, 548, 554, 556, 558, 560, 562, 563, 573, 574, 576, 579, 582, 586, 597; B: 132, 283, 387; C: 44, 45, 107, 130, 181, 190, 199, 214, 216, 233, 285, 301, 336, 351, 416, 478, 479, 519, 533; D: 31, 39, 73, 88, 93, 96, 98, 114, 119, 138, 177, 184, 192, 196, 211, 215, 232, 244, 275, 279, 284, 287, 289, 300, 327, 388, 414, 497, 510, 526, 527, 571, 572, 591, 598; E: All 600 companies not specifically listed above or below under other captions; F: 113; G: 17, 24, 25, 54, 60, 70, 78, 81, 131, 141, 159, 179, 186, 217, 240, 265, 331, 339, 345, 349, 406, 480, 528, 544, 565, 580, 596; H: 15, 16, 62, 67, 69, 75, 116, 124, 135, 153, 156, 158, 163, 170, 174, 180, 206, 210, 218, 226, 227, 246, 251, 254, 277, 291, 294, 311, 315, 382, 391, 424, 429, 433, 436, 441, 456, 469, 470, 476, 482, 508, 534, 552, 561, 567, 568. II: Federal income tax estimate—A: 4, 7, 10, 25, 29, 30, 42, 50, 51, 52, 56, 59, 60, 68, 71, 78, 80, 82, 87, 90, 91, 97, 100, 109, 111, 117, 121, 124, 125, 127, 135, 136, 159, 164, 165, 168, 175, 176, 185, 186, 187, 193, 195, 200, 202, 204, 206, 211, 226, 227, 234, 244, 246, 248, 249, 251, 253, 256, 262, 263, 268, 271, 272, 276, 277, 295, 299, 306, 308, 312, 314, 317, 318, 320, 322, 324, 329, 335, 339, 340, 341, 343, 348, 349, 354, 356, 361, 363, 364, 365, 369, 373, 377, 382, 384, 390, 391, 400, 401, 405, 409, 418, 419, 424, 430, 432, 435, 442, 443, 446, 449, 462, 463, 468, 475, 480, 486, 490, 492, 495, 500, 501, 502, 505, 515, 516, 517, 518, 523, 529, 531, 532, 534, 535, 538, 539, 544, 546, 547, 552, 553, 555, 559, 566, 569, 570, 573, 575, 581, 584, 587, 589, 592, 594; B: All 600 companies not specifically listed above or below under other captions; C: 81, 110, 457; D: 17, 179, 199, 240, 300, 301, 519, 590; E: 41, 62, 75, 93, 123, 148, 158, 177, 180, 192, 210, 215, 216, 236, 242, 250, 270, 290, 346, 392, 436, 527, 528, 561, 565, 582, 583.

a separate last section of the income statement, as opposed to the usual practice of including such dividends among the income items.

Table 6 also indicates the section of the income statement in which the estimate for the current Federal income tax is presented. Examples of such presentations may be found in Section 3 following Table 8.

As may be noted from Table 6 the use of the single-step form of income statement predominates in the 1965 annual reports of the 600 companies surveyed. This is the result of a long-established trend in which the use of the multiple-step form has steadily declined.

Changes During 1965

The survey, this year, reveals a net increase of seven companies using the single-step form of the income statement. Sixteen companies *adopted* the single-step form (*52, 79, 101, 235, 241, 246, 280, 350, 408, 424, 429, 448, 523, 567, 583, 595) and eight companies changed to the multi-step form (*34, 111, 128, 177, 283, 297, 303, 510).

*Refer to Company Appendix Section.

The addition of new companies to the survey, to take the place of those eliminated because of mergers, etc., resulted in an increase of one in the use of the multiple-step form.

A presentation, which otherwise would be considered single-step, has been so considered when nonconsolidated subsidiary earnings are shown in a last separate section.

TITLE OF THE BALANCE SHEET

The term "balance sheet" to describe the statement of assets, liabilities, and stockholders' equity was used by 470 of the 600 survey companies, as indicated in Table 7. The use of the titles "financial position" and "financial condition," while increasing from 99 companies in 1950 to 125 companies in 1965, has lost some ground during the last five years.

TABLE 7: BALANCE SHEET TITLE

Terminology Applied	1965	1960	1950	1946
Balance Sheet, used with:				
Customary form	470	456	492	578
Financial Position, used with:				
Customary form	41	43	13	3
Financial position form	53	60	52	9
	94	103	65	12
Financial Condition, used with:				
Customary form	20	23	15	1
Financial position form	11	12	19	5
	31	35	34	6
Other Captions:				
Customary form	2	4	5	2
Financial position form	3	2	4	2
Total	600	600	600	600

Examples

The terms "balance sheet," "financial position," "financial condition," and other terms as disclosed in Table 7 represent key words in the balance sheet title. They are frequently supplemented with additional descriptive words and phrases to form the full title. Listed below are various examples of complete balance sheet titles taken from the 1965 reports of the 600 survey companies.

Balance Sheet—(Customary form: 470 Companies)
- Balance Sheet (*17, 29, 67, 80, 94, 97, 103, 113, 127, 134, 158, 167, 170, 212, 216, 225, 227, 231, 240, 257, 269, 291, 299, 303, 306, 322, 324, 325, 328, 356, 357, 360, 365, 377, 407, 412, 413, 414, 424, 487, 506, 521, 540, 561, 564, 574)
- Balance Sheets (*19, 79, 105, 151, 175, 234, 236, 290, 338, 368, 378, 396, 406, 453, 460, 489, 508)
- Balance Sheet (Consolidated) (*112, 446)
- Comparative Balance Sheet (*139, 349, 440)
- Comparative Consolidated Balance Sheet(s) (*39, 259, 379, 510, 524, 568)
- Consolidated Balance Sheet(s) (*All 600 companies not specifically listed above or below under other captions)
- Consolidated Comparative Balance Sheets (*367)

Financial Position—(Customary form: 41 Companies)
- Comparative Statement of Financial Position (*199, 570)
- Consolidated Financial Position (*25, 71, 104, 335, 454)
- Consolidated Statement(s) of Financial Position (*35, 129, 246, 256, 265, 272, 337, 402, 517, 525, 531, 559)
- Financial Position (*373, 391, 468, 498)
- Statement(s) of Consolidated Financial Position (*4, 78, 109, 194, 288, 381, 411, 436)
- Statement of Financial Position (*16, 26, 85, 169, 198, 206, 262, 266, 280, 472)

Financial Position—(Financial position form: 53 Companies)
- Consolidated Financial Position (*124, 141, 176, 182, 276, 309, 553)
- Consolidated Statement(s) of Financial Position (*9, 50, 57, 60, 75, 117, 163, 168, 208, 209, 247, 304, 318, 327, 361, 437, 471, 503, 513, 533, 536, 557, 569)
- Financial Position (*76, 148, 248, 390, 475, 585)
- Statement of Consolidated Financial Position (*142, 237, 314, 415, 431, 575, 596)
- Statement of Financial Position (*183, 223, 295, 298, 313, 383, 465, 476, 585)
- Statement of Financial Position and Stockholders' Equity (*15)

Financial Condition—(Customary form: 20 Companies)
- Consolidated Statement(s) of Financial Condition (*64, 72, 178, 285, 352, 530)
- Statement(s) of Consolidated Financial Condition (*53, 59, 92, 189, 278, 371, 451)
- Statement of Financial Condition (*87, 123, 138, 308, 362, 369, 492)

Financial Condition—(Financial position form: 11 Companies)
- Consolidated Statement of Financial Condition (*73, 204, 355, 511, 539, 593, 595)
- Statement of Consolidated Financial Condition (*222)
- Statement of Financial Condition (*30, 205, 562)

Other Captions—(Customary form: 2 Companies)
- Statement of Assets and Liabilities (*101)
- Statement of Consolidated Assets and Liabilities (*410)

Other Captions—(Financial position form: 3 Companies)
- Assets, Liabilities, and Stockholders' Equity (*187)
- Financial Statement (*445)
- Investment (*316)

*Refer to Company Appendix Section.

FORM OF THE BALANCE SHEET

The balance sheets presented by the 600 survey companies in their annual reports are of two general forms, with certain variations within each form. The two forms are the "customary" form and the "financial position" form. The customary form usually shows the assets on the left-hand side of the statement, with liabilities and stockholders' equity on the right-hand side. This form may, however, set forth the three sections in a downward sequence of assets, liabilities, and stockholders' equity. In either variation, the total of the assets equals the total of the liabilities plus the total of the stockholders' equity (Table 8, Form A). In three instances in the 1965 reports, the customary form of balance sheet is varied to show *total* assets less *total* liabilities equaling stockholders' equity (Table 8, Form B). In the 1965 reports, 533 of the survey companies presented the customary form of the balance sheet.

The remaining 67 survey companies presented a financial position form of balance sheet. In this form of balance sheet, net assets are shown equal to stockholders' equity (Table 8, Form C), or in other variations of the financial position form of presentation as shown in Table 8, Forms D, E, F, and G.

Changes During 1965

There was a net increase of four in the number of companies presenting the customary form of balance sheet in the 1965 annual reports of the 600 survey companies, as will be noted in Table 8. Eight companies (*35, 49, 78, 79, 400, 522, 528, 556) changed to the customary form. Three companies (*76, 513, 575) changed to the financial position form, while one *new* company, replacing a company that had used the customary form, also used the financial position form. The customary form predominates by a wide margin and has remained fairly constant since 1950 except possibly for adjustments arising from eliminations and substitutions due to mergers, etc. Other changes which have occurred were for the most part limited to variations in presentation of the financial position form.

POSITION OF BALANCE SHEET IN FINANCIAL STATEMENTS

The financial reports of 354 of the 600 companies included in the survey for 1965 presented the balance sheet before the income statement. The remaining 246 companies presented the income statement first.

*Refer to Company Appendix Section.

TABLE 8: BALANCE SHEET FORM

Customary Form*	1965	1964	1960	1955	1950	1946
A: Assets *equal* liabilities plus stockholders' equity	530	525	521	517	523	584
B: Assets less liabilities *equal* stockholders' equity	3	4	5	5	3	—
Total	533	529	526	522	526	584
Financial Position Form*						
C: Current assets less current liabilities, plus other assets less other liabilities, less long-term indebtedness, *equal* stockholders' equity	53	54	47	51	32	7
D: Current assets less current liabilities, plus other assets less other liabilities, *equal* long-term indebtedness plus stockholders' equity	3	6	7	8	6	—
E: Current assets less current liabilities, plus other assets less other liabilities, *equal* stockholders' equity (long-term indebtedness not shown)	8	10	20	19	36	9
Current assets less current liabilities less long-term indebtedness, plus other assets, *equal* stockholders' equity	—	1	—	—	—	—
F: Current assets less current liabilities, plus other assets (or total assets less current liabilities), *equal* long-term indebtedness plus deferred credits plus stockholders' equity	2	—	—	—	—	—
G: Current assets less current liabilities less long-term indebtedness plus other assets less other liabilities, *equal* stockholders' equity	1	—	—	—	—	—
Total	67	71	74	78	74	16
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: All 600 companies not specifically listed below under other captions; B: 35, 335, 517; C: 15, 57, 73, 75, 76, 117, 124, 141, 142, 148, 163, 168, 176, 182, 183, 187, 204, 208, 209, 222, 237, 247, 248, 276, 298, 304, 309, 313, 314, 316, 318, 327, 355, 383, 390, 415, 431, 437, 465, 471, 475, 503, 513, 533, 539, 553, 557, 562, 569, 575, 588, 593, 595; D: 9, 223, 536; E: 30, 50, 205, 295, 445, 511, 585, 596; F: 60, 361; G: 476.

TABLE 9: STOCKHOLDERS' EQUITY SECTION

	Balance Sheet Title*	1965	1964	1961	1955	1951
A:	Capital stock and surplus	42	56	85	143	164
B:	Capital (Common) stock and earned surplus	3	2	1	1	4
C:	Capital stock and retained earnings	9	9	11	10	10
	Capital stock and accumulated earnings	—	—	—	1	2
	Capital stock and accumulated (earnings, income) (retained, invested)	—	—	—	2	3
D:	Capital stock and (earnings, retained profits) (invested, reinvested)	1	1	3	3	2
	Capital shares and surplus	—	—	—	—	2
E:	Capital and earnings invested	1	1	—	—	—
F:	Capital and surplus	1	1	2	8	12
G:	Capital and retained earnings	7	8	11	14	9
H:	Capital and retained income	1	—	—	—	—
I:	Equity capital	1	1	1	2	2
J:	Capital and (accumulated earnings, profit retained and employed)	1	1	2	—	2
K:	Capital	34	38	52	66	72
	Capitalization	—	—	—	1	1
	Capital (accounts, invested, investment, structure)	—	—	—	5	7
L:	Common stock or Common Stockholders' Equity	2	—	—	—	—
M:	Derived from	3	3	3	3	3
	Investment represented by	—	—	1	1	1
	Investors' equities	—	—	—	1	2
	Net worth	—	—	—	1	10
	Owners' investment	—	1	1	1	1
N:	Ownership	2	2	2	1	2
O:	Ownership evidenced by	2	3	3	3	3
P:	Ownership (equities, interest, etc.)	1	1	1	2	2
Q:	Ownership of net assets	2	2	3	3	—
	Provided by	—	—	1	1	1
R:	Represented by	7	8	9	16	13
S:	Represented by stockholders' or shareholders' equity	3	1	—	—	—
T:	Represented by stockholders' interest	1	1	—	—	—
U:	Sources from which capital was obtained	2	2	3	3	6
	Sources from which net assets were obtained	—	—	1	1	6
V:	Source of stockholders' equity	2	—	—	—	—
W:	Stockholders' equity	242	242	208	123	85
X:	Stockholders' equity evidenced by	1	1	—	—	—
Y:	Stockholders' investment	29	34	37	44	51
	Stockholders' ownership	—	—	4	7	10
Z:	Stockholders' interest	5	5	4	2	3
	Stockholders' capital	—	—	—	1	1
a:	Shareholders' equity	136	120	95	55	19
b:	Shareholders' investment	25	21	15	10	6
c:	Shareholders' ownership	3	3	2	1	2
d:	Shareholders' interest	2	3	2	3	4
e:	Shareowners' equity	19	17	21	7	1
f:	Shareowners' investment	3	3	2	6	2
		593	591	586	552	526
g:	No title set forth	7	9	14	48	74
	Total	600	600	600	600	600

*Refer to Company Appendix Section—A: 10, 14, 39, 40, 47, 89, 99, 105, 110, 119, 137, 143, 149, 154, 156, 157, 167, 173, 177, 200, 216, 243, 255, 259, 284, 286, 292, 302, 319, 321, 343, 406, 410, 421, 440, 458, 462, 488, 493, 496, 560, 579; B: 186, 358, 432; C: 4, 139, 152, 179, 271, 273, 452, 486, 592; D: 382; E: 546; F: 347; G: 323, 325, 441, 449, 468, 469, 600; H: 336; I: 308; J: 596; K: 26, 42, 83, 93, 104, 113, 159, 181, 192, 203, 229, 234, 242, 249, 264, 266, 270, 279, 283, 307, 326, 332, 337, 392, 396, 489, 497, 499, 510, 521, 563, 568, 582, 583; L: 52, 178; M: 355, 536, 557; N: 124, 138; O: 327, 569; P: 272; Q: 205, 445; R: 73, 163, 209, 316, 390, 476, 595; S: 176, 182, 539; T: 247; U: 50, 117; V: 30, 575; W: All 600 companies not specifically listed above or below under other captions; X: 503; Y: 7, 32, 37, 97, 101, 121, 131, 201, 236, 268, 285, 288, 291, 295, 333, 339, 360, 365, 377, 378, 415, 419, 427, 430, 464, 502, 506, 562, 580; Z: 195, 296, 470, 518, 588; a: 11, 18, 24, 28, 35, 38, 41, 43, 55, 57, 59, 62, 64, 67, 72, 75, 76, 77, 80, 85, 107, 112, 114, 118, 126, 130, 140, 142, 146, 148, 150, 151, 153, 158, 160, 165, 168, 169, 170, 172, 174, 183, 190, 191, 202, 204, 206, 210, 211, 219, 223, 226, 239, 253, 260, 262, 275, 276, 278, 280, 281, 282, 289, 293, 305, 306, 309, 310, 318, 320, 338, 341, 348, 354, 356, 361, 367, 369, 371, 375, 376, 380, 384, 385, 386, 389, 400, 407, 411, 412, 416, 420, 425, 429, 436, 442, 444, 453, 454, 455, 456, 461, 472, 473, 484, 487, 490, 494, 495, 498, 501, 505, 511, 517, 520, 528, 530, 532, 533, 535, 540, 541, 544, 549, 558, 564, 571, 572, 574, 577, 586, 591, 594, 597, 598, 599; b: 1, 45, 49, 91, 95, 111, 132, 135, 141, 217, 225, 235, 261, 324, 329, 350, 352, 387, 401, 422, 426, 482, 492, 525, 543; c: 237, 466, 516; d: 480, 589; e: 16, 87, 189, 197, 222, 245, 256, 303, 349, 357, 362, 370, 379, 381, 431, 509, 524, 553, 581; f: 69, 115, 529; g: 23, 98, 246, 263, 459, 471, 548.

TITLE OF THE "STOCKHOLDERS' EQUITY" SECTION

Table 9 summarizes the diversity of titles used by the 600 survey companies in describing the stockholders' equity section of the balance sheet in their published annual reports. The number of companies using the term "shareholders' equity" or a title incorporating that term continued to increase in the current year. Table 9 discloses a continued tendency to use less frequently the terms "capital" and "capital stock and surplus" or a title incorporating such terms. These terms, however, are still used by more than one sixth, or 101 of the survey companies, but the number has been decreasing each year.

"CAPITAL SURPLUS" CAPTION IN THE BALANCE SHEET

Accounting Terminology Bulletin Number 1, Review and Résumé, issued by the committee on terminology of the American Institute of Certified Public Accountants as a part of *Accounting Research and Terminology Bulletins, Final Edition,* 1961, reaffirms the recommendation made by the committee in 1949 that the use of the term "surplus" be discontinued in the balance sheet presentation of stockholders' equity. This recommendation is applicable not only to the term "surplus" standing alone, but also in such combinations as "capital surplus," "paid-in surplus," "earned surplus," and "appraisal surplus."

As shown in Table 10, in 1965 only 203 of the survey companies used the term "surplus" in their balance sheet captions, as compared with 375 in 1948. It will also be observed from this table that, of the survey companies displaying some form of capital surplus, nearly 60 per cent have now replaced the term "surplus" in the balance sheet designation of the various terms formerly used in the presentation of capital surplus.

No attempt has been made in this study of captions replacing "surplus" to distinguish between legal capital and items representing accumulated profits and losses.

Examples

The various phrases used to describe "capital surplus" in the 1965 balance sheets of the survey companies are listed below.

Captions Retaining "Surplus"—(203 Companies)

Source Indicated

Capital surplus—amounts in excess of par value of capital stock (*578)
Capital surplus (arising from capital stock transactions) (*89)
Capital surplus (arising from sale of treasury stock under the incentive stock option plan (*20)
Capital surplus (excess of consideration received for common stock over the stated value of $xxx per share) (*406)
Capital surplus (excess of proceeds over par value of common stock or cost of treasury stock issued upon exercise of stock options) (*35)
Capital surplus from sale of treasury stock (*539)
Capital surplus—principally amount paid the corporation for capital stock in excess of par value (*587)
Capital surplus (sale of stock through rights) (*155)
Excess over par value—capital surplus (*73)

Source Not Indicated

Capital and paid-in surplus (*60)
Capital (paid-in) surplus (*17)
Capital surplus (*6, 10, 15, 27, 28, 29, 31, 33, 38, 40, 43, 47, 56, 58, 61, 63, 65, 72, 75, 76, 78, 82, 83, 86, 87, 88, 98, 100, 102, 110, 112, 118, 119, 132, 136, 137, 142, 143, 144, 150, 151, 156, 157, 164, 167, 170, 173, 176, 177, 178, 180, 181, 191, 192, 195, 198, 202, 203, 204, 207, 211, 213, 214, 216, 240, 243, 245, 249, 250, 263, 267, 281, 282, 284, 288, 297, 298, 299, 300, 301, 302, 305, 310, 314, 321, 326, 333, 368, 379, 383, 393, 395, 396, 400, 407, 418, 427, 428, 433, 434, 440, 443, 444, 447, 448, 450, 454, 459, 463, 473, 474, 480, 481, 494, 496, 497, 505, 508, 510, 513, 515, 519, 523, 528, 533, 534, 537, 541, 548, 549, 556, 559, 560, 561, 567, 575, 579, 583, 584)
Capital surplus, as annexed (*264)
Capital surplus (no change during either year) (*349)
Capital surplus (no change during the year) (*99)
Capital surplus paid-in (*293)
Capital surplus (principally paid-in) (*149, 479)
Initial surplus (*14)
Paid-in and capital surplus (*242)
Paid-in and other capital surplus (*292, 489)
Paid-in surplus (*93, 95, 115, 134, 145, 162, 174, 200, 210, 222, 224, 228, 239, 255, 265, 274, 279, 285, 287, 328, 336, 347, 350, 351, 355, 356, 381, 386, 398, 401, 402, 412, 421, 422, 438, 462, 471, 488, 550, 563, 589)
Paid-in surplus (increase resulted from sale of shares of capital stock to option holders) (*409)
Paid-in surplus (no change during the year) (*259)

Captions Replacing "Surplus"—(289 Companies)

Source Indicated

Additional capital arising from exercise of employee stock options (*85)
Additional capital (in excess of par value of common shares) (*530)
Additional retained earnings transferred to capital (*205)
Amount in excess of common stock stated value (*492)
Amount in excess of par value (*452, 517)

*Refer to Company Appendix Section.

TABLE 10: CAPITAL SURPLUS CAPTION

Balance Sheet Captions	1965	1964	1960	1955	1950	1948
Including term "surplus"—						
Capital surplus (Note A)	151	161	178	198	224	257
Paid-in surplus	43	43	52	52	72	92
Capital surplus—paid-in	8	7	9	9	4	4
Surplus (classified) (Note B)	1	1	2	2	4	5
Surplus (unclassified)	—	1	2	10	15	17
Surplus reinvested (unclassified)	—	—	—	1	—	—
Total retaining term "surplus"	203	213	243	272	319	375
Total replacing term "surplus"**	289	277	252	201	126	70
Total presenting accounts	492	490	495	473	445	445
Not presenting accounts	108	110	105	127	155	155
Total	600	600	600	600	600	600
Percentage of Companies						
Retaining term "surplus"	31	44	49	58	71	84
Replacing term "surplus"	59	56	51	42	29	16
	100%	100%	100%	100%	100%	100%

Note A—Includes one report which shows "Capital Surplus" and "Paid-in Surplus" with separate dollar amounts for each (*216)
Note B—Includes the use of "Initial Surplus" (*14)
*Refer to Company Appendix Section.

**The various balance sheet captions, which replaced the term "Surplus" used the following types of terminology:

	1965	1960	1955
Additional paid-in capital	86	72	48
Additional capital	21	14	7
Capital paid-in or Paid-in capital	7	5	5
Other paid-in capital	5	5	5
Other capital	20	16	14
Other contributed capital	1	3	1
Capital in excess of par or stated values	114	93	65
Amount in excess of par value	2	5	2
Investment in excess of (par, stated) value	—	3	6
Capital (contributed, received) in excess of (par, stated, par or stated) values	1	8	11
Capital paid-in in excess of par value	12	13	11
Amount (paid-in, paid-in or assigned, realized, received) in excess of (par, stated, par or stated values)	7	9	8
Excess of (amounts received, amounts contributed, amounts paid-in, capital paid-in, net proceeds) over (par, stated) values	2	2	1
Conversion, retirements, premium on stock issued, and merger	—	1	1

	1965	1960	1955
Earnings (segregated, transferred, allocated, capitalized)	—	1	3
Excess of proceeds received from sale of treasury stock over cost thereof	—	1	1
Retained earnings transferred to capital	1	—	1
Additional contributed capital	1	—	—
Capital contributed and earnings capitalized in excess of stated value of common stock	1	—	—
Capital resulting from issue of capital stock by a consolidated subsidiary	1	—	—
Consideration received in excess of par value	1	—	—
Contributed capital	1	—	—
Credits in excess of par or stated value of shares issued	1	—	—
Paid by shareowners	1	—	—
Shareholders' investment in excess of par value	2	—	—
Miscellaneous	1	1	11
Total	289	252	201

Amount paid in excess of par value (*337)
Amount paid-in in excess of par value of stock—net (*169)
Amount paid-in in excess of par value of stock issued (*49)
Amounts contributed in excess of par value (*122)
Amounts in excess of par value received for stock (*246)
Amounts paid in excess of par value of capital stock (*270)
Capital contributed and earnings capitalized in excess of stated value of common stock (*490)
Capital in addition to par or stated value of shares (*512)
Capital in excess of par (*425)
Capital in excess of par or stated values (*529)
Capital in excess of par value(s) (*5, 25, 30, 50, 52, 53, 74, 80, 101, 114, 123, 128, 139, 141, 146, 148, 158, 165, 168, 171, 183, 184, 187, 197, 206, 241, 257, 273, 276, 280, 303, 309, 315, 318, 330, 331, 339, 342, 359, 378, 384, 388, 389, 392, 413, 414, 416, 429, 436, 439, 455, 460, 465, 466, 487, 495, 503, 507, 509, 514, 516, 518, 521, 524, 525, 551, 574, 580, 591)
Capital in excess of par value of capital stock (*16, 140, 147, 230, 296, 399, 544, 576)
Capital in excess of par value of common shares (*275)
Capital in excess of par value of common stock (*3, 13, 67, 92, 113, 208, 225, 231, 251, 290, 415, 435, 520)

*Refer to Company Appendix Section.

Capital in excess of par value of shares (*179, 219, 223, 262, 277, 404, 547, 557)
Capital in excess of par value of shares outstanding (*469)
Capital in excess of par value of stock (*68, 106, 232, 532, 577)
Capital in excess of par value (principally arising from stock dividends) (*55)
Capital in excess of stated amount (*103, 311)
Capital in excess of stated value (*48, 308)
Capital paid-in for common stock in excess of par value (*26, 182)
Capital paid-in for shares in excess of par value (*127)
Capital paid-in, in excess of par value (*431, 498)
Capital paid-in in excess of par value of common stock (*59)
Capital paid-in in excess of par value of shares issued (*266, 446, 457)
Capital paid-in in excess of stated value (*289)
Capital received in excess of par value (*564)
Capital resulting from issue of capital stock by a consolidated subsidiary (*586)
Consideration received in excess of par value (*7)
Credits in excess of par or stated value of shares issued (*553)
Excess of amount paid in over par value of common stock (*234)
Excess of net proceeds from capital stocks issued over par values (*46)
Excess of shareholders' investment over par value of common stock (*237)
Other capital contributed upon issuance of shares (*484)
Other capital in excess of par value of shares (*21)
Other capital—primarily retained income capitalized as stock dividends (*278)
Other capital, principally excess of net assets of subsidiaries at dates of acquisition over cost of investments (*327)
Other capital—representing principally excess of amount of stock dividends over par value of capital stock (*478)
Other capital (transferred from retained earnings in connection with stock dividends) (*121)
Other paid-in capital (principally on common stock) (*372)
Paid by shareowners (*445)
Paid-in capital in excess of par value (*538)
Paid-in capital in excess of par values of capital stocks (*340)
Proceeds in excess of par value received for stock sold or from appropriations from earnings for stock dividends (*64)
Shareholders' investment in excess of par value (*160)

Source Not Indicated

Additional capital (*18, 109, 116, 120, 129, 163, 226, 238, 317, 325, 334, 345, 371, 420, 456, 476, 485, 527, 554)
Additional capital paid in (*194, 221, 453, 477)
Additional capital paid in by stockholders (*483)
Additional contributed capital (*504)
Additional paid-in capital (*9, 36, 37, 41, 42, 54, 57, 66, 69, 70, 71, 84, 96, 111, 125, 131, 133, 135, 153, 166, 185, 188, 190, 199, 212, 215, 217, 218, 220, 235, 236, 252, 254, 256, 258, 260, 295, 313, 324, 329, 338, 341, 343, 344, 346, 348, 352, 353, 357, 360, 361, 362, 366, 373, 375, 385, 390, 405, 408, 411, 419, 426, 449, 451, 472, 499, 506, 511, 526, 540, 545, 562, 565, 572, 590, 593, 595, 597, 598, 600)
Contributed capital (increase represents excess of par value of preferred stock retired over cost thereof) (*376)
Other capital (*94, 138, 159, 175, 196, 201, 233, 253, 272, 294, 323, 417, 442, 461, 536, 543)
Other capital paid in (*571)
Other paid-in capital (*11, 291, 500, 568)
Paid-in capital (*77, 107, 261, 320, 387, 397, 542)

*Refer to Company Appendix Section.

SOURCE OF CAPITAL SURPLUS

The committee on terminology previously referred to (*Accounting Terminology Bulletin Number 1, Review and Résumé*) also stated that in adopting new terminology, when replacing the term "surplus," consideration should be given primarily to the sources from which the proprietary capital was derived. Table 11 shows the nature of the information disclosed in the balance sheet caption by the survey companies as to the source of capital surplus.

TABLE 11: SOURCE OF CAPITAL SURPLUS

Source Set Forth in Caption	1965	1960	1955
Excess (received, paid-in, contributed) over par value	146	179	100
Excess (received) over par or stated value	8	8	11
Excess received over stated value (stated amounts, value shown)	3	6	10
Earnings capitalized	2	3	7
Revision in capital structure	—	—	3
Retirement of capital stock	—	1	2
Capital stock transactions	1	—	—
Conversion of preferred stock	—	1	3
Sale of treasury stock	2	1	4
Revaluation of capital assets	—	1	1
Subsidiary acquisition or merger	—	—	7
Excess of net assets of subsidiaries at dates of acquisition over cost of investments	1	—	—
Issue of capital stock by a consolidated subsidiary	1	—	—
Miscellaneous	—	2	2
Total	164	202	150
Number of Companies			
Referring to source of capital surplus	164	202	150
Not referring to source of capital surplus	328	293	323
Not referring to capital or unclassified surplus	108	105	127
	600	600	600

TABLE 12: TERMS REPLACING "EARNED SURPLUS"

Earned Surplus Replaced:	1965	1964	1960	1955	1950	1948
With "source" words—						
Earnings	**446	**425	371	301	204	69
Income	46	49	51	43	35	21
Profit	1	2	3	6	8	8
Deficit	2	2	1	1	1	1
Total	495	478	426	351	248	99
Combined with "status" words—						
Retained	404	381	327	250	154	60
Accumulated	24	26	30	37	37	5
Reinvested	37	36	35	26	24	14
Employed	19	22	21	20	17	9
Invested	9	11	10	11	10	6
Undistributed	—	—	—	2	2	2
Undivided	—	—	—	1	2	2
Operations	1	1	1	2	—	—
Other	1	1	2	2	2	1
	495	478	426	351	248	99
Earned Surplus Retained As:						
Earned Surplus	95	110	162	213	—	—
Earned Surplus *combined with—*						
Earnings retained	1	2	4	10		
Earnings reinvested	—	—	—	3		
Earnings employed	—	—	—	1		
Earnings accumulated	—	—	1	1	335	481
Income retained	1	1	2	5		
Income reinvested	—	—	—	1		
Accumulated	—	—	—	1		
Deficit	5	4	—	2		
Surplus***	—	1	2	10	17	20
Surplus, operating	—	—	1	1	—	—
Deficit	3	4	2	1	—	—
	105	122	174	249	352	501
Total	600	600	600	600	600	600
Number of Companies						
Replacing "earned surplus"	495	478	426	351	248	99
Retaining "earned surplus"	105	122	174	249	352	501
Total	600	600	600	600	600	600

*Refer to Company Appendix Section.
**Includes reports of 9 companies (*15, 35, 67, 159, 295, 298, 531, 544, 553), the retained earnings of which appear in the Stockholders' Equity Statement.
***Surplus not classified.

"RETAINED EARNINGS" CAPTION IN THE BALANCE SHEET

The committee on terminology of the American Institute of Certified Public Accountants (*Accounting Terminology Bulletin Number 1, Review and Résumé*) recommended that:

> The term *earned surplus* be replaced by terms which will indicate source, such as *retained income, retained earnings, accumulated earnings,* or *earnings retained for use in the business.* In the case of a deficit, the amount should be shown as a deduction from contributed capital with appropriate description.

Table 12 reveals that in accord with the above recommendation there has been a steady decrease in the use of the term "earned surplus" in describing the "retained earnings" account in the balance sheets in the published annual reports of the 600 survey companies. In 1948 there were 501 companies that used the term "surplus" in this connection in their balance sheets, whereas in 1965 there were only 105 survey companies that continued to use such terminology.

Table 12 also shows that the 495 survey companies which by 1965 had replaced the term "earned surplus" in their balance sheets had done so with other words such as "retained earnings," "retained income," "accumulated earnings," "reinvested earnings," "earnings employed," etc., which more clearly indicate *source,* as recommended by the committee on terminology referred to above.

Table 13 shows the frequency of use of the various combinations of words indicating the *status* and *source* of retained earnings as set forth in the 1965 balance sheets of the survey companies. This tabulation discloses that the words "retained" and "earnings" have been adopted most often to replace the term "earned surplus."

The terminology used in the 1965 annual reports of the survey companies is set forth below.

Earnings—(446 Companies):
- Accumulated earnings (*49, 193, 221, 332, 402, 442, 490, 524, 535)
- Accumulated earnings employed in the business (*225, 415)
- Accumulated earnings in use in the business (*361)
- Accumulated earnings reinvested in the business (*471)
- Accumulated earnings retained (*67)
- Accumulated earnings, retained and used in the business (*437)
- Accumulated earnings retained for use in the business (*499, 596)
- Accumulated earnings retained in the business (*360, 590)

*Refer to Company Appendix Section.

TABLE 13: RETAINED EARNINGS TERMINOLOGY IN 1965

	"Source" Words				
"Status" Words:	Earnings	Income	Profit	Deficit	Total
Retained	253	11	—	—	264
Retained in the business	48	8	—	—	56
Retained—Employed in the business	2	—	—	—	2
Retained—Reinvested	2	—	—	—	2
Retained—Invested in the business	4	1	—	—	5
Retained—For requirements in the business	3	—	—	—	3
Retained—For use, or Used, in the business	44	13	—	—	57
Retained exclusive of amounts capitalized	10	—	—	—	10
Retained—deficit	5	—	—	—	5
Accumulated	9	—	—	—	9
Accumulated—Employed in the business	2	—	—	—	2
Accumulated—Reinvested in the business	1	—	—	—	1
Accumulated—Retained	3	—	—	—	3
Accumulated—Retained and used in the business	1	—	—	—	1
Accumulated—Retained for use in the business	2	1	—	—	3
Accumulated—Retained in the business	2	—	—	—	2
Accumulated—Used in the business	2	—	—	—	2
Accumulated deficit	—	—	—	1	1
Reinvested	11	1	—	—	12
Reinvested in the business	19	5	—	—	24
Reinvested and employed in business	1	—	—	—	1
Employed in the business	13	5	1	—	19
Invested in the business	8	1	—	—	9
Used in the business	1	—	—	—	1
Operations	—	—	—	1	1
	446	46	1	2	495
"Surplus" Words:					
Earned Surplus	—	—	—	—	95
Earned Surplus used with:					
Retained	1	1	—	—	2
Deficit	—	—	—	5	5
Surplus:					
Deficit	—	—	—	3	3
					105
Total					600

Accumulated earnings used in the business (*127)
Accumulated retained earnings (*215, 445)
Balance of retained earnings used in the business (*205)
Earnings employed in the business (*1, 11, 28, 44, 60, 61, 108, 155, 227, 248, 435, 502, 531)
Earnings invested in the business (*87, 90, 291, 430, 455, 484, 533, 546)
Earnings reinvested (*23, 187, 316)
Earnings reinvested and employed in business (*517)
Earnings reinvested in business (*129, 295)
Earnings reinvested in business, exclusive of earnings capitalized (*503)
Earnings reinvested in the business (*12, 24, 112, 199, 219, 265, 304, 349, 352, 382, 428, 460, 470, 521)
Earnings reinvested in the business at December 31, 1965 (*322)
Earnings reinvested in the business at end of year (*26)
Earnings retained (*16, 80, 168, 189, 414, 486)
Earnings retained and employed in the business (*464)
Earnings retained and invested in the business (*98, 516)
Earnings retained and reinvested in the business (*275)
Earnings retained and used in the business (*53, 92, 139, 592)
Earnings retained for requirements of (in) the business (*4, 160, 468)
Earnings retained for use in business, exclusive of amounts capitalized as a result of stock dividends (*507)
Earnings retained for use in the business (*37, 66, 79, 117, 196, 206, 232, 235, 236, 266, 268, 269, 271, 303, 324, 348, 388, 391, 404, 419, 426, 469, 511, 513, 532, 547, 551, 556, 564, 575)
Earnings retained for use in the business (after transfers to capital) (*441)
Earnings retained for use in the business, less amount capitalized through stock dividends (*3)
Earnings retained in business (*254, 498)
Earnings retained in the business (*13, 20, 27, 29, 69, 85, 88, 110, 111, 153, 159, 178, 182, 223, 234, 247, 258, 272, 288, 296, 317, 328, 330, 339, 344, 351, 355, 376, 383, 389, 413, 420, 434, 449, 452, 483, 505, 506, 527, 529, 536, 555, 557, 597)
Earnings retained in the business (deficit) (*565)
Earnings retained since October 31, 1961 (*123)
Earnings used in the business (*103)
Net earnings retained for use in the business (*135)
Net earnings retained in business (*553)
Net earnings retained in the business (*548)
Reinvested earnings (*57, 131, 191, 238, 341, 387, 454, 482)
Retained earnings (after deducting transfers to capital stock account) (*301)
Retained earnings after transfers to capital (*473)
Retained earnings, as annexed (*264)
Retained earnings (deficit) (*41, 210, 270, 528)
Retained earnings employed in the business (*338)
Retained earnings (excluding amounts transferred to capital) (*201)
Retained earnings, excluding amounts transferred to other capital (*121)
Retained earnings, exclusive of amounts capitalized (*520)
Retained earnings (*5, 6, 7, 8, 9, 15, 18, 19, 21, 22, 25, 31, 32, 34, 35, 36, 42, 46, 48, 52, 54, 55, 56, 58, 62, 63, 64, 71, 72, 73, 74, 76, 78, 81, 83, 84, 86, 91, 94, 96, 97, 100, 101, 106, 107, 109, 114, 116, 118, 120, 122, 125, 126, 128, 132, 133, 134, 136, 141, 146, 147, 148, 151, 152, 158, 162, 163, 164, 165, 166, 169, 171, 176, 179, 183, 184, 185, 190, 194, 202, 203, 204, 207, 208, 209, 212, 217, 218, 220, 222, 230, 233, 237, 239, 240, 241, 244, 246, 251, 252, 253, 256, 260, 263, 273, 274, 277, 279, 280, 281, 285, 287, 290, 297, 298, 300, 306, 307, 309, 310, 311, 312, 313, 315, 320, 325, 327, 329, 333, 334, 335, 337, 340, 342, 345, 346, 350, 353, 354, 357, 362, 363, 364, 365, 367, 369, 371, 372, 375, 378, 379, 381, 384, 385, 390, 393, 395, 397, 398, 403, 405, 407, 408, 409, 411, 412, 416, 418, 422, 423, 424, 425, 427, 429, 431, 433, 436, 444, 446, 448, 451, 453, 456, 457, 465, 467, 472, 474, 476, 477, 478, 479, 480, 481, 485, 487, 489, 491, 492, 494, 495, 500, 501, 504, 508, 509, 510, 512, 514, 522, 523, 525, 526, 530, 534, 537, 539, 540, 542, 549, 550, 552, 554, 558, 562, 566, 567, 570, 571, 572, 576, 577, 578, 581, 582, 583, 585, 586, 587, 598, 600)
Retained earnings, exclusive of amounts transferred to capital (*574)
Retained earnings (exclusive of amounts transferred to other capital accounts) (*188)
Retained earnings, exclusive of earnings capitalized (*257)
Retained earnings invested in the business (*466, 559)
Retained earnings, less amount capitalized through stock dividends (*231)
Retained earnings, less amount transferred to other capital accounts (*593)
Retained earnings per accompanying statement (*319)
Retained earnings reinvested (*544)
Retained earnings since June 30, 1963 (*150)
Retained earnings, subsequent to September 29, 1962 (*70)
Retained earnings unappropriated (*568)
Retained earnings used in the business (*207, 289, 323, 373, 538)
Retained earnings (without deduction for depletion of metal mines) (*51)

Income—(46 Companies):
Accumulated income retained for use in the business (*30)
Income employed in the business (*278, 294, 595)
Income invested in the business (*226)
Income reinvested (*77)
Income reinvested in business (*138, 569)
Income reinvested in the business (*417, 588, 599)
Income retained (*308)
Income retained and invested in the business (*463)
Income retained and used in the business (*439)
Income retained for use in the business (*43, 45, 113, 198, 305, 331, 399, 573, 580)
Income retained in the business (*59, 130, 175, 228, 276)

*Refer to Company Appendix Section.

Income retained in the business, excluding amounts transferred to capital stock (*475)
Income retained in the business, exclusive of amounts transferred to capital (*318)
Net income employed in the business (*50, 518)
Net income retained for use in the business (*68, 377)
Net income retained for use in the business (earned surplus) (*249)
Retained income (*38, 140, 197, 336, 366, 380, 461, 543, 545, 591)
Statement of income (*262)

Profit—(1 Company):
Profit employed in the business (*124)

Earned Surplus—(97 Companies):
Consolidated earned surplus—unappropriated (*563)
Earned surplus (*2, 10, 14, 17, 33, 39, 40, 47, 65, 75, 89, 95, 99, 104, 105, 115, 119, 137, 142, 143, 144, 145, 149, 154, 156, 157, 161, 167, 170, 172, 173, 174, 181, 186, 195, 200, 211, 213, 214, 224, 229, 242, 243, 245, 255, 259, 261, 267, 282, 283, 284, 286, 292, 293, 299, 302, 314, 321, 326, 343, 347, 356, 358, 359, 368, 370, 374, 386, 394, 396, 401, 406, 410, 421, 432, 438, 443, 447, 450, 458, 459, 462, 488, 493, 496, 497, 515, 519, 541, 560, 579, 584, 594)
Earned surplus (income retained in the business) (*589)
Earned surplus since October 31, 1949 (*440)
Earned surplus (retained earnings) (*82)

Deficit—(10 Companies):
Accumulated deficit (*180)
Deficit (*93, 250, 392)
Deficit from operations (*561)
Earned surplus (deficit) (*102, 216)
Earned surplus (deficit), as annexed (*192)
Earned surplus (deficit) since October 30, 1954 (*177)
Earned surplus, 1965 since January 1, 1965, (deficit) (*400)

STOCKHOLDERS' EQUITY STATEMENTS

Information in Stockholders' Equity Statements

Table 14 summarizes the types of data found in stockholders' equity statements for the years 1965, 1964, and 1960, compared with similar tabulations for the years 1955, 1950, and 1946.

It will be noted that comparatively few companies among those covered by this survey presented separate statements of stockholders' equity. Most companies made such disclosures as they considered adequate in the stockholders' equity section of the balance sheet and the notes relative thereto.

Title

Table 15 presents the key words used in the titles of stockholders' equity statements by the survey companies that included such a statement in their annual reports. "Stockholders' equity" and "Shareholders' equity" are the most frequently used terms. The tabulation discloses (Tables 14 and 15) that although only 30 survey companies presented stockholders' equity statements in 1965, there had been a slowly increasing trend in the number of companies presenting these statements until this year which shows an interruption in the trend.

Examples

The exact title of each of the 30 stockholders' equity statements presented in the 1965 annual reports is provided below.

Changes in Stockholders' Equity (*68)
Common Stock Equity (*159)
Consolidated Statement of Changes in Common Stockholders' Equity (*265)
Consolidated Statement of Income and Stockholders' Equity (*531)
Consolidated Statement of Ownership Interest (*272)
Consolidated Statement of Shareholders' Equity (*75, 420, 456, 517, 572)

*Refer to Company Appendix Section.

TABLE 14: STOCKHOLDERS' EQUITY STATEMENTS

Including details of:	1965	1964	1960	1955	1950	1946
A: Capital stock, capital surplus, and retained earnings*	21	24	18	16	15	5
Capital stock, capital surplus, retained earnings, and appropriated surplus reserves	—	—	—	1	1	1
B: Capital stock and capital surplus*	1	1	1	—	1	1
C: Capital stock and retained earnings*	4	6	6	1	1	1
D: Capital stock, retained earnings, and income*	1	1	1	1	1	1
E: Capital stock with retained earnings and/or capital surplus amounts shown in total only*	3	—	2	—	—	2
	30	32	28	19	19	11
Statement not presented	570	568	572	581	581	589
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 15, 67, 68, 75, 194, 225, 265, 272, 295, 300, 375, 411, 420, 456, 461, 476, 504, 516, 544, 553, 572; B: 543; C: 32, 97, 193, 517; D: 531; E: 35, 159, 298.

TABLE 15: STOCKHOLDERS' EQUITY STATEMENT TITLE

Terminology Used	1965	1960	1950	1946
Stockholders' equity	11	10	6	—
Stockholders' interest	—	—	1	1
Stockholders' capital	—	—	2	—
Stockholders' investment	3	2	—	—
Shareholders' equity	11	5	1	1
Shareholders' capital	—	—	1	—
Shareholders' investment	2	4	1	—
Shareholders' ownership	1	1	1	—
Shareowners' equity	1	3	—	—
Shareowners' investment	—	—	1	—
Capital	—	—	2	2
Capital stock and surplus	—	1	2	5
Ownership interest (net worth)	1	1	—	1
Ownership or ownership equities	—	1	1	1
	30	28	19	11
Statement not presented	570	572	581	589
Total	600	600	600	600

Consolidated Statement of Shareholders' Ownership (*516)
Consolidated Stockholders' Investment (*32)
Shareholders' Equity (*35)
Shareholders' Equity and Changes Therein (*67)
Shareholders' Investment and Changes Therein (*225)
Shareowners' Equity (*553)
Statement of Consolidated Shareholders' Investment (*543)
Statement of Consolidated Shareholders' Equity (*375)
Statement of Consolidated Stockholders' Equity (*300)
Statement of Shareholders' Equity (*411, 461, 544)
Statement of Stockholders' Equity (*194, 298, 476)
Statement of Stockholders' Investment (*97, 295)
Stockholders Equity (*193)
Stockholders' Equity (*15, 504)

COMPARATIVE CUSTOMARY STATEMENTS COVERED BY AUDITORS' REPORTS

Combination of Comparative Statements

The committee on accounting procedure of the American Institute of Certified Public Accountants, in *Accounting Research and Terminology Bulletins, Final Edition,* published in 1961 (Chapter 2, Section A), states among other things that:

> The presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports and brings out more clearly the nature and trends of current changes affecting the enterprise. Such presentation emphasizes the fact that statements for a series of periods are far more significant than those for a single period and that the accounts for one period are but an instalment of what is essentially a continuous history.

*Refer to Company Appendix Section.

> In any one year it is ordinarily desirable that the balance sheet, the income statement, and the surplus statement be given for one or more preceding years as well as for the current year. . . .

Comparative customary statements were provided by 584 of the 600 survey companies in their 1965 annual reports. Table 16 summarizes the various combinations of comparative statements presented and the number of companies which provided all or some of the statements in comparative form. It is of interest to note that the tabulation continues to disclose a steady increase in the use of comparative statements in annual reports.

In Great Britain, the Companies Act, 1948, requires that the financial statements be prepared on a comparative basis.

HUNDREDS OMITTED—DOLLARS IN THOUSANDS

Of the 600 companies covered in this survey for 1965, 87 presented their customary statements with figures stated to the nearest thousand dollars. Seventy of these companies rounded off to the nearest thousand dollars showing the three zeros; the remaining 17 companies set forth the nearest thousand dollars by omitting the three zeros but stating the figures under a caption signifying "thousands of dollars."

The trend in the number of companies presenting their figures in thousands of dollars may be observed from the following tabulation:

	Number of Companies*		
Year	A: Presenting 000	B: Omitting 000	Total
1965	70	17	87
1964	55	11	66
1963	42	11	53
1962	31	8	39
1961	23	6	29
1960	20	5	25
1959	15	1	16
1958	9	1	10

*Refer to Company Appendix Section—A: 1, 2, 7, 19, 25, 35, 40, 54, 68, 69, 72, 90, 97, 102, 110, 148, 160, 164, 168, 174, 175, 176, 188, 189, 204, 217, 224, 233, 244, 255, 299, 305, 316, 318, 329, 345, 354, 364, 374, 377, 387, 390, 394, 409, 412, 418, 433, 435, 441, 442, 454, 465, 472, 490, 492, 495, 505, 515, 516, 517, 531, 532, 544, 545, 552, 553, 559, 576, 582, 588; B: 26, 61, 87, 125, 144, 162, 180, 197, 205, 247, 258, 304, 381, 414, 482, 501, 558.

CENTS OMITTED OR PRESENTED

Only four of the 600 survey companies included cents in the statements presented in their 1965 annual reports. This is six less than reported in 1964. A total of 508 companies, or 85 per cent of the companies surveyed, presented their figures to the nearest dollar. One company stated their reported figures in millions of dollars, omitting the last six zeros.

TABLE 16: COMPARATIVE CUSTOMARY STATEMENTS COVERED BY AUDITORS' REPORTS

Combination of Comparative Statements	1965	1964	1960	1955	1950	1946
Balance Sheet and Combined Income & Retained Earnings Statement	253	246	205	154	97	51
Balance Sheet, Income, and Retained Earnings Statements	137	127	115	114	96	53
Balance Sheet, Income, Retained Earnings, and Capital Surplus Statements	89	87	82	70	53	43
Balance Sheet and Income Statement	65	62	72	81	73	53
Balance Sheet, Income, and Combined Retained Earnings & Capital Surplus	1	2	1	2	2	—
Balance Sheet in combination with various other statements	1	—	3	5	4	—
Balance Sheet, Income, and Stockholders' Equity Statements	4	5	9	10	8	1
Balance Sheet, Income, Retained Earnings and Stockholders' Equity Statements	1	2	—	—	—	—
Balance Sheet, Combined Income & Retained Earnings, and Capital Surplus Statements	24	21	20	13	13	4
Balance Sheet, Combined Income & Retained Earnings and Stockholders' Equity Statements	2	2	—	—	—	—
Balance Sheet, Income, and Unclassified Surplus Statements	—	1	1	4	6	4
Balance Sheet	1	4	5	4	4	7
Income Statement in combination with various other statements	1	1	2	4	8	12
Combined Income & Retained Earnings Statement	1	1	1	2	6	4
Income Statement	4	3	4	5	13	24
Total	584	564	520	468	383	256
Number of Companies Presenting:						
All statements in comparative form	516	496	437	379	290	164
Some statements in comparative form	68	68	83	89	93	92
No statements in comparative form	16	36	80	132	217	344
Total	600	600	600	600	600	600

ADDITIONAL STATEMENTS AND SUPPLEMENTARY SCHEDULES COVERED BY AUDITORS' REPORTS

The preceding discussions in this section have been concerned solely with the *customary* statements covered by the auditors' reports as presented in the annual reports of the 600 survey companies. In addition to the customary statements, the annual reports frequently contain numerous additional statements and supplementary schedules. In their 1965 annual reports, many survey companies included such *additional* statements and supplementary schedules which were covered by auditors' reports. Such statements and schedules are considered to be covered by the auditors' report: (a) when they are mentioned in the auditors' report; (b) when they are referred to within or at the foot of the customary statements; (c) by their position in relation to the customary statements and the auditors' report; or (d) by inclusion in the footnotes to the customary financial statements.

ADDITIONAL STATEMENTS

The additional statements covered by auditors' reports contained in the 1965 annual reports of the survey companies, in order of the frequency of their presentation were applicable to: (a) the reporting company, (b) domestic subsidiaries, (c) foreign subsidiaries, and (d) combined domestic and foreign subsidiaries. The types of additional statements most frequently included in the 1965 survey reports were statements of source and application of funds and changes in working capital, stockholders' equity statements, statements of employee bonus, retirement or welfare funds, geographical statements, financial data, balance sheets and statements of combined income and retained earnings of domestic subsidiaries, and balance sheets and income statements of foreign subsidiaries. Table 17 summarizes the various types of additional statements presented in the annual reports of the 600 survey companies for the years 1965, 1960, 1955, and 1950. There were 332 companies that included 444 such additional statements, examples of which are described below. The increase in the number of companies and the number of additional statements over 1960 was wholly due to the sharp rise in the use of the "funds" statement, from 31 such statements in 1960 to 65 in 1963 and to 273 in 1965. "Funds" statements are covered extensively in Section 3.

Reporting Company Statements

Three hundred and seven "additional statements" applicable to the reporting company were presented by 286 of the 600 survey companies in their 1965 annual reports.

As may be noted from Table 17, the trend here is strongly in favor of the statements of source and application of funds, which occasionally include or are supplemented by an analysis of changes in working capital. The "funds" statement is no innovation in the field of accounting, but it is becoming more prominent, and is now to a greater extent taking its place among the statements covered by the auditors' reports.

The Bendix Corporation, in a statement by the company's certified public accountants, presented a computation of the maximum amount which might be credited to the Supplemental Compensation Fund for the year in accordance with the provisions of the stockholder approved plan.

Falstaff Brewing Corporation included in its annual report for the year a separate statement showing the changes in working capital. The individual items of current assets and current liabilities were shown for 1965 and 1964, together with increases and decreases between the two years. Also included in the report was a statement of source and use of financial resources.

J. J. Newberry Co. changed its fiscal year end from December to January. Subsequent to the change, the company will report for years ending January 31. As part of its report for the latest fiscal year, the company included, in a note to the financial statements, a condensed income statement for the month of January.

Phoenix Steel Corporation presented pro forma figures in its balance sheet in a separate column next to the figures for the current year. As noted on the balance sheet itself, "The pro forma amounts reflect adjustments resulting from the financing for the modernization of the Claymont plant: i.e., for the proposed sale and lease-back of certain properties, receipt of funds from sale of industrial revenue bonds, bank borrowings under a five-year loan agreement, repayment of certain obligations and conversion of debentures all as described in Note 5 to the financial statements."

R. J. Reynolds Tobacco Company supplemented the customary financial statements with a statement on the disposition of net earnings which was referred to in the accountants' report.

Richardson-Merrell Inc. furnished with its customary financial statements a geographical statement of foreign net assets. The condensed statement divided the assets and liabilities between the sterling area, Latin America, Europe, and all other. The totals for all areas were compared to similar figures for 1964.

Parent Company Statements

Parent company statements have not been much in evidence among the 600 companies covered in this survey. In 1960 just one company presented the parent company figures, and then only to illustrate the consolidation, for the first time, of the parent and subsidiary companies, which was shown in parallel columnar form. In none of the last five years have there been, in any of the reports surveyed, separate financial statements of the parent company.

Domestic Subsidiary Statements

The reports for 1965 covered by this survey contained 80 additional statements applicable to the domestic subsidiaries of 45 companies.

Table 17 indicates a growing trend towards the presentation of additional balance sheets, income statements, retained earnings, and combined statements of income & retained earnings. Such statements comprise, for the most part, those of subsidiary finance or real estate companies, etc., which, because their operations are not homogeneous with those of the parent company or any of the other subsidiaries, are not included in the consolidation.

The Atlantic Refining Company included in its annual financial report for 1965 a comparative consolidated balance sheet, comparative consolidated income account, and a statement of changes in stockholders' equity of the Richfield Oil Corporation and subsidiaries which were merged into The Atlantic Refining Company. An opinion on these statements was furnished by Richfield's accountants.

J. I. Case Company issued separate statements of income & retained earnings, and of financial condition for the J. I. Case Credit Corporation, its credit subsidiary. The accountants included their opinion on these statements in their report on the audit of the J. I. Case Company.

The General Tire & Rubber Company furnished summaries of the consolidated balance sheet and statement of consolidated income and retained earnings of RKO General, Inc. The assets and liabilities of RKO General, Inc. were not consolidated with those of the parent company, The General Tire & Rubber Company. The net income of RKO General, Inc. was included among the income items of The General Tire & Rubber Company.

Martin Marietta Corporation furnished separate one-year consolidated balance sheet and statement of consolidated income and deficit of The Bunker-Ramo Corporation. A separate opinion on these statements was issued by the auditors. Martin Marietta Corporation included in income its share of the loss for the year of The Bunker-Ramo Corporation, but it did not consolidate the assets and liabilities.

TABLE 17: ADDITIONAL STATEMENTS COVERED BY AUDITORS' REPORTS

Statements Applicable To:	1965	1960	1955	1950
A: Reporting Company				
Statement of working capital, and/or source and application of funds (*24, 62, 126, 148, 161, 204, 222, 265, 267, 297, 309, 319, 348, 364, 411, 476, 484, 502, 531, 542)	273	31	21	13
Capital surplus statement	—	23	2	—
Balance sheet (*2)	1	5	9	7
Income statement (*2, 403)	2	5	9	4
Retained earnings statements (*24)	1	—	—	—
Stockholders' equity statement (*102, 124, 248, 394, 425, 551)	6	9	2	1
Financial operating data (*64, 94, 124, 307, 372)	5	11	11	6
Pro forma statement (*436)	1	4	—	—
Employee bonus—retirement or welfare funds (*89, 90, 200, 352, 462, 569)	6	5	4	8
Geographical statement (*1, 170, 197, 284, 374, 452, 470, 505, 517, 563)	10	8	6	4
Long-term indebtedness (*159)	1	—	1	—
Disposition of net earnings (*468)	1	—	—	—
Miscellaneous	—	—	3	3
B: Parent Company				
Balance sheet	—	1	2	4
Income statement	—	1	2	3
Retained earnings statement	—	—	1	1
Capital surplus statement	—	—	1	1
Stockholders' equity statement	—	1	1	1
C: Domestic Subsidiary				
Balance sheet (*15, 16, 67, 70, 71, 98, 101, 121, 122, 129, 138, 186, 190, 224, 232, 246, 303, 308, 363, 382, 412, 424, 429, 487, 497, 501, 587, 591)	45	28	12	13
Combined income and retained earnings (*15, 58, 67, 123, 124, 129, 190, 224, 235, 246, 253, 315, 351, 357, 591)	16	11	5	4
Income statement (*68, 70, 71, 98, 121, 303, 429, 487, 587)	9	3	2	6
Retained earnings (*70, 98, 121, 429, 587)	5	2	—	3
Financial data (*32, 68, 253, 487, 588)	5	1	—	—
Shareholders' investment	—	—	1	—
D: Foreign Subsidiary				
Balance sheet (*54, 100, 135, 315, 317, 347, 391, 478, 493, 513, 598)	11	11	9	10
Assets and liabilities (*116, 166, 232, 247, 249, 393, 431, 437, 465, 469, 472, 508, 550, 560)	14	6	1	2
Combined income and retained earnings (*315, 513, 598)	3	2	4	3
Income statement (*54, 100, 317, 347, 393, 469, 478, 493)	8	7	4	6
Retained earnings statement (*54, 493)	2	3	—	1
Financial data (*72, 125, 205, 294, 305, 307, 334, 339, 445, 483, 565, 592, 594)	13	4	1	3
Minority interests	—	1	—	1
Long-term indebtedness	—	1	1	1
E: Domestic and Foreign Subsidiaries				
Combined balance sheet (*135)	1	—	—	1
Combined income statement	—	1	—	—
F: Affiliated Companies				
Balance Sheet (*425, 430, 488)	3	—	—	—
Income Statement (*430, 488)	2	—	—	—
Total	444	185	115	110

Year	Number of Companies Presenting Additional Statements: Type A	Type B	Type C	Type D	Type E	Type F	Number of Companies With: Additional statements	No additional statements	Total
1965:	286	—	45	38	1	3	332	268	600
1960:	86	1	23	18	1	—	129	471	600
1955:	51	2	11	13	—	—	71	529	600
1950:	38	3	13	14	1	—	64	536	600

Year	Comparative Presentation of Additional Statements: 2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.	6-7 Yrs.	8-9 Yrs.	10+ Yrs.	Total	Not comparative	Grand total
1965:	311	2	—	4	—	—	8	325	119	444
1960:	92	—	3	—	2	—	16	113	72	185
1955:	58	1	4	—	2	—	12	77	38	115
1950:	45	1	1	2	—	2	6	57	53	110

*Refer to Company Appendix Section.

Foreign Subsidiary Statements

Fifty-one additional statements applicable to foreign subsidiaries were presented by 38 survey companies in their 1965 reports.

The additional statements presented relating to foreign subsidiaries cover mostly the financial reports of companies which are not consolidated because of their geographic location (exchange restrictions) or other factors, such as percentage of ownership (voting control), lack of activity, or nonhomogeneous operations.

Lone Star Cement Corporation presented a comparative summary of assets and liabilities, and a comparative summary of income and net assets for 1965 for its wholly-owned Latin American subsidiaries. The assets and liabilities of the Latin American subsidiaries were not consolidated. Dividends received were included in income. In a separate paragraph, the auditors noted that they had reviewed financial statements of Latin American subsidiaries for 1965 and 1964, reported upon by foreign public accountants.

The National Cash Register Company submitted in its 1965 annual financial report a statement in support of its investment in foreign subsidiaries and branches. The accountants included the statement in their opinion by reference to the page on which the statement appeared. The statement listed the assets, liabilities, minority interest, accumulated earnings retained for use in foreign operations, and the net investment. Assets, liabilities, etc., were presented by geographical area, i.e., Canada; Great Britain and Continental Europe; Japan, Australia, and Far East; Latin America; and Africa and Middle East. Totals by asset, etc., were compared with the previous year.

St. Joseph Lead Company presented in the notes to the 1965 financial statements a balance sheet and statement of income of Compania Minera Aguilar, S.A., a 99.9 per cent-owned subsidiary. The investment was carried in the financial statements of the parent company at nominal value.

Standard Brands Incorporated included, with its 1965 financial statements, a combined comparative income and retained earnings statement, and a combined comparative statement of financial position for subsidiaries operating outside the United States and Canada. The auditors included in their report an expression of opinion on these statements.

Xerox Corporation supplemented its customary financial statements for 1965 with financial statements of Rank Xerox Limited and subsidiaries. Rank Xerox Limited was less than wholly owned. A separate opinion on these statements was furnished by the auditors.

SUPPLEMENTARY SCHEDULES

Supplementary schedules covered by auditors' reports generally provide details of certain items in the balance sheet or in other customary financial statements. As shown in Table 18 there were 383 survey companies that presented 789 supplementary financial schedules in their 1965 annual reports. These figures show a considerable increase since they were first introduced as a result of the analysis of the corporate reports for the year 1950. The schedules most frequently given were concerned with long-term indebtedness, the classification and depreciation of fixed assets, the composition of inventories, stock options, etc., and for the most part are taken from the notes to financial statements. Examples are given below. Schedules referring to stock options were included in the table this year, which increased significantly the number of companies presenting schedules and the number of schedules.

Allegheny Ludlum Steel Corporation provided in notes to the financial statements, the details of long-term debt, and the changes in capital surplus.

Allied Chemical Corporation supported items on the balance sheet with schedules of inventories, property, and investments. In notes to the financial statements, the company (a) set forth the computation of the maximum amount which could have been credited to the incentive compensation reserve, and (b) disclosed the changes in capital (common stock) during the year.

The Cudahy Packing Company, in a note to the financial statements, presented costs and expenses on a comparable basis with prior years' reports although the company had adopted a new and different classification.

Dictaphone Corporation furnished details of inventories, property, plant and equipment, and capital shares, all in notes to the financial statements.

Georgia-Pacific Corporation provided in a note to the financial statements, the composition of capital stock.

International Paper Company incorporated, in its financial report, schedules of inventories, plants and properties, woodlands, investments, and capital stocks.

R. H. Macy & Co., Inc. supplemented its balance sheet with details of customers' accounts receivable, long-term debt, and property and equipment, all of which were comparative.

St. Regis Paper Company included within or as a part of the Chairman's and President's letter, a schedule of investments, part of which detailed the securities (marketable), whereas the balance was divided by location.

Scovill Manufacturing Company, in addition to presenting the details of long-term debt, set out in a note to the financial statements, ". . . a summary of the combined results of operations for 1965 and financial posi-

TABLE 18: SUPPLEMENTARY SCHEDULES COVERED BY AUDITORS' REPORTS

Nature of Schedule*		1965	1960	1955	1950
A:	Long-term indebtedness	218	120	66	30
B:	Fixed assets, depreciation	106	74	72	61
C:	Inventory composition	109	84	62	47
D:	Capital stock	48	34	28	21
E:	Various balance sheet items	17	28	12	31
F:	Various income and operating items	18	22	10	5
G:	Accounts, notes receivable	23	16	15	17
H:	Investments—securities, subsidiaries, affiliates	24	17	9	5
I:	Investments—subsidiaries	6	7	14	21
J:	Special funds, reserves, appropriations	7	10	10	17
K:	Foreign investments	11	9	22	24
L:	Taxes	19	24	5	4
	Sales, earnings	—	8	2	5
M:	Investments—securities	5	3	4	10
N:	Capital	5	1	5	8
	Minority stockholders' interest in subsidiary	—	—	2	—
	Dividends	—	2	3	3
	Employment costs	—	1	—	2
O:	Assets hypothecated or pledged	2	—	—	—
P:	Capital surplus	34	N/C	N/C	N/C
Q:	Stock options	137	N/C	N/C	N/C
	Total	789	460	341	311

Comparative Presentation of Schedules

Year	2 Yrs.	3-9 Yrs.	10 and over Yrs.	Total	Not comparative	Grand Total
1965:	386	—	1	387	402	789
1960:	275	11	11	297	163	460
1955:	204	8	7	219	122	341
1950:	194	2	5	201	110	311

Number of Companies Presenting:	1965	1960	1955	1950
Supplementary schedules	157	187	148	118
Supplementary schedules and additional statements	226	61	31	25
Additional statements	106	68	40	39
	489	316	219	182
No additional presentations	111	284	381	418
Total	600	600	600	600

N/C—Not Compiled.

*Refer to Company Appendix Section—A: 15, 54, 88, 112, 161, 183, 217, 272, 299, 313, 321, 364, 393, 420, 434, 487, 495, 518, 549, 579; B: 12, 56, 59, 137, 142, 204, 208, 237, 282, 308, 342, 360, 375, 414, 432, 458, 500, 513, 560, 584; C: 4, 18, 30, 61, 123, 131, 198, 271, 298, 303, 363, 372, 411, 413, 418, 441, 524, 540, 576, 578; D: 15, 31, 39, 46, 50, 57, 60, 82, 87, 101, 109, 136, 144, 161, 162, 176, 178, 180, 181, 187, 189, 191, 200, 217, 229, 232, 254, 255, 275, 300, 304, 305, 309, 310, 321, 353, 355, 360, 369, 373, 383, 398, 434, 442, 460, 528, 532, 577; E: 54, 102, 117, 125, 166, 170, 176, 246, 254, 366, 412, 426, 465, 503, 517, 544, 553; F: 38, 54, 69, 97, 176, 177, 213, 215, 246, 259, 313, 326, 364, 460, 471, 478, 497, 595; G: 15, 33, 57, 67, 80, 84, 117, 138, 180, 222, 225, 248, 259, 315, 353, 360, 382, 391, 465, 472, 487, 536, 571; H: 18, 44, 51, 57, 59, 60, 88, 131, 135, 218, 233, 235, 304, 326, 426, 432, 478, 479, 487, 505, 538, 552, 572, 598; I: 37, 54, 89, 190, 396, 588; J: 35, 138, 349, 365, 416, 528, 569; K: 106, 207, 341, 372, 416, 421, 497, 511, 550, 584, 595; L: 38, 68, 164, 251, 272, 305, 354, 417, 457, 467, 492, 500, 505, 515, 516, 517, 531, 544, 553; M: 12, 75, 140, 310, 416; N: 11, 139, 337, 490, 530; O: 270, 583; P: 10, 38, 55, 96, 107, 116, 150, 180, 201, 231, 274, 294, 343, 384, 398, 416, 417, 438, 577, 578; Q: 32, 36, 53, 72, 111, 134, 151, 168, 178, 194, 218, 221, 238, 240, 281, 301, 333, 341, 370, 402, 440, 457.

tion of branches and subsidiaries located in foreign countries." In the report on their examination, the auditors referred by name to the accountants who examined the records of an English branch and subsidiary.

Sharon Steel Corporation supported its balance sheet with notes which gave details of inventories, fixed assets, long-term debt, shareholders' equity, and stock options. The information was given in comparative form except for the latter two items.

Union Oil Company of California presented a very condensed balance sheet supported by detailed schedules. The schedules included current assets; current liabilities; properties and depletion, depreciation and other allowances; other assets; long-term debt; deferred creditors; and taxes.

Ward Foods, Inc. included, in notes to the financial statements, details of long-term debt and pledged assets.

FINANCIAL PRESENTATIONS NOT COVERED BY AUDITORS' REPORTS

In the annual reports for 1965, there were 1,292 statements, summaries, and highlights, not covered by auditors' reports, presented by 563 of the 600 survey companies. These presentations, in general, either provide additional information, or they summarize or simplify certain financial and accounting information considered to be of particular interest to the stockholders.

The various types of these financial statements, summaries, and highlights, not covered by auditors' reports, presented in the annual reports of the survey companies, are shown in Table 19. In 1965, as in prior years, the greatest number of such presentations consist of summaries, usually titled "Highlights," "Year in Review," "Results in Brief," or "Operations at a Glance." Such summaries vary considerably as to content, but generally include earnings per share and dividend information, in addition to other data. These summaries are usually given on a one- or two-year basis and are located near the front of the report. The next largest

TABLE 19: STATEMENTS, SUMMARIES, AND HIGHLIGHTS NOT COVERED BY AUDITORS' REPORTS

	Type of Presentation*	1965	1960	1955	1950
A:	Summary—Financial and operating data	421	365	243	140
	Summary—Balance sheet data	28	7	63	29
	Summary—Operating data	49	40	102	76
B:	Highlights	397	331	320	200
	Year in Review—Results in Brief	96	91	35	30
	Operations at a Glance	22	24	14	13
C:	Statement of working capital, changes in working capital and/or source and application of funds	194	177	103	103
D:	Condensed balance sheet	24	42	71	61
	Condensed income statement	24	50	69	65
	Various other condensed statements	6	8	16	6
E:	Simplified balance sheet	3	8	14	26
	Simplified income statement	10	18	21	40
F:	Employee bonus or retirement funds	9	7	5	2
G:	Subsidiary balance sheet	2	11	11	6
	Subsidiary income statement	—	9	3	3
H:	Cash receipts and disbursements	—	—	2	6
I:	Detailed balance sheet	1	2	5	6
	Detailed income statement	1	2	3	6
	Statement of geographical distribution of consolidated net assets	2	—	—	—
	Progress statements	1	—	—	—
	Domestic and overseas net assets	1	—	—	—
	Domestic and overseas income accounts	1	—	—	—
	Various other detailed statements	—	2	—	4
	Total	1292	1194	1100	822

	Total Companies Represented in Statement								Number of Companies With:		
Year:	Type A	Type B	Type C	Type D	Type E	Type F	Type G	Types H-I	Statements, summaries, highlights	No statements, summaries, highlights	Total companies
1965:	464	508	193	34	10	9	2	5	563	37	600
1960:	401	434	171	81	23	4	15	5	523	77	600
1955:	213	366	103	82	26	5	12	8	495	105	600
1950:	205	249	95	82	51	2	6	16	404	196	600

	Comparative Presentation of Statements, Summaries, Highlights										
Year:	2 Yrs.	3-4 Yrs.	5 Yrs.	6-9 Yrs.	10 Yrs.	11-15 Yrs.	16-20 Yrs.	21-30 Yrs.	30+ Yrs.	Total	Not comparative	Grand Total
1965:	545	63	101	35	393	22	10	7	6	1182	110	1292
1960:	475	47	99	23	331	22	13	21	8	1039	155	1194
1955:	401	51	110	32	282	38	24	27	17	982	118	1100
1950:	281	45	86	20	175	36	9	11	9	672	150	822

*Refer to Company Appendix Section—A: 10, 44, 48, 103, 114, 134, 249, 255, 264, 362, 369, 389, 422, 471, 486, 493, 521, 542, 574, 592; B: 21, 30, 98, 124, 127, 174, 208, 281, 295, 311, 326, 384, 407, 421, 466, 490, 512, 569, 588; C: 60, 70, 80, 104, 133, 176, 225, 232, 242, 276, 332, 340, 384, 413, 415, 433, 549, 551, 573; D: 52, 73, 85, 102, 106, 163, 182, 195, 229, 266, 287, 368, 381, 386, 453, 458, 479, 504, 537, 564; E: 31, 89, 96, 200, 390, 419, 462, 466, 523, 577; F: 73, 135, 232, 246, 249, 304, 310, 416, 569; G: 186, 249; I: 70, 139, 160, 258, 444.

TABLE 20: SUPPLEMENTARY CHARTS, SCHEDULES, ETC., NOT COVERED BY AUDITORS' REPORTS—1965

Type of Chart, Schedule, etc.*	1965 Charts	1965 Schedules, Summaries, Etc.	1965 Per Share Data	1965 Total	1964 Total
A: Distribution of sales dollar	51	14	—	65	64
B: Distribution of income dollar	23	11	—	34	32
C: Distribution of sales and income dollar	8	4	—	12	12
D: Earnings (or net income)	114	8	79	201	168
E: Earnings and dividends	35	1	66	102	82
F: Earnings before taxes and net earnings (earnings and taxes)	25	1	1	27	25
G: Earnings, dividends and taxes	17	—	1	18	10
H: Net earnings and earnings as a per cent of sales	5	—	1	6	9
I: Profits and taxes	1	—	—	1	4
J: Employment costs (wages, salaries, fringe benefits, etc.)	17	11	—	28	24
K: Fixed assets and/or depreciation and/or working capital	15	4	—	19	66
L: Depreciation and capital expenditures	73	3	—	76	56
M: Expenditures for plant and equipment	44	7	1	52	45
N: Property, plant and equipment	8	—	—	8	N/C
O: Assets	23	1	1	25	27
P: Sales	254	32	3	289	256
Q: Stock ownership	5	12	—	17	24
R: Net worth	10	1	7	18	12
S: Capital structure (long-term debt, preferred stockholders' equity, common stockholders' equity)	24	4	—	28	31
T: Common shareowners' equity (or stockholders' equity)	58	1	35	94	91
U: Taxes	3	5	2	10	12
V: Dividends	22	7	36	65	59
W: Source and disposition of funds	9	—	—	9	9
X: Cash flow	31	2	10	43	39
Y: Working capital	47	—	—	47	N/C
Miscellaneous other presentations	80	14	3	97	109
Total	1002	143	246	1391	1266

N/C—Not Compiled
*Refer to Company Appendix Section—A: 3, 32, 52, 72, 100, 157, 176, 222, 253, 271, 313, 353, 389, 395, 431, 468, 491, 512, 542, 569; B: 12, 24, 53, 73, 74, 89, 96, 131, 165, 198, 226, 229, 263, 310, 367, 372, 378, 453, 504, 510; C: 10, 51, 59, 165, 205, 219, 249, 289, 340, 420, 441, 493; D: 30, 40, 65, 71, 127, 151, 190, 221, 233, 267, 308, 374, 387, 398, 426, 473, 487, 529, 535, 559; E: 35, 36, 63, 168, 175, 187, 205, 278, 293, 303, 345, 360, 370, 406, 440, 486, 503, 532, 538, 585; F: 26, 47, 83, 92, 142, 145, 212, 249, 302, 307, 311, 340, 401, 408, 414, 415, 444, 552, 558, 586; G: 77, 125, 189, 310, 338, 343, 348, 369, 372, 378, 389, 390, 409, 471, 477, 482, 493, 589; H: 78, 111, 114, 474, 512, 525; I: 406; J: 9, 55, 79, 89, 107, 135, 148, 164, 169, 188, 319, 416, 417, 467, 516, 518, 551, 567, 598, 599; K: 9, 21, 40, 73, 126, 136, 276, 298, 338, 348, 405, 454, 486, 516, 539, 551, 566, 598; L: 50, 51, 97, 109, 161, 184, 204, 205, 230, 235, 302, 326, 354, 358, 381, 442, 445, 461, 502, 543; M: 33, 68, 91, 117, 118, 125, 140, 217, 234, 255, 266, 276, 312, 341, 388, 479, 495, 544, 553, 556; N: 48, 87, 106, 163, 377, 509, 590, 600; O: 33, 68, 91, 168, 176, 186, 214, 217, 234, 235, 255, 256, 272, 279, 299, 368, 447, 455, 467; P: 5, 16, 28, 97, 126, 162, 185, 219, 245, 285, 306, 327, 332, 347, 402, 412, 474, 508, 587, 594; Q: 46, 47, 55, 90, 100, 165, 200, 230, 381, 389, 487, 491, 518, 543, 567, 569, 570; R: 126, 156, 163, 214, 254, 269, 298, 300, 304, 314, 343, 354, 462, 466, 502, 518, 530; S: 15, 18, 77, 118, 125, 148, 212, 245, 248, 262, 304, 306, 319, 335, 347, 348, 357, 463, 477, 599; T: 5, 11, 60, 70, 182, 237, 258, 284, 309, 325, 405, 428, 433, 472, 504, 505, 513, 575, 577, 598; U: 55, 61, 232, 293, 326, 354, 416, 518, 531, 535; V: 1, 5, 35, 72, 140, 160, 200, 219, 230, 260, 271, 272, 366, 377, 383, 384, 409, 453, 491, 518, 520; W: 74, 92, 97, 255, 319, 373, 431, 434, 512; X: 8, 18, 172, 189, 193, 245, 265, 272, 289, 335, 342, 350, 375, 428, 439, 465, 493, 508, 551, 577; Y: 11, 70, 84, 126, 144, 146, 148, 206, 208, 310, 314, 325, 394, 433, 459, 486, 498, 504, 547, 590.

group includes summaries of various financial and operating data generally provided on a long-term yearly comparative basis in the nature of statistical tabulations, and is located near the back of the report.

Approximately 35 per cent of the companies also include statements or summaries pertaining to working capital or to the source and application of funds. However, the terminology applied by the companies to the title of the summary is not always indicative of the actual content. Therefore, all such statements have been grouped under a single caption in Table 19. The statements of source and application of funds have been discussed previously in connection with the additional statements referred to in Table 17. Additional information is furnished regarding the source and application of funds statement in Section 3.

SUPPLEMENTARY SCHEDULES

Supplementary schedules, including financial charts and summaries, not covered by the auditors' reports, were found covering diversified subjects. The types of such information together with the frequency of occurrence is shown in Table 20. Of the 600 survey companies, 384 presented 1,002 charts, 143 schedules and summaries, and 246 presentations showing per share data in their 1965 reports.

The types of supplementary schedules most frequently used in the 1965 reports were those relating to sales, earnings (or net income), distribution of sales or income dollar or both, earnings and dividends, depreciation and capital expenditures, dividends, common shareowners' or stockholders' equity, expenditures for plant and equipment, capital structure, and cash flow.

The extent of the comparability of the information presented as shown in the statements, summaries, and charts is set forth in the following tabulation:

Range	No. of presentations
Not comparative	152
2 year range	75
3-4 year range	39
5 year range	296
6-9 year range	93
10 year range	627
11-15 year range	48
16-25 year range	26
25 years or more	35
Total	1,391

The terminology, form, and content of these schedules vary so greatly that statistical comparisons with prior years are not presented. For typical examples of presentation, references are provided at the foot of Table 20.

RESTATEMENT OF PRIOR YEAR'S FINANCIAL STATEMENTS

Two hundred and eight of the 1965 survey companies restated or reclassified some of the prior year's figures in one or more of their customary financial statements. This practice has been a growing one and is used chiefly when an adjustment is believed to be significant, or necessary for a fair comparison of the current year's statements with those of the preceding years.

Reclassifications have been grouped with restatements because they are similar in nature and since, from the reports, it is not always possible to differentiate between them.

The first half of the tabulation below is concerned with statements which are restated or reclassified; the second half with the reasons therefor. One hundred and five companies reclassified their accounts. As may be noted from the tabulation, the chief reasons for restatements were (1) poolings of interests (49 companies), (2) the inclusion or consolidation of companies not previously consolidated (19 companies), (3) to reflect change in presentation of treasury stock (seven companies) and (4) inclusion of the earnings of unconsolidated subsidiaries in income (five companies). Since the reasons for restatements do not easily lend themselves to a few natural groupings, many are set forth separately in the tabulation rather than included in a "Miscellaneous" item.

The totals for the first and second halves of the tabulation do not agree, as might be expected, since there were five more reasons given for restatements of prior year's financial statements than there were combinations of statements presented.

Examples of Restatement of Financial Statements Restated for "Pooling" of Interests

ASSOCIATED BREWING COMPANY
Notes to Financial Statements

Note A: On December 31, 1965, Associated Brewing Company and Drewrys Limited U.S.A. Inc. completed a statutory merger with Associated Brewing Company as the surviving corporation. Pursuant to the merger agreement common stock has been exchanged on the following basis:

	Stock Previously Outstanding: Par Value	Stock Previously Outstanding: Number of Shares	Exchange Ratio	Shares of New $1 Par Value Associated Brewing Company Common Stock Issued
Associated	$1	1,620,487	1 for 2½	648,194
Drewrys	$1	629,772	1 for 1	629,772

The excess of par value of stock of merged companies over par value of new shares issued, $972,293, has been credited to additional paid-in capital.

The merger has been accounted for as a "pooling of interests"; consequently, the financial statements include the combined results of operations of Associated Brewing Company and its subsidiary and Drewrys Limited U.S.A. Inc. and its subsidiary for the year ended December 31, 1965. The financial statements for 1964 have been restated to include the pooled companies on a comparable basis.

GEORGIA-PACIFIC CORPORATION
Notes to Financial Statements

Note 1: *Pooling of Interests with Bestwall Gypsum Company*—In April 1965, the Corporation issued 2,284,120 shares of $1.64 convertible preferred stock in exchange for the common stock of Bestwall Gypsum Company. The involuntary liquidating value of this stock is $41 per share, and it is convertible into common stock at the rate of one share of common stock for each $72.28 of involuntary liquidating value of the shares so converted. Provision is made for adjustment of the conversion price to reflect stock dividends in excess of 1% per quarter and in certain other events including stock splits and the sale or issue of common stock (with certain exceptions) at less than the conversion price. This transaction was recorded as a pooling of interests and the 1964 financial statements have been restated to include the accounts of Bestwall Gypsum Company.

Paid-in Surplus	
Balance, December 31, 1964:	
Georgia-Pacific Corporation	$179,610,000
Companies whose interests were pooled with the Corporation (Note 1)	1,390,000
	$181,000,000
Earned Surplus	
Balance, December 31, 1964:	
Georgia-Pacific Corporation	$ 67,570,000
Companies whose interests were pooled with the Corporation (Note 1)	46,930,000
	$114,500,000

The word, "Restated," was printed at the top of the 1964 columns in the balance sheet and income statement.

TABLE 21: RESTATEMENT OF PRIOR YEAR'S FINANCIAL STATEMENTS—1965

Combination of Restated Statements	Number of Presentations
Income statement	45
Balance sheet	50
Balance sheet and income statement	34
Balance sheet, income statement, and retained earnings	21
Balance sheet, combined income statement and retained earnings	29
Balance sheet, income statement, retained earnings, and capital surplus	14
Other combinations	15
Total number of presentations	208
Reason for Restatement*	
A: Reclassifications	105
B: Poolings of interests**	49
C: Prior year's investment credit returned to income	2
D: To include subsidiaries not previously consolidated	19
E: To exclude subsidiaries previously consolidated	1
F: To give effect to capitalization of leases	1
G: To include the earnings of unconsolidated subsidiaries in income	5
To use 12 months in prior period rather than 13 months originally shown, and to reclassify accounts for comparative purposes (*102)	1
To reflect retroactively abandonment of company's claim to use of Lifo for inventory valuation prior to 2/1/64 except in case of one subsidiary (*360)	1
To give effect retroactively, for comparative purposes, to capital structure changes (*245, 421)	2
To reflect change in presentation of treasury stock (*63, 144, 202, 291, 297, 521, 588)	7
To transfer part of income taxes deferred to current liability (*30, 293)	2
To reflect changes, retroactively, in reserve for pensions (*425)	1
To reflect retroactively, (a) the transfer of the unamortized investment credit from accumulated depreciation to deferred investment credit (above stockholders' equity), and (b) the change in the income statement by inclusion in Federal income taxes instead of in depreciation expense (*390)	1
To reflect government contract pricing adjustments (*576)	1
To display depreciation separately (*81, 448)	2
To reflect retroactively, a credit to common stock rather than retained earnings, resulting from the sale of capital stock of a subsidiary to the public, less income tax paid in a concurrent transaction (*552)	1
To give retroactive effect to change in inventory composition (*63)	1
To conform the published balance sheet in respect to depreciation reserves with the balance sheet filed with the SEC, and to include the reserves for insurance and contingencies with other current accrued liabilities (*200)	1
To include in current assets U. S. Government securities previously offset against Federal income tax liability (*151)	1
To give retroactive effect to January 1, 1964, to discontinuance of policy of providing for estimated income taxes on undistributed foreign earnings (*294)	1
To write down investment in nonconsolidated subsidiary by amount of losses incurred during current and preceding years by charges to income (*357)	1
To reflect change retroactively in the use of accelerated methods of depreciation and guideline lives for tax purposes while continuing to use other rates and straight-line method for financial accounting purposes (*594)	1
Sales and cost of sales for 1965 and prior years restated to exclude the Federal excise taxes which were repealed 6/22/65 (*600)	1
To reflect deferred Federal income taxes on installment sales as a current liability rather than as a noncurrent liability (*403)	1
H: Reason not disclosed	4
Total number of presentations	213

*Refer to Company Appendix Section—A: 4, 6, 7, 10, 12, 34, 43, 46, 47, 52, 53, 54, 68, 71, 78, 90, 94, 97, 107, 114, 121, 128, 136, 137, 141, 142, 147, 152, 157, 171, 172, 177, 180, 183, 194, 197, 204, 205, 207, 210, 233, 235, 239, 253, 258, 261, 280, 300, 302, 303, 308, 320, 324, 332, 334, 335, 336, 337, 351, 359, 363, 364, 367, 371, 373, 385, 407, 408, 419, 424, 446, 468, 478, 479, 484, 494, 500, 501, 504, 509, 511, 514, 516, 519, 522, 523, 524, 527, 528, 529, 531, 538, 541, 544, 545, 547, 554, 555, 561, 565, 568, 571, 575, 583, 595; B: 27, 31, 32, 33, 36, 60, 66, 89, 95, 96, 106, 124, 150, 166, 189, 196, 212, 214, 217, 225, 254, 255, 287, 305, 331, 344, 347, 348, 375, 387, 400, 428, 429, 430, 439, 465, 466, 469, 472, 482, 488, 535, 549, 553, 566, 576, 577, 586, 598; C: 63, 502; D: 35, 37, 38, 49, 76, 101, 246, 251, 256, 369, 414, 447, 450, 452, 488, 496, 539, 567, 581; E: 199; F: 64; G: 15, 63, 266, 275, 480; H: 163, 288, 350, 423.

**Companies (*89, 214, 255, 344, 387, 488) presented single-year retained earnings and capital surplus statements with some of the customary statements in comparative form. The reports of these companies disclosed beginning balances of retained earnings and/or capital surplus restated to give effect to poolings of interests. Company *553 presented essentially similar information as the companies referred to above except that retained earnings and capital surplus are a part of shareowners' equity.

RITTER PFAUDLER CORPORATION
Notes to Financial Statements

Consolidation: On November 1, 1965, the Ritter Corporation and Pfaudler Permutit Inc. consolidated to form Ritter Pfaudler Corporation. The new corporation issued one share of common stock for each share of outstanding stock of the predecessor companies. Earlier in 1965, the Ritter Corporation acquired, by merger, M. F. Patterson Dental Supply Company of Delaware for 392,323 common shares.

The financial statements for 1965 are presented on a pooling of interests basis and accordingly include the operations of each of the corporations and their subsidiaries. The statements for 1964 have been restated on a comparative basis.

Statement of Retained Earnings

Year Ended December 31,	1965	1964
Balance at Beginning of Year as Previously Reported by:		
Ritter Corporation		$11,820,000
Pfaudler Permutit Inc.		16,361,000
		28,181,000
Retained earnings of M. F. Patterson Dental Supply Company merged with Ritter Corporation in April 1965		3,590,000
Combined Balance, Beginning of Year	$33,480,000	31,771,000
Net Income for the Year and, in 1964, Special Credit of $275,000	7,972,000	6,389,000
	$41,452,000	$38,160,000

UNION OIL COMPANY OF CALIFORNIA
Notes to Financial Statements

Merger with The Pure Oil Company: On July 16, 1965, all of the outstanding common shares of The Pure Oil Company (excluding treasury shares and shares for which dissenters' rights have been perfected) were converted on a share for share basis into 9,954,515 shares of newly authorized $2.50 cumulative convertible Preferred Shares, without par value. Each Preferred Share is convertible at the option of the holder into 1.3 Common Shares; such conversion rate is subject to adjustment upon the payment of share dividends and certain other stated transactions. The Preferred Shares are callable on or after July 1, 1970 beginning at $67 per share, declining one dollar each year down to $65 per share. The Preferred Shares have voluntary and involuntary liquidation values of $65 and $62.50 per share, respectively. Each Preferred Share is entitled to one vote on the same basis as each Common Share. The stated value of such 9,954,515 Preferred Shares is equivalent to the par value of $8-1/3 per share for the Common Shares which would be issued if all such Preferred Shares were converted into Common Shares.

For accounting purposes this transaction has been treated as a "pooling of interests" and the accompanying financial statements include The Pure Oil Company for 1964 and the portion of 1965 prior to the merger date, as though it had been a part of the company throughout these periods. This restatement of data previously reported for 1964 increased reported net earnings for that year by $31,518,000. Also, in combining the shareowners' equity of The Pure Oil Company at December 31, 1964, with that of the company, net earnings retained in business was increased $395,438,000 and credits in excess of par or stated value of shares issued was decreased $11,053,000. These adjustments include the effect of retirement of Pure's treasury shares, merger expenses, and the fair value assigned to 85,519 shares for which dissenters' rights have been perfected.

Certain changes in accounting practices have been made as of January 1, 1965, principally to conform policies previously followed by Pure to those of Union. Such changes related primarily to methods of accounting for exploration costs and losses, revisions in depreciation and depletion practices, and in inventory valuations. The changes had the effect of reducing 1965 net earnings about $3,000,000 below amounts that would otherwise have been reported. Also, certain reclassifications of accumulated depreciation, depletion, and other allowances were made, the effect of which was not significant on the financial statements. It was not practicable to restate corresponding 1964 data.

Restated to Include Prior Year's Investment Credit in Income

THE ARUNDEL CORPORATION
Notes to Financial Statements

Note C: Federal income taxes as shown in the Statement of Earnings include deferred taxes of $109,992 for 1965 and $95,275 for 1964 arising from different methods of reporting inventories and depreciation for book and tax purposes.

The investment credit, following the flow-through method of accounting, of $217,566 for 1965 and $131,114 for 1964 has been treated as a reduction of Federal income taxes. This treatment represents a change from amortization over the estimated useful lives of assets acquired, which change had the effect of increasing net earnings for 1965 by $190,604 and for 1964 by $112,827. The effect for years prior to 1964 of $70,585 has been credited to earnings retained as of January 1, 1964.

SKELLY OIL COMPANY
Financial Review

Effective with 1965, a change was made in reporting the investment tax credit as a reduction of income tax expense, instead of amortizing the credit over the life of the related facilities. This change was made to conform with the almost unanimous practice of the petroleum industry. The amount of investment tax credit applied in 1965 was $1,642,000; prior years' figures have been restated in amounts of $151,000 for 1964, $822,000 for 1963, and $431,000 for 1962, to place them on a comparable basis.

Consolidated Statement of Earnings Employed in the Business

	1965	1964
Balance at beginning of year—as previously reported	$ —	$253,457,623
Add—Restatement of prior years' net income related to investment tax credit	—	1,253,225
Balance at beginning of year—as restated	270,569,761	254,710,848
Add—Net income for the year	33,995,671	25,701,939
	304,565,432	280,412,787
Deduct—Cash dividends—$2.00 per share	9,769,156	9,843,026
Balance at end of year (See Note 2 on balance sheet)	$294,796,276	$270,569,761

Restated to Include Subsidiaries Not Previously Consolidated

AMPCO METAL, INC.
President's Letter

Operating Results: This is the first Annual Report that consolidates the financial position and operations of Ampco Metal, Inc. and its European subsidiaries.

Net sales for 1965 totaled $20,783,982 and produced a profit of $1,149,214. This compares with $16,803,578 sales and earnings of $790,582 during 1964 adjusted to reflect European consolidation. Per share earnings were $2.46 as compared with $1.69 in the previous year also adjusted.

Thus it will be seen that sales increased 24% and earnings increased 45%. These results again established an all time sales and earnings record for the Company. Consolidation of European subsidiaries contributed 15¢ per share of the total as compared with 7¢ in 1964.

Notes to Financial Statements

Note 1: During the year, the Company adopted the policy of consolidating foreign subsidiaries. The January 3, 1965, statements have been restated to reflect all prior earnings of subsidiaries, after provision for United States and foreign income taxes, since dates of formation. No dividends have been received from these subsidiaries since formation dates.

BORG-WARNER CORPORATION
President's Letter

Foreign Results Consolidated: Because the results of major foreign subsidiaries were consolidated for the first time in 1965, all figures for 1964 in this Report are re-stated on a comparable basis.

The following summary shows the contribution of foreign and domestic sales and earnings for the two years:

	(Add 1965	000's) 1964
Net sales, domestic	$757,891	$719,255
Net sales, foreign	57,168	53,826
	815,059	773,081
Net earnings, domestic	42,125	41,784
Net earnings, foreign	3,254	2,760
	45,379	44,544
Earned per share, domestic	4.46	4.46
Earned per share, foreign	.35	.30
	$4.81	$4.76

Notes to Financial Statements

Note 1: The accompanying consolidated financial statements include all divisions and subsidiary companies in Australia, Europe and North America with the exception of B-W Acceptance Corporation. The investment in this subsidiary is carried at net underlying asset value and the results of its operations are included in the consolidated statement of earnings. The carrying value of the investment in other unconsolidated subsidiaries is adjusted through earnings to the lower of cost or net underlying asset value.

Included in the amount of retained earnings at January 1, 1964 are retained earnings of foreign subsidiaries not previously consolidated totaling $7,284,234 representing the excess of the company's equity in foreign consolidated subsidiaries over the cost at January 1, 1964.

At December 31, 1965 net assets located outside the United States and Canada approximated 6% of consolidated net assets. Net sales of such operations approximated 8% of consolidated net sales in 1965.

THE MEAD CORPORATION
Notes to Financial Statements

Note A: *Basis of Consolidation*—The accounts of domestic subsidiaries, all of which are 100% owned, are consolidated in the accompanying financial statements; foreign subsidiaries are not consolidated.

Statements for 1964 have been restated to give retroactive effect to consolidation of a wholly-owned subsidiary. This transaction did not materially affect the financial statements since the investment was previously recorded at equity in net assets, after appropriate adjustments.

OTIS ELEVATOR COMPANY
Financial Review

Consolidation: In the interest of presenting a rounded picture of the Company's activities and particularly in recognition of the significance of our international operations, the 1965 financial information has been compiled on a consolidated basis and the other financial data contained in this report has been similarly restated on such basis. The consolidated financial data includes the accounts of the Company and its subsidiaries, except for a relatively immaterial international company acquired in late 1965. Investments in two 50% owned companies and one less than 50% owned company are carried at the Company's equity therein, and changes in equity are now reflected in the annual statement of income. The accounts of the subsidiaries, all of which operate outside the United States, are included on the basis of September 30 fiscal year ends, except Canada, which is included as of December 31. Foreign currencies have been converted into U. S. dollars at appropriate rates of exchange. No provision has been made in the accounts for additional U. S. and Foreign taxes which might be payable on unremitted retained earnings of the subsidiaries.

Restated to Exclude Subsidiaries Previously Consolidated

THE DUPLAN CORPORATION
Notes to Financial Statements

Note 2: For purposes of comparison, the consolidated statement of operations for fiscal 1964 has been restated to reflect separately the net results of the two Canadian subsidiaries and of the K-D Lamp Division, which were sold during that year. On December 7, 1964, the two Canadian subsidiaries were formally liquidated and their net assets distributed to the parent. The net income of the Canadian subsidiaries for fiscal 1965 comprises interest income and certain expenses from October 1, 1964 to the date of liquidation.

Restated to Give Effect to Capitalization of Leases

ARVIN INDUSTRIES, INC.
Long-term Liabilities:

5.1% Sinking Fund Debentures, due 1990—Note B	$18,000,000
Obligations under lease agreements—net of current portion—Note F	3,165,000
	$21,165,000

Note F: *Buildings Occupied Under Lease*—The Company has entered into certain long-term leases for production facilities that are essentially equivalent to installment purchases of property. The practice was adopted, beginning in 1965, of capitalizing the buildings involved and reflecting the related long-term lease obligations. The statement of financial condition at January 3, 1965, has been restated in conformance with current practice. This change had no significant effect on the net operating results of either 1964 or 1965.

Restated to Include Earnings of Unconsolidated Subsidiaries in Income

ALLIED STORES CORPORATION
Notes to Financial Statements

Note A: As of February 1, 1964, the Corporation changed its method of accounting for investments in unconsolidated subsidiaries (Allied Credit Corporation and Alstores Realty Corporation and subsidiaries) from cost to equity, thereby reflecting the earnings of such subsidiaries in the earnings of the Corporation. The financial statements for the year ended January 31, 1964 have been restated giving retroactive effect to the change which increased amounts previously reported as net earnings for the year ended January 31, 1964 and retained earnings at the beginning of that year by $747,671 and $4,260,664 respectively. Recognition of the Corporation's equity in earnings of unconsolidated subsidiaries increased net earnings for the year ended January 31, 1965 by $960,004.

If the unconsolidated subsidiaries were consolidated, the principal effects on the financial statements as of January 31, 1965 would be: elimination of investment in and advances to unconsolidated subsidiaries $33,009,793, increase in property and equipment $188,775,-117, increase in long-term debt $153,546,078, increase in investments and other assets $3,420,178, reduction in net current assets $5,639,424 and elimination of the lease commitment to Alstores Realty Corporation and subsidiaries ($12,115,586) disclosed in Note L.

HAMILTON WATCH COMPANY
Notes to Financial Statements

Note 1: *Basis of Consolidation*—The consolidated financial statements include Hamilton Watch Company and all subsidiaries in the United States, its territories and Canada. Two subsidiaries in Switzerland and one each in Belgium, England and Japan have been treated as unconsolidated subsidiaries. All subsidiaries are wholly-owned except the Japanese subsidiary which is 60 per cent owned. The financial statements of the Canadian subsidiaries have been translated into United States dollars at applicable rates of exchange.

In the current fiscal year, Hamilton adopted the policy of stating its investments in unconsolidated foreign subsidiaries, in the consolidated financial statements, at its equity in the underlying net assets of the subsidiaries, and of reflecting its share of the net income or losses of these subsidiaries in the consolidated statement of income. The net earnings of unconsolidated foreign subsidiaries are stated after elimination of inter-company profits, but without provision for United States income taxes which may become payable if such earnings are distributed as dividends. No dividends were received from the unconsolidated subsidiaries in either year. The consolidated financial statements for the year ended January 31, 1964 have been restated to reflect the retroactive adoption of the aforementioned policy, resulting in an increase of $13,602 in net income for that year and an increase of $409,081 in earnings retained and reinvested in the business at February 1, 1963.

Restated to Give Effect to Recapitalization

THE PARKER PEN COMPANY
Notes to Financial Statements

Note 5: *Change in Capital Stock*—On June 25, 1964, at a special stockholders' meeting, the following changes in the capital structure of the corporation were approved:

(a) Class A common stock and Class B common stock were reclassified into one class of common stock, each share of which is entitled to one vote; pre-emptive rights were waived;

(b) Par value of the common stock was changed from $2.00 to $1.50 per share;

(c) Number of authorized shares of common stock was increased to 2,500,000, and four shares of the new stock were issued in exchange for each three shares of the old stock.

Capital stock issued at February 29, 1964, in the accompanying balance sheets has been restated to reflect these changes.

By Board of Director action the carrying value of all treasury shares has been adjusted to par value, and the excess of $331,565 of cost over par value has been charged to paid-in surplus.

Restated to Reflect Change in Presentation of Treasury Stock

COLGATE-PALMOLIVE COMPANY
Notes to Financial Statements

Capital Stock: In 1965, the Company adopted the policy of accounting for treasury shares (other than shares reserved for distribution under the terms of the Executive Incentive Compensation Plan) as if such shares were retired. Accordingly, earned surplus at December 31, 1964, as previously reported, has been reduced by $8,886,000 to reflect the excess of cost over stated value of common shares acquired prior to that date.

Restated to Reflect Changes Retroactively in Reserve for Pensions

PENN FRUIT CO., INC.

Balance Sheet	1965	1964
Long-term debt—Note 3	$ 2,986,835	$ 3,319,888
Reserves for informal pensions and other employee benefits and for losses on leases	1,007,685	1,304,541*
Deferred income taxes	1,684,521	1,482,626
	$13,719,683	$14,346,799*

*Restated—see Note 5

Note 5: *Employee Pensions*—In fiscal 1965 the company made contributions into the pension trust with a corresponding charge to income of $107,000 which represents present service costs. At August 28, 1965 unfunded past service costs were estimated to be $880,000.

The company in 1964 changed from the pay-as-you-go method to the accrual method of accounting for informal pension arrangements by recording at present value the estimated future payments to all retired employees under informal pension arrangements. However, subsequent deaths created material unneeded reserves for such future payments in the amount of $332,000 net of $306,000 estimated income tax benefits. The financial statements for fiscal 1964 have been restated to give retroactive effect to these events. This restatement had no effect on net income for fiscal 1964 or 1965.

Restated to Reflect Retroactively (a) The Transfer of the Unamortized Investment Credit from Accumulated Depreciation to Deferred Investment Credit (Above Stockholders' Equity), and (b) The Change in the Income Statement by Inclusion in Federal Income Taxes Instead of in Depreciation Expense

NATIONAL BISCUIT COMPANY

Financial Position Statement	1965	1964
Total Assets Less Current Liabilities	$277,697,000	$261,480,000
Deduct:		
4¾% subordinated debentures, due April 1, 1987	36,495,000	36,497,000
Deferred income taxes and investment credit	10,542,000	8,093,000
Excess of Assets Over Liabilities	$230,660,000	$216,890,000

Notes to Financial Statements

Investment Credit: While continuing to amortize the investment credit over the lives of the qualifying assets, the Company changed its method of presentation in 1965. In the statement of income and retained earnings, amortization of the credit is now reflected in federal and foreign taxes on income. The deferred portion of the investment credit, formerly charged to depreciation expense and credited to federal and foreign taxes on income, is no longer reflected in these accounts. In the statement of financial position the unamortized balance has been transferred from allowances for depreciation to deferred investment credit. Results for 1964 are restated for comparability. The change in presentation has no effect on net income.

Restated to Reflect Retroactively U. S. Government Contract Pricing Adjustments

VARIAN ASSOCIATES
Notes to Financial Statements

Note 2: *Contract Pricing Adjustments*—Provision has been made in the accounts for all expected adjustments that may result from government audit or price redetermination in connection with certain cost reimbursement and price redeterminable contracts with government agencies. During 1964 the government applied certain practices regarding pricing of fixed-price contracts which affected several of the company's completed contracts. Consequently, the company provided for anticipated price adjustments by means of an extraordinary charge of $425,000 net of income taxes against 1964 income. During 1965 it was determined that the price adjustments would be less than originally anticipated. Accordingly, this extraordinary charge was reduced by $266,000 and 1964 income in the accompanying financial statement has been adjusted to reflect this reduction.

Reclassification of Accounts

BROCKWAY GLASS COMPANY, INC.
Income Statement

	Fiscal Years Ended September 30, 1965	1964*
Net Sales	$113,515,265	$65,849,364
Cost of sales	97,723,363	53,568,072
Selling, general and administrative expenses	7,838,792	5,242,844
	105,562,155	58,810,916
Operating Profit	7,953,110	7,038,448
Interest expense	401,286	311,249
Other deductions	17,511	11,889
Interest earned	185,505	5,129
Other income	161,356	65,438
Net income before provision for income taxes	7,881,174	6,785,877
Provision for federal and state income taxes (Note 1)	3,495,700	3,197,269
Net Income Before Special Item	4,385,474	3,588,608
Special item (net after income tax):		
Add: Loss incurred in operation of Hazel-Atlas glass plants purchased from Continental Can Company, Inc. charged to a reserve for anticipated losses created therefor, as provided by terms of the Purchase Agreement (Note 5)	326,888	
Net Income for the Year	$ 4,712,362	$ 3,588,608

*Reclassified for comparative purposes.

ST. REGIS PAPER COMPANY
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include the accounts of St. Regis Paper Company and all wholly-owned subsidiaries operating in the United States and Canada. Wholly-owned subsidiaries operating solely in countries other than the United States and Canada and all partially-owned companies are shown as investments.

In 1965, credit from foreign exchange conversion is included in deferred items in the consolidated balance sheet; the 1964 credit, previously included in current liabilities, has been reclassified to conform to the 1965 presentation.

COLONIAL STORES INCORPORATED
Statement of Consolidated Earnings
Year (52 weeks) ended January 1, 1966 with comparative figures for year (53 weeks) ended January 2, 1965

	1965	1964*
Net sales	$493,672,948	$480,305,705
Cost of sales	386,268,314	378,219,817
Selling, general and administrative expenses	95,574,161	91,889,875
	481,842,475	470,109,692
Operating profit	11,830,473	10,196,013
Other income (net) — gain and loss on disposal of equipment, interest and sundry receipts	503,167	645,752
	12,333,640	10,841,765
Interest expense on long-term debt	595,580	642,252
Profit before Federal income taxes and investment credit	11,738,060	10,199,513
Provision for Federal income taxes (Note 4):		
Current (net of investment credit: 1965, $418,020; 1964, $469,194)	5,130,277	4,324,702
Deferred — through use of accelerated depreciation for tax purposes	260,353	267,000
Amortization of investment credit	(65,425)	(129,979)
Total provision for Federal income taxes	5,325,205	4,461,723
Net earnings	$ 6,412,855	$ 5,737,790

*Certain amounts for 1964 have been reclassified to conform with classifications adopted in 1965.

SEC PROXY RULE 14a-3

The Securities and Exchange Commission in its regulations governing solicitation of proxies, states in part, in Rule 14a-3(b) that

> Any differences, reflected in the financial statements in the report to security holders, from the principles of consolidation or other accounting principles or practices, or methods of applying accounting principles or practices, applicable to the financial statements of the issuer filed or proposed to be filed with the Commission, which have a material effect on the financial position or results of operations of the issuer, shall be noted and the effect thereof reconciled or explained in such report. Financial statements included in the report may, however, omit such details or employ such condensation as may be deemed suitable by the management, provided that such statements, considered as a whole in the light of other information contained in the report shall not by such procedure omit any material information necessary to a fair presentation or to make the financial statements not misleading under the circumstances.

Eighteen companies, of the 600 companies surveyed, explained differences between the treatment or presentation of certain accounting facts as reported to security holders and the treatment accorded the same items in filings with the commission. Other companies may have furnished information of a similar nature in their annual reports to stockholders, but without reference to proxy rule 14a-3 or to the commission.

Explanation given for the differences in treatment may be summarized as follows:

	Explanation*	Number of Companies
A:	A different classification of costs and expenses reported to the SEC	8
B:	Separate statements filed with the SEC for 50% owned domestic and/or foreign affiliated companies	3
C:	Separate statements filed with the SEC for domestic and/or foreign subsidiaries, and/or affiliated companies	2
D:	Wholly-owned real estate subsidiaries consolidated in reports to the SEC	1
E:	Costs of discontinuing and disposition of facilities (net after taxes) charged to income for financial reporting purposes; but to be deducted as a special charge after the determination of net income in reports to the SEC	1
F:	Reserves for contingent taxes on income and foreign business risks as disclosed in the report to stockholders, classified as part of shareowners' equity in reports filed with the SEC	1
G:	Change in valuation of investments in subsidiary and affiliate from cost to equity in underlying net assets, net of income taxes, reported in retained earnings in financial statements, but as special credit in the earnings statement in company's report to SEC	1
H:	Write-off of investment to retained earnings, shown as a special charge after the determination of net income in the company's report to the SEC	1
	Total	18

*Refer to Company Appendix Section—A: 67, 259, 261, 352, 356, 360, 382, 487; B: 59, 111, 538; C: 365, 463; D: 494; E: 248; F: 197; G: 408; H: 388.

Examples of some of the disclosures of differences between financial reporting and reporting to the Securities and Exchange Commission are set forth below.

Examples

ASSOCIATED DRY GOODS CORPORATION
Notes to Financial Statements

Note 1: Securities and Exchange Commission Annual Report—In the Corporation's annual report to the Securities and Exchange Commission, the details of costs and expenses will be reclassified as follows:

Cost of sales (including buying and occupancy costs)	$319,088,144
Selling, general and administrative expenses	112,341,937
Interest and debt expense	2,387,598
	$433,817,679

In addition, wholly-owned real estate subsidiaries will be consolidated. The principal effect of this treatment is to eliminate the investment in the subsidiaries aggregating $25,430,554, to increase property and equipment in the amount of $63,729,703 and to increase long-term debt in the amount of $37,552,890.

BUCYRUS-ERIE COMPANY

Investments and Other Assets—at cost:	
Ruston-Bucyrus, Limited — 50% owned — Note B	$1,562,200
Other investments — Note C	303,427
	$1,865,627

Note B: Investment in Ruston-Bucyrus, Limited—Based on preliminary figures, pending completion of the annual audit, the Company's equity in undistributed earnings of Ruston-Bucyrus, Limited (a foreign affiliate) from date of acquisition (equivalent to the excess of its equity in net assets of that Company over cost of investment) amounted to $18,523,493 at December 31, 1965, and $17,081,864 at December 31, 1964. The Company's equity in the net earnings of Ruston-Bucyrus, Limited for 1965 and 1964 approximated $2,755,000 and $1,895,000, respectively. Separate financial statements of Ruston-Bucyrus, Limited are included in reports filed with the Securities and Exchange Commission.

DRESSER INDUSTRIES, INC.
Above Stockholders' Equity

Reserves for Contingent Taxes on Income and Foreign Business Risks (Classified as part of shareowners' equity in reports filed with the Securities and Exchange Commission)	$9,100,000

GENERAL MILLS, INC.
Earnings Employed in the Business

Earnings in Excess of Dividends	$10,240,928
Extraordinary costs arising from withdrawal from portion of the flour milling business, 1965, and from liquidation of electronics and oilseeds operations, 1964 (Note 8)	12,764,000
Excess of redemption cost over par value of preferred stock (Note 9)	3,598,937
Net Increase (Decrease) in Earnings Employed in the Business	$(6,122,009)

Note 8: Extraordinary Costs—On June 3, 1965, the Board of Directors authorized the company to withdraw from a major portion of its flour milling business. Costs of discontinuing such operations and disposing of facilities no longer required have been estimated at $12,764,000 (after income tax credits of $10,443,000). This amount was provided from earnings employed in the business in the fiscal year ended May 30, 1965, but will be shown as a special charge after the determination of net income in the company's annual report (Form 10-K) filed with the Securities and Exchange Commission.

GOLDBLATT BROS., INC.
Notes to Financial Statements

Note 4: In the Company's Form 10K filed with the Securities and Exchange Commission, cost of goods sold, buying and occupancy expenses were $113,032,818, and $100,471,490, and selling, general and administrative expenses were $36,916,855 and $34,850,875 in fiscal years 1964 and 1963 respectively.

R. H. MACY & CO., INC.
Notes to Financial Statements

Note 6: Costs and expenses of retail operations are reported to the Securities and Exchange Commission in accordance with its requirements as follows:

Cost of goods sold, including occupancy and buying costs	$507,309,302
Selling, publicity, general, and administrative expenses	121,167,549
Provision for doubtful accounts	3,693,791
	$632,170,642

MUNSINGWEAR, INC.
Earnings Retained for Use in the Business

Balance at beginning of year		$14,096,860
Net earnings for the year		2,822,164
		16,919,024
Deduct:		
Cash dividends paid by Munsingwear, Inc.: Common stock—$1.25 per share ($1.20 in 1964)	1,109,945	
Write-off of investment in 6% Rose Marie Reid convertible subordinated debentures (Note 6)	2,100,000	
		3,209,945
Balance at end of year (Note 2)		$13,709,079

Note 6: Rose Marie Reid has discontinued operations and the $2,100,000 subordinated debentures which Munsingwear holds are considered of no value. Accordingly, these debentures have been written off by charging earnings retained for use in the business. This amount will be shown as a special charge after the determination of net income in the Company's annual report (Form 10-K) filed with the Securities and Exchange Commission.

NOPCO CHEMICAL COMPANY
Retained Earnings

Balance at beginning of year		$ 7,074,159
Add:		
Net earnings for the year	3,631,423	
Equity in undistributed earnings of foreign subsidiary and 50% owned foreign companies applicable to prior years (Note 2)	145,733	
		3,777,156
		$10,851,315

Note 2: Investment in Foreign Subsidiary and 50% Owned Companies—The Company's investments in its unconsolidated Swiss subsidiary and in 50% owned foreign companies are stated at equity in the underlying net assets after provision for United States income taxes that would be payable if the net assets were distributed to the Company. At December 31, 1964, these investments were stated at cost.

The increase in the equity in the net assets of these companies for the current year of $130,095 has been included in net earnings. The adjustment to these investments applicable to prior years of $145,733 ($92,065 applicable to 1964) has been credited to retained earnings; such amount will be included as a special credit in the statement of consolidated earnings in the Company's annual report to the Securities and Exchange Commission.

REPUBLIC STEEL CORPORATION
Notes to Financial Statements

Note C (in part): Associated Companies—The Corporation's investments include $27,964,505 representing the carrying amount of capital stock of Reserve Mining Company (representing a 50% interest) and of other funds furnished to Reserve by the Corporation. The other 50% capital stock interest is owned by Armco Steel Corporation. Separate financial statements for Reserve are included in reports filed annually with the Securities and Exchange Commission.

SEARS, ROEBUCK AND CO.
Notes to Financial Statements

Note 8: Costs and Expenses—The Company's costs and expenses are classified as follows in its annual reports to the Securities and Exchange Commission:

Cost of sales, buying and occupancy expenses	$3,539,218,701
Selling, administrative and general expenses	1,545,304,211
Provision for doubtful accounts and increase in allowance for collection expenses	38,826,837
Interest expense	49,577,109
Contribution to The Savings and Profit Sharing Pension Fund	59,335,749
Total Costs and Expenses	$5,232,262,607

Section 2 BALANCE SHEET

SOME CHANGES AND TRENDS IN 1965 REPORTS

		Table or Page Number
NEW—	*Trade Receivables Table* was expanded to show in what part of report trade receivables were presented	Table 6
NEW—	*Unearned Discounts, Finance Charges and Interest* should be deducted from related receivables, per Accounting Principles Board Opinion No. 6	p. 45
TREND—	*Uncollectible Accounts* — There was a noticeable growing trend in the use of allowance to describe uncollectible accounts, either by itself, or combined with other descriptive terms such as doubtful accounts, or losses	Table 7
TREND—	*Accumulated Depreciation* was the term most used to express wear and exhaustion of facilities	Table 18
TREND—	*Unconsolidated Subsidiaries and Affiliated Companies* — There was a continuation of the trend of valuing these investments at equity in net assets	Table 21

CASH

The balance sheets of the 1965 survey companies show a change in the trend of presenting the cash accounts simply as "cash" in the current asset section. In the 1960 reports 549 companies reported their cash in this manner which was the culmination of the trend that had been moving in that direction. In the current year, however, the number has dropped to 481, and a trend towards the disclosure of a portion of the cash as having been segregated into interest-bearing time deposits or short-term notes or securities is indicated. Thus, as may be noted in Table 1, more companies are describing their liquid current assets as "Cash including time (and/or certificates of) deposits" or are showing separately both cash and time (or certificates of) deposits or such other descriptions as will indicate that they are taking advantage of the current higher interest rates being paid by the banks.

The description formerly predominant, "cash in banks and on hand" or some variation of the phrase, seems to be falling into disuse. Table 1, which goes back only to 1951, shows that it was used by 158 companies in that year while in 1965 the number had dropped to 9.

TABLE 1: CASH—CURRENT ASSETS

Balance Sheet Description*	1965	1961	1955	1951
A: Cash	481	541	505	435
B: Cash in banks and on hand	8	17	58	103
C: Cash on hand and demand deposits	1	2	14	26
Demand deposits in banks and cash on hand	—	2	8	19
Cash and demand deposits	—	3	2	1
D: Cash including time and/or certificates of deposit	43	11	1	1
E: Cash and certificates of deposit including accrued interest, shown separately	5	1	1	1
F: Cash and time or certificate of deposit shown separately	24	4	—	—
G: Cash and marketable securities	13	3	—	1
H: Cash and short-term notes or securities	15	6	—	—
Cash on deposit (or in banks), in transit, and on hand	—	2	3	3
Cash on hand and on deposit	—	2	1	4
Bank balances and cash funds	—	1	2	2
I: Cash and U. S. Government securities	3	3	—	—
J: Cash—demand deposits and time deposits shown separately	1	—	—	—
K: Cash, and interest-bearing bank deposits, shown separately	1	—	—	—
L: Cash, and time deposit and commercial notes, shown separately	1	—	—	—
M: Cash in banks and on hand and certificates of deposit shown separately	3	—	—	—
N: Cash including time and/or certificate of deposit and U. S. Government securities	1	—	—	—
Various other	—	2	5	4
Total	600	600	600	600

*Refer to Company Appendix Section—A: All 600 companies not specifically listed below under other captions; B: 10, 125, 243, 246, 269, 312, 406, 576; C: 440; D: 20, 22, 55, 58, 74, 82, 106, 110, 153, 155, 165, 188, 193, 196, 203, 222, 228, 260, 263, 294, 299, 306, 316, 323, 340, 342, 395, 396, 408, 444, 458, 467, 470, 479, 489, 498, 506, 518, 532, 534, 561, 564, 568; E: 105, 191, 296, 423, 448; F: 1, 5, 25, 35, 67, 147, 154, 181, 195, 211, 218, 240, 265, 302, 319, 354, 361, 419, 432, 459, 486, 542, 545, 585; G: 45, 59, 97, 122, 208, 237, 287, 344, 369, 374, 399, 451, 525; H: 26, 145, 162, 213, 253, 284, 320, 364, 416, 447, 465, 469, 480, 513, 540; I: 137, 281, 476; J: 279; K: 377; L: 551; M: 28, 31, 573; N: 95.

SEGREGATION OF CASH AND/OR SECURITIES

Accounting Research and Terminology Bulletins, Final Edition, issued in 1961, included the 1953 revisions and restatements of earlier bulletins, with all subsequent bulletins issued by the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants. That publication, in its discussion of Working Capital (Chapter 3, Section A), treats of the nature of current assets and indicates the exclusion from that classification of such resources as "cash and claims to cash which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts." The committee states further, "Even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes should also, under this concept, be excluded from current assets. However, where such funds are considered to offset maturing debt which has properly been set up as a current liability, they may be included within the current asset classification."

Table 2 refers to those survey companies which indicated in their financial statements that certain cash and/or security items were segregated, excluded from, or offset within the balance sheet. This table indicates the nature of the cash restriction or segregation and provides complete references to the related companies.

The different purposes for which cash and/or securities were segregated and the related treatment in the balance sheet are also summarized in Table 2. Cash and securities are considered to be segregated in the balance sheet, for the purposes of this study, when cash and/or securities, or funds, are mentioned in the balance sheet as segregated or indicated to be segregated, or through references in the balance sheet to explanatory notes or to other sources of information.

Examples

In connection with the excerpts from financial statements presented herein as examples, it should be noted that, for the most part, the statements from which they are taken were prepared in comparative (two-year) form; but, because of space limitations, etc., only the current year's figures are used. Hence, since it is our endeavor to present these excerpts without change, certain parts may not be applicable. The notes or other references cited are reproduced only when they are pertinent to the subject or topic under review.

The following are examples of descriptive captions used for cash and security segregations as disclosed in the 1965 annual reports.

Plant Expansion, Etc.

AMERICAN SAINT GOBAIN CORPORATION
Noncurrent Assets

Plant Improvement Fund—Certificates of deposit	$3,000,000

CELANESE CORPORATION OF AMERICA
Noncurrent Assets

	(Thousands of Dollars)
Funds Set Aside for Construction of Facilities (Note 4)	$23,863

Notes to Financial Statements

Note 4: *Funds Set Aside for Construction of Facilities*—Funds set aside for construction of facilities represent principally proceeds from the sale of bonds by a Canadian subsidiary which are invested by the trustee under the debt instrument until required for construction expenditures.

UNION BAG-CAMP PAPER CORPORATION
Noncurrent Assets

Property:	
Plant property and equipment—at cost	$317,217,099
Less accumulated depreciation	160,631,804
Net plant property and equipment	156,585,295
Timberlands and equipment—at cost	52,778,091
Less accumulated depletion and depreciation	26,505,650
Net timberlands and equipment	26,272,441
Funds set aside for plant additions held by trustee	37,097,493
Net Property	$219,955,229

UNITED STATES STEEL CORPORATION
Noncurrent Assets

Miscellaneous investments, at cost less estimated losses	$ 108,415,770
Marketable securities, at cost (approximates market), set aside for property additions and replacements	655,000,000
Plant and equipment, less depreciation (details on page 25)	2,714,086,077
Operating parts and supplies	50,680,686
Costs applicable to future periods	54,327,039
Total Assets Less Current Liabilities	$4,473,099,192

TABLE 2: SEGREGATION OF CASH AND/OR SECURITIES

I: Purpose and Balance Sheet Presentation*	Current Asset	Noncurrent Asset	1965 Total
A: Plant expansion, improvement, or replacement funds	—	13	13
B: Insurance, workmen's compensation, pension or other employee funds	—	9	9
C: Debentures or preferred stock retirement or redemption	1	2	3
D: Retirement of long-term debt	—	1	1
E: Purchase of company's common stock	—	1	1
F: Restricted to performance under contracts	—	2	2
G: Deposited with trustee under appeal bonds	—	1	1
H: Security for notes payable	—	1	1
I: Security under leases	—	2	2
J: Customers' funds	1	1	2
K: Working or other funds	—	1	1
Total	2	34	36
II: Number of Companies* with	**1965**	**1960**	**1955**
L: Cash segregated in noncurrent assets	14	22	39
M: Cash segregated in current assets	2	7	9
N: Cash excluded from the balance sheet	2	3	6
Cash offsetting a liability account	—	1	4
O: Securities segregated in noncurrent assets	12	8	6
P: Both cash and securities segregated in noncurrent assets	6	3	—
Total	36	44	64
No reference to cash segregation or exclusion	564	556	536
Total	600	600	600

*Refer to Company Appendix Section—A: 41, 59, 122, 125, 194, 297, 310, 316, 338, 354, 464, 551, 569; B: 43, 45, 100, 171, 243, 246, 280, 347, 478; C: 134, 147, 446; D: 443; E: 181; F: 234, 478; G: 283; H: 562; I: 138, 373; J: 443; K: 126, 159; L: 41, 59, 122, 125, 134, 147, 194, 246, 297, 310, 443, 464, 551, 562; M: 126, 446; N: 280, 440; O: 43, 45, 100, 138, 181, 234, 316, 354, 373, 433, 569; P: 159, 171, 283, 338, 347, 478.

DOUGLAS AIRCRAFT COMPANY, INC.
Noncurrent Assets

Property, Plant, and Equipment—Note B:	
Buildings, equipment, etc.—at cost	$192,900,790
Less allowances for depreciation	107,148,153
	$ 85,752,637
Land—at cost	8,624,290
Tooling allocable to airplanes not yet released for production	3,006,918
Funds held for additional construction and property acquisitions	6,939,157
Total Property, Plant, and Equipment	$104,323,002

MARATHON OIL COMPANY
Noncurrent Assets

Investments and Other Assets—on the basis of cost:	
Investments and advances — affiliated companies	$35,489,000
Short-term investments allocated for construction of plant and equipment	44,091,000
Other assets	14,989,000
	$94,569,000

REVERE COPPER AND BRASS INCORPORATED
Noncurrent Assets

Funds Held by Trustees for Construction Projects (Note B)	$55,981,547

Notes to Financial Statements

Note B: *Funds Held by Trustees and Long-Term Lease Obligations*—During 1965, the Company entered into agreements with The Industrial Development Board of Scottsboro, Alabama, and with Jackson County, Arkansas, which provide for constructing, equipping and leasing of new mill facilities. The Scottsboro project consists of a new aluminum rolling mill and related facilities estimated to cost $55,000,000; the Jackson County (Newport) project represents an expansion of aluminum foil rolling mill facilities estimated to cost $4,200,000. The cash proceeds of the two industrial development revenue bond issues (aggregating $59,200,000 principal amount) sold by the Scottsboro and Jackson County governmental agencies are restricted to the payment of the construction costs of such facilities. At December 31, 1965, the unexpended bond proceeds held by the Trustees were invested principally in time deposits and short-term commercial paper.

The Scottsboro project is to be leased to the Company upon completion (but no later than January 1, 1968) to July 1, 1987; the Newport project was leased to the Company effective March 1, 1965 to December 1, 1984. Semi-annual rentals are to be in amounts sufficient to pay the interest and debt retirement requirements of the respective bond issues. Such interest costs during construction of the Scottsboro project are to be included in construction costs.

The Company has options to purchase the Scottsboro project (from July 1, 1975 to termination of the lease) and the Newport project (from December 1, 1974 to termination of the lease) for an amount in each instance which will be sufficient to retire and redeem all outstanding bonds of the applicable issue. Both transactions are being treated for accounting and tax purposes as projects being constructed and owned by the Company. Debt retirement requirements to be included in rental payments aggregate approximately $2,000,000 beginning in 1968 and increase approximately $100,000 annually thereafter through 1987.

Insurance Funds, Etc.

THE AMERICAN SHIP BUILDING COMPANY
Noncurrent Assets

Investments and Other Assets:	
United States Treasury Bonds, pledged with United States Department of Labor in connection with workmen's compensation guarantees, at cost (quoted market: 1965, $253,588—1964, $265,444)	$274,482
Miscellaneous receivables and investments	451,838
Total Investments and Other Assets	$726,320

THE BORDEN COMPANY
Noncurrent Assets

Other Assets (at cost):	
Investments and advances:	
Foreign subsidiary companies	$16,082,756
Domestic associated companies	3,906,063
Securities on deposit (Pursuant to Workmen's Compensation Laws, etc.)	1,570,824
Mortgages, receivables, etc.	12,873,854
Total Other Assets	$34,433,497

AMERICAN SUGAR COMPANY
Noncurrent Assets

U.S. Government Bonds, at lower of cost or market:	
Long-term investments	$2,542,534
Segregated as a pension fund	1,067,280
	$3,609,814

CRADDOCK-TERRY SHOE CORPORATION
Noncurrent Assets

Other Assets:	
Pension trust fund (Note 3)	$259,311
Cash value of life insurance policies (Maturity value $600,000)	97,331
Corporate stock, notes, real estate and sundry assets	18,044
	$374,686

Notes to Financial Statements

Note 3: The funds and securities deposited with the trustees of the Pension Trust Fund, a revocable trust with no restrictive covenants, are available for general corporate purposes at the pleasure of the Board of Directors.

GENERAL CABLE CORPORATION
Noncurrent Assets

Other Investments:	
U. S. Government and municipal securities deposited under state labor and insurance laws—at cost	$ 266,818
Other (Note 1, page 12)	5,931,316
	$6,198,134

THE HARSHAW CHEMICAL COMPANY
Notes to Financial Statements

Note D: *Profit Sharing Plan*—The Company has a Profit Sharing Plan for the benefit of its key employees, including officers. The Plan provides that payment of portions of some of the allocations made under the Plan shall be deferred and that the funds so deferred shall be held in a Deferred Bonus Fund which is intended to be used primarily for the purchase of Common Stock of the Company in the open market. Distributions from the Fund are to be made to each participating employee in one or more payments during a period not exceeding ten years from date of retirement. Distributions are to be made only after the retirement of an employee, and then only if he shall have complied with the other provisions of the Plan. The Deferred Bonus Fund at September 30, 1965, consisting of cash on deposit of $116,646 and 49,726 shares of Common Stock of the Company purchased at a cost of $1,185,880 is not included in the balance sheet. Allocations of Fund assets have been made to accounts with contingent beneficiaries. The Plan may be terminated or changed at any time by the Company, but that portion of the Fund accumulated and held in a contingent beneficiary's individual account prior to the effective date of termination or change shall not be affected thereby.

LONE STAR CEMENT CORPORATION
Noncurrent Assets

Special Funds and Other Investments:	
Self-insurance funds—cash and investments	$3,635,989
Other investments	5,414,267
	$9,050,256

ST. JOSEPH LEAD COMPANY
Noncurrent Assets

Other Assets:	
Securities on deposit with Governmental agencies	$963,429
Cash and marketable securities—Fire insurance Fund (see contra)	360,574

Noncurrent Liabilities

Reserves:	
Injury claims and workmen's liability insurance	$612,679
Employees life insurance and retirement	250,061
Fire insurance (see contra)	360,574

Various Purposes

CENTRAL SOYA COMPANY, INC.
Current Assets
Cash (includes customers' segregated funds—$125,265 in 1965 and $125,087 in 1964) $10,100,542

CHOCK FULL O'NUTS CORPORATION
Noncurrent Assets
Deferred Charges, Debenture Purchase Fund and Other Assets (Notes 5 and 7) $877,541
Notes to Financial Statements

Note 7: The debentures are convertible at their principal amount into common stock at $28.50 per share and 227,400 shares of common stock have been reserved for such conversions. The conversion price is subject to adjustment under certain conditions. At July 31, 1965, the Company held in the treasury $86,200 of debentures which have been deducted from the amount outstanding.

The terms of the indenture provide for (a) a purchase fund requiring deposits, in each year to July 31, 1966, aggregating the greater of $150,000 or 5% of consolidated net income for the preceding fiscal year for the purchase of debentures at principal amount or less, (b) a sinking fund commencing February 1, 1967 to retire annually 5% of the aggregate principal amount of debentures outstanding at December 1, 1966, and (c) certain restrictions on payments of cash dividends and acquisitions of the Company's stock. At July 31, 1965, approximately $7,035,000 of consolidated retained earnings was free of such restrictions.

CITY STORES COMPANY
Noncurrent Assets
Investments and Other Assets:

Investments in and net receivables from unconsolidated subsidiaries—Note A and page 8	$3,584,462
U. S. Government securities deposited as security under leases	223,588
Mortgages receivable, sundry investments and other items	1,041,195
	$4,849,245

CURTISS-WRIGHT CORPORATION
Noncurrent Assets
Marketable securities, segregated for purchase of the Company's common stock (Note 5) $32,000,000
Notes to Financial Statements

Note 5: In connection with a tender offer made to its shareholders in December, 1965, the Corporation acquired in February, 1966, 1,000,113 shares of its common stock at $32 per share for its treasury. To assure an orderly liquidation of a sufficient amount of its marketable securities portfolio to pay for such stock, the Corporation has arranged a short-term loan of $32,000,000. The loan is to be repaid as funds become available from sales and redemptions of marketable securities during 1966.

PHILADELPHIA AND READING CORPORATION
Noncurrent Assets
Investments Appropriated for Retirement of Long-Term Debt, at amortized cost (approximate market) $11,379,000

THE PITTSTON COMPANY
Noncurrent Assets
Segregated Currency and Cash Items and Change Funds Advanced by Customers—contra $1,877,900
Noncurrent Liabilities
Amounts Payable to Banks under Special Agreements and Liability for Change Funds Advanced by Customers—contra $1,877,900

POOR & COMPANY
Current Assets
Cash on deposit with debenture sinking fund trustee $213,589

HAZELTINE CORPORATION
Noncurrent Assets
United States Government securities at cost plus accrued interest, including cash of $21,661, held by Trustee under supersedeas appeal bonds (Note 1) $5,000,000

Note 1: In Hazeltine Research, Inc. v. Zenith Radio Corporation, the United States District Court for the Northern District of Illinois, Eastern Division, entered judgments against Hazeltine Corporation and its wholly-owned subsidiary, Hazeltine Research, Inc., in the amounts of $19,042,173 on April 5, 1965 and $15,919,458 on December 13, 1965, plus costs and attorneys' fees in an amount to be fixed by the Court. Said judgments were entered in response to the counterclaim of Zenith, in that patent infringement litigation, alleging a violation of federal antitrust laws in connection with a claimed international conspiracy to exclude Zenith from certain foreign markets. Enforcement of said judgments has been stayed by orders of the District Court, pursuant to which Hazeltine Corporation and Hazeltine Research, Inc. executed Supersedeas Appeal Bonds. Under these bonds, Hazeltine Corporation deposited with The Northern Trust Company, Chicago, Illinois, as trustee, as security for its possible liability, all of its patents, and United States Government securities in the amount of $2,400,000. Hazeltine Research, Inc. deposited with the same trustee all of its patents and such securities in the amount of $2,600,000. Said deposited assets are to be held by the trustee until both judgments are either affirmed or modified and satisfied, or reversed or vacated, as to each company, respectively. Under said Supersedeas Appeal Bonds, each company is permitted to administer its own patents and to collect the income from the patents and securities deposited by it while its assets are held by the trustee. Under the provisions of the Supersedeas Appeal Bonds, Hazeltine Corporation's deposited assets are to be returned to it by the trustee in the event that both the judgments against Hazeltine Corporation are reversed or vacated, regardless of the status of the judgments with respect to Hazeltine Research, Inc. The orders of the District Court staying enforcement of said judgments required that neither Hazeltine Corporation nor Hazeltine Research, Inc. pay any dividends during the pendency of said stay orders. Separate notices have been filed in the United States Court of Appeals for the Seventh Circuit by Hazeltine Corporation, appearing specially, and by Hazeltine Research, Inc., appealing from said judgments.

THE UNITED PIECE DYE WORKS
Noncurrent Assets
Cash Collateral (Note 2) $455,534
Notes to Financial Statements

Note 2: *Long-Term Liabilities*—Long-term liabilities are listed as follows:

	Total	Current	Non-Current
*Note payable due 1/2/68 ...	$2,500,000	$ —	$2,500,000
Mortgage note payable 5½% due 1972 (Charleston)	502,159	74,394	427,765
Notes payable 5½% due 1976 (Edenton)	381,819	19,000	362,819
Mortgage note payable 5½% due 1968 (Los Angeles) ...	55,446	18,914	36,532
Deed of Trust Notes 6% due 1974 (Edenton)	8,720	832	7,888
	$3,448,144	$113,140	$3,335,004

*An agreement with the Hubshman Department of the First National City Bank provides that this note be secured by accounts receivable amounting to 125% or cash amounting to 100% of the face of the note. As at December 31, 1965 collateral consists of $455,534 cash and $2,691,231 accounts receivable. Interest is computed at 10% per annum on the portion of the loan not secured by cash collateral.

CASH ADVANCES

Of the 600 survey companies, 51 disclosed 54 cash advances in their 1965 reports. The captions used in the presentation of cash advances and their related placement in the balance sheet are reflected in Table 3. Advances to subsidiaries and affiliates are not included in this tabulation; for this information see this section, Table 21.

Cash advances appeared in both the current and the noncurrent asset sections of the balance sheets. The following examples illustrate the various types of cash advances as presented by the companies.

Current Assets

AMERICAN BROADCASTING COMPANIES, INC.
Current Assets:

Cash	$26,530,000
United States Government securities at cost (approximate market), and certificates of deposit	20,729,000
Accounts and notes receivable, less reserves:	
Trade	49,064,000
Other	2,670,000
Program rights, production costs and advances, less amortization (see Note B)	50,750,000

ANDERSON, CLAYTON & CO.
Current Assets:
Crop loans and accrued interest $52,942,000

THE ARUNDEL CORPORATION
Current Assets:
Advances to, and amounts due from, joint ventures (a portion of which will be collected after a year) $3,783,241

THE COLORADO MILLING & ELEVATOR COMPANY
Current Assets:

Inventories:	
Wheat, other grains, flour and millfeed—at market after appropriate adjustment with respect to open commodity contracts	$6,396,554
Formula feeds, beans, other merchandise, containers and supplies—at lower of first-in, first-out cost or market	1,380,639
Advances on commodity purchases	489,691
Total Inventories	$8,266,884

CONSOLIDATED FOODS CORPORATION
Current Assets:
Advances to fishermen and growers and cost of growing crops $2,331,207

DOUGLAS AIRCRAFT COMPANY, INC.
Current Assets:
Inventories, at lower of cost (generally first-in first-out method) or market—Note D $233,581,978

Note D: *Inventories*—Inventories at November 30, 1965, including certain items to which the U. S. Government held title by reason of contract provisions, consisted of fixed-price contracts, orders, etc. in progress ($276,722,623), materials, spare parts, etc. ($48,508,846), and advances under material purchase agreements ($43,356,022), less $135,005,513 advance and progress payments received.

MASONITE CORPORATION
Current Assets:
Advances, secured by mortgages on pulpwood $644,186

McCALL CORPORATION
Current Assets:
Advances for construction of equipment to be leased $1,032,000

TABLE 3: CASH ADVANCES

Balance Sheet Description*	Current Asset	Noncurrent Asset	1965 Total
A: Advances to outside growers, packers, planters, producers	6	2	8
B: Advances to suppliers and subcontractors	2	3	5
C: Advances on purchase commitments for raw materials	2	—	2
D: Advances on purchase contracts	2	1	3
E: Advances on construction or purchase of fixed assets	2	1	3
F: Advances for leasehold improvements	—	1	1
G: Advances to employees for selling, travel, and other expenses	—	1	1
H: Advances — loans to employees	—	2	2
I: Advances to sales agents or vendors	—	1	1
J: Advances to joint-venture or logging operations	3	1	4
K: "Advances" — other or not identified	6	18	24
Total	23	31	54

Number of Companies showing:	
Advances in current assets	23
Advances in noncurrent assets	28
Total	51
No reference to advances	549
Total	600

*Refer to Company Appendix Section—A: 54, 117, 156, 248, 284, 298, 405, 526; B: 249, 345, 358, 479, 587; C: 149, 194; D: 437, 479, 485; E: 313, 364, 539; F: 99; G: 89; H: 246, 366; I: 246; J: 63, 196, 274, 459; K: 18, 19, 25, 28, 35, 37, 53, 92, 131, 135, 140, 180, 202, 211, 217, 339, 422, 431, 446, 493, 518, 539, 553, 561.

DRAVO CORPORATION
Current Assets:
Advances to joint ventures $3,268,884

GENERAL MILLS, INC.
Current Assets:
Inventories (Note 3) $43,318,433

Note 3: *Inventories*—

Grain for processing and flour, at market, after appropriate adjustment for open cash trades, unfilled orders, etc.	$15,842,123
Package foods, chemical products, etc., at lower of cost or market	20,845,358
Containers, supplies, etc., at cost	5,522,959
	42,210,440
Advances on grain and other commodities	1,107,993
	$43,318,433

The company hedges its flour unfilled orders and inventories of raw materials and finished goods whenever adequate hedging facilities exist, as a means of minimizing the risk of adverse price fluctuations. All factors relating to items customarily hedged are reflected in the statement of financial position at fair market value. Items for which no hedging facilities exist are valued at either lower of cost or market, or cost, as set forth above.

INTERSTATE BAKERIES CORPORATION
Current Assets:
Advances for plant construction $648,886

THE PILLSBURY COMPANY
Current Assets:
Advances on purchases $10,909,717

SEABOARD ALLIED MILLING CORPORATION
Current Assets:
Margin deposits and advances on grain purchases $546,751

Noncurrent Assets

CALIFORNIA PACKING CORPORATION
Other Assets:

Capital stock of California Packing Corporation, 30,670 shares, owned by a subsidiary company, at cost, less than market quotations	$ 165,688
Advances to producers	3,990,168
Intangible assets carried on books of Canadian subsidiary	3,329,082
Other miscellaneous receivables, deferred charges, etc.	1,599,374
	$9,084,312

GENERAL ELECTRIC COMPANY
Noncurrent Assets
Investments and advances $240,987,815

GENERAL MOTORS CORPORATION
Notes to Financial Statements
Other Investments and Miscellaneous Assets: Other investments and miscellaneous assets at December 31, 1965 consisted of the following: loans and advances to steel suppliers, $11,192,059; receivables—noncurrent portion (less reserves), $47,090,742; other $20,409,962.

HALLIBURTON COMPANY
Noncurrent Assets
Advances to and receivables from construction joint ventures $4,708,500

H. J. HEINZ COMPANY
Investments and Other Assets:
Loans to fishermen, less allowance for losses $1,101,482

LIBBY, McNEILL & LIBBY
Investments and Other Assets:
Long-term advances and other investments $2,985,777

McGRAW-HILL, INC.
Notes to Financial Statements
Note 2: *Other Assets*—Other assets consist of:

Advances to authors—Net of reserve	$3,975,177
Guarantee and other deposits	1,038,667
All other	608,586
	$5,622,430

CHAS. PFIZER & CO., INC.
Noncurrent Assets
Investments, deposits and advances $6,754,794

ST. REGIS PAPER COMPANY
Other Assets:

Advance payments under land and timber purchase contracts	$13,828,609
Non-current receivables and miscellaneous investments	12,901,286
Total Other Assets	$26,729,895

TABLE 4: DEPOSITS—CASH AND/OR SECURITIES

Balance Sheet Description*	Current Asset	Noncurrent Asset	1965 Total
A: Deposit for "insurance"	—	6	6
B: Deposit with mutual insurance company	—	3	3
C: Deposit with insurance company	—	1	1
D: Deposit with "public agencies"	—	3	3
E: Deposit with surety company	—	1	1
F: Deposit for preferred stock or bond retirement	1	—	1
G: Deposit for dividend payments	1	—	1
H: Deposit for fixed asset commitment	—	2	2
I: Deposit for purchase commitment	2	—	2
J: Deposit with lessors	—	3	3
K: "Deposits"—not identified	9	30	39
L: Other types of deposits	—	6	6
Total	13	55	68

Number of Companies with:	
Deposits in current assets	13
Deposits in noncurrent assets	52
Total	65
No reference to deposits	535
Total	600

*Refer to Company Appendix Section—A: 43, 46, 100, 443, 483; B: 288, 404, 458; C: 243; D: 157, 243, 478; E: 18; F: 446; G: 149; H: 127, 359; I: 126, 485; J: 138, 190, 367; K: 2, 21, 25, 48, 53, 58, 87, 92, 98, 107, 131, 166, 174, 196, 205, 266, 271, 287, 304, 337, 338, 341, 361, 364, 380, 399, 405, 411, 416, 423, 431, 461, 465, 489, 494, 507, 530, 534, 585; L: 18, 23, 190, 283, 366, 501.

TEXAS GULF SULPHUR COMPANY
Noncurrent Assets
Investments and advances, net of reserve for exploration costs (1965 — $1,181,464; 1964 — $1,062,355) $27,398,021
Notes to Financial Statements

Note 2: *Investments and Advances*—Included are investments in and advances to wholly-owned subsidiary companies not consolidated in the amount of $4,711,329 at December 31, 1965, after application of reserves for exploration costs. The net assets of these subsidiaries approximate the amounts at which carried. Also included is $12,852,304, representing (1) advances to a railroad for building the branch line to the Utah potash property, recoverable from revenues derived from the use of the line, and (2) advance payments of net profits to be derived from the sale of minerals extracted from this property.

CASH DEPOSITS

Deposits of cash and/or securities for specific purposes were segregated in the balance sheets of 65 of the 600 survey companies. The presentations and descriptions of these deposits are summarized in Table 4. Of the 68 presentations only 13 appeared as current assets.

The deposits under consideration here do not include cash deposits, demand deposits, certificates of deposit, etc.—which are part of the normal cash accounts covered in Table 1 of this section. In addition to the deposits appearing among the assets of the survey companies, 20 instances of deposits were observed on the liability side of the balance sheets. These are considered later in this study under liabilities.

The following examples illustrate some of the presentations in the annual reports for 1965.

Current Assets

CENTRAL SOYA COMPANY, INC.

Current Assets:

Other Current Assets:	
Margin deposits on commodity futures contracts	$2,995,050
Prepaid expenses	777,804
Refundable federal income taxes (Note 3)	891,432
Total Other Current Assets	$4,664,286

THE COLORADO MILLING & ELEVATOR COMPANY

Current Assets:	
Deposit for payment of dividend June 1—see contra	$165,745
Current Liabilities:	
Dividend payable June 1—see contra	$165,745

CROWN CORK & SEAL COMPANY, INC.

Current Assets:

Prepaid expenses, deposits, etc. $3,191,000

DRAVO CORPORATION

Current Assets:

Accounts and notes receivable:	
Trade, less allowance for doubtful accounts	$31,521,166
Other, including claims and deposits	968,523

GRUMMAN AIRCRAFT ENGINEERING CORPORATION

Current Assets:

Cash	$ 6,668,737
Accounts receivable including unbilled charges (U. S. Government: 1965, $115,452,633; 1964, $78,913,044)	119,122,834
Inventories, less progress payments (Note 2)	67,935,847
Prepaid expenses and miscellaneous deposits	1,659,097
Total Current Assets	$195,386,515

McCALL CORPORATION

Current Assets:

Deposits and prepaid expenses $2,595,000

SEABOARD ALLIED MILLING CORPORATION

Current Assets:

Margin deposits and advances on grain purchases $546,751

SUNDSTRAND CORPORATION

Current Assets:

Prepaid expenses and deposits $565,699

Noncurrent Assets

ALUMINUM COMPANY OF AMERICA

Other Assets and Deferred Charges:

Indemnity and surety deposits	$ 1,460,213
Receivables and advances—noncurrent	20,790,862
Deferred exploration and mining expenses	3,682,635
Other deferred charges	12,116,842
Total Other Assets and Deferred Charges	$38,050,552

THE AMERICAN TOBACCO COMPANY

Noncurrent Assets

Insurance deposits and miscellaneous investments $849,162

CENTURY ELECTRIC COMPANY

Other Assets:

Municipal bonds—at cost and accrued interest	$ 713,973
Prepaid insurance, sundry receivables, and other accounts	415,445
Deposit on potential new plant location	252,770
	$1,382,188

CITY STORES COMPANY

Investments and Other Assets:

U. S. Government securities deposited as security under leases $223,588

CONSOLIDATED LAUNDRIES CORPORATION

Investments and Other Assets:

United States and municipal bonds on deposit with State of New York Workmen's Compensation Board—at cost $161,810

HEYWOOD-WAKEFIELD COMPANY

Other Assets—Note A:

Cash surrender value of life insurance, mutual insurance deposit, etc. $168,043

MAXSON ELECTRONICS CORPORATION

Noncurrent Assets

Deposit under Macon facility purchase commitment (Note 3) $676,000

Note 3: Macon Facility—In October 1965, the Company was designated the successful bidder for the purchase of the facilities of the U. S. Naval Ordnance Plant at Macon, Georgia, as a going concern, at a price of $6,760,000. Of this amount, 10% was deposited on September 30, 1965 upon submission of the bid, and an additional 10% was paid in cash on December 1, the closing date. The remainder of the purchase price is payable in installments over a maximum period of ten years at 5% interest.

THE McKAY MACHINE COMPANY

Other Assets:

Deposit on lease agreement $58,000

THE NEW BRITAIN MACHINE COMPANY

Investments and Other Assets:

Deposits with mutual insurance companies .. $163,388

SCOVILL MANUFACTURING COMPANY

Investments and Other Assets:

Insurance deposits and sundry other assets $1,758,449

MARKETABLE SECURITIES—Current Assets

BASIS OF VALUATION

The "government" and "nongovernment" securities, which were presented in the current asset section of the balance sheets of the 600 survey companies, are summarized for the years 1965 and 1955 in Table 5, according to the various bases of valuation.

The use of "cost" basis of valuation for marketable securities predominates. However, it may be noted that there is a trend towards supplementing the term "cost" with the phrase "stated as approximate market" or in other cases indicating that the market value is above or below cost. Of the total number of companies using the cost basis, over 50 per cent referred also to the relative market values.

TABLE 5: MARKETABLE SECURITIES—CURRENT ASSETS

	1965			1955		
	I	II		I	II	
Basis of Valuation*	Government	Nongovernment	Total	Government	Nongovernment	Total
A: Cost—market value not stated	20	42	62	81	28	109
B: Cost—stated as approximate market	45	130	175	35	22	57
C: Cost—plus accrued interest	8	15	23			
D: Cost—plus accrued interest, which approximates market	10	29	39	66	21	87
E: Cost—market value stated below cost	7	8	15	24	15	39
F: Cost—market value stated above cost	3	19	22	8	23	31
G: Cost less amortization or reserves	1	3	4	1	3	4
H: Amortized cost	1	1	2	7	7	14
I: Amortized cost, which approximates market	1	10	11			
J: Cost or below cost	—	1	1	1	1	2
K: Cost—not in excess of market value	1	2	3	1	1	2
L: Lower of cost or market	5	10	15	6	7	13
M: Market value or approximate market value	1	6	7	8	3	11
Redemption value	—	—	—	6	—	6
N: Face value	—	1	1	2	—	2
Lower of cost or principal amount	—	—	—	1	1	2
	103	277	380	247	132	379
O: Basis of valuation not set forth	14	50	64	61	17	78
Total	117	327	444	308	149	457
Number of Companies presenting:						
Government securities in current assets	56	—	56	216	—	216
Government and nongovernment securities in current assets	59	59	59	81	81	81
Nongovernment securities in current assets	—	257	257	—	59	59
Total	115	316	372	297	140	356
No marketable securities in current assets			228			244
Total			600			600

*Refer to Company Appendix Section—I: Government Securities—A: 9, 30, 50, 105, 203, 241, 249, 252, 267, 360, 378, 471, 473, 489, 493, 538, 551, 564, 577, 600; B: 1, 2, 12, 20, 25, 31, 52, 90, 121, 153, 154, 158, 159, 164, 228, 234, 265, 293, 323, 326, 329, 341, 347, 396, 400, 408, 412, 416, 422, 449, 470, 474, 479, 486, 498, 500, 516, 518, 524, 532, 545, 546, 561, 578, 599; C: 273, 283, 322, 389, 415, 453, 466, 497; D: 109, 230, 285, 338, 353, 395, 403, 428, 446, 462; E: 85, 143, 205, 432, 458, 491, 596; F: 23, 523, 573; G: 357; H: 491; I: 239; K: 383; L: 100, 308, 441, 452, 558; M: 362; O: 27, 61, 95, 137, 163, 263, 274, 278, 281, 354, 410, 476, 539, 552. II: Nongovernment Securities—A: 45, 118, 142, 144, 147, 157, 176, 193, 208, 233, 245, 249, 252, 260, 264, 267, 286, 292, 317, 327, 332, 343, 349, 356, 360, 370, 373, 385, 421, 431, 437, 456, 470, 478, 525, 531, 536, 538, 543, 551, 564, 598; B: 1, 2, 8, 12, 15, 17, 20, 22, 24, 33, 34, 35, 36, 39, 40, 44, 51, 55, 65, 68, 70, 71, 72, 73, 84, 90, 91, 110, 112, 121, 122, 125, 148, 152, 153, 154, 159, 164, 166, 168, 169, 170, 172, 178, 182, 183, 189, 211, 214, 216, 219, 229, 234, 240, 242, 247, 248, 258, 262, 272, 279, 289, 293, 297, 302, 305, 310, 311, 315, 316, 318, 326, 329, 331, 340, 344, 347, 358, 381, 384, 391, 394, 396, 402, 412, 414, 416, 417, 418, 422, 425, 433, 438, 439, 440, 449, 450, 454, 455, 461, 468, 474, 475, 482, 486, 490, 492, 495, 496, 500, 502, 503, 504, 511, 515, 516, 521, 535, 544, 548, 549, 566, 568, 569, 586, 588, 589, 590, 593, 599; C: 19, 28, 101, 103, 107, 119, 135, 165, 223, 304, 306, 313, 342, 368, 415; D: 10, 37, 38, 66, 108, 109, 114, 140, 151, 206, 222, 230, 232, 280, 285, 294, 325, 353, 376, 377, 397, 407, 428, 446, 462, 463, 528, 559, 574; E: 85, 143, 205, 432, 443, 491, 545, 587; F: 29, 75, 121, 269, 275, 276, 279, 299, 364, 366, 396, 416, 458, 472, 570, 573, 577, 585, 596; G: 195, 221, 357; H: 491; I: 106, 200, 209, 238, 239, 246, 329, 352, 505, 553; J: 181; K: 393, 581; L: 100, 120, 307, 308, 419, 441, 452, 517, 558, 563; M: 94, 133, 303, 362, 390, 429; N: 445; O: 3, 26, 27, 59, 87, 97, 124, 136, 141, 145, 160, 162, 171, 175, 194, 213, 237, 253, 256, 263, 266, 274, 284, 287, 298, 320, 345, 361, 369, 372, 374, 375, 399, 447, 451, 459, 464, 465, 469, 480, 487, 501, 512, 513, 533, 539, 540, 552, 567, 576.

This tabulation does not reflect those government securities which are shown in the current liability section of the balance sheet as an offset to the liability for income taxes (see this section, Table 28). Nor does it include such marketable securities as are presented among other than current assets. In this connection it may be observed that marketable securities, when shown in the noncurrent asset section of the balance sheet, are generally referred to as "investments" and are invariably valued at cost. Forty companies listed marketable securities among the noncurrent assets (*12, 20, 31, 43, 44, 45, 51, 75, 107, 127, 138, 140, 157, 159, 188, 197, 234, 243, 249, 253, 283, 299, 310, 316, 338, 346, 347, 373, 392, 410, 432, 433, 440, 478, 479, 498, 516, 534, 542, 569).

For a discussion on the nature of current assets, reference is made to certain excerpts from the Accounting Research Bulletins quoted under "Noncurrent Receivables" in this section.

Examples—Marketable Securities

The following examples, taken from the 1965 reports, show the valuation of marketable securities as presented in the current asset section of the balance sheets surveyed.

Cost—Market Value Not Stated

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

Current Assets:	
Cash	$114,504,258
Temporary investments in government obligations and short-term paper—at cost	27,604,805

UNION BAG-CAMP PAPER CORPORATION

Current Assets:	
Cash	$ 7,084,193
Commercial paper and time deposits	1,500,000
U.S. Government and other securities (at cost)	5,040,439
Total Cash and Securities	$13,624,632

Cost—Stated as Approximate Market

ROHM AND HAAS COMPANY

Current Assets:	
Cash	$ 7,842,849
U.S. Government and other securities, at cost which approximates market value	22,084,514

Cost Plus Accrued Interest

G. C. MURPHY COMPANY

Current Assets:	
Cash	$16,501,736
U.S. Government securities, at cost and accrued interest	135,641

*Refer to Company Appendix Section.

Cost Plus Accrued Interest, Which Approximates Market

FMC CORPORATION

Current Assets:	
Cash	$26,904,512
U.S. Government and other marketable securities, at cost plus accrued interest, which approximates market	40,266,510

Cost—Market Value Stated Below Cost

PHELPS DODGE CORPORATION

Current Assets:	
Cash	$26,325,443
Certificates of deposit	75,780,000
United States Government securities, at cost (at market quotations December 31, 1965—$26,919,494)	27,074,266
Other marketable securities, at cost (at market quotations December 31, 1965—$257,870)	260,000

Cost—Market Value Stated Above Cost

THE L. S. STARRETT COMPANY

Current Assets:	
Cash	$1,269,567
U. S. Government Securities—Cost (market value $997,647)	990,050

UNIVERSAL LEAF TOBACCO CO., INC.

Current Assets:	
Cash in Banks and on hand	$ 2,503,957
Certificates of Deposit	10,662,500
U. S. Treasury Bills—at cost, which is lower than market	2,263,280
Marketable Securities—at cost, which is lower than market	433,504

Cost Less Amortization or Reserve

THE DOW CHEMICAL COMPANY

Current Assets:	
Cash	$22,457,592
Marketable securities (at cost, less reserve) and time deposits	92,153,634

Amortized Cost

FRANK G. SHATTUCK COMPANY

Current Assets:	
Cash	$3,233,507
United States Government and other securities, at cost or amortized cost (quoted market, $241,000)	261,074

Amortized Cost, Which Approximates Market

GENERAL ANILINE & FILM CORPORATION

Current Assets:	
Cash	$ 2,279,614
U.S. Government and other marketable securities, at amortized cost which approximates market	31,597,680

Cost, Not in Excess of Market

WALGREEN CO.
Current Assets:

Cash	$6,424,538
Marketable securities, at cost, not in excess of market	9,586,629

Lower of Cost or Market

THE QUAKER OATS COMPANY
Current Assets:

Cash	$12,820,822
U.S. Government and other marketable securities, at lower of cost or market	15,792,429

Approximate Market Value

THE MAYTAG COMPANY
Current Assets:

Cash	$ 5,744,957
Federal and municipal government securities (approximately market)	35,640,348

Face Value

POLAROID CORPORATION
Current Assets:

Cash	$ 5,525,272
Marketable Securities at face value (Note A)	45,192,000

Note A: $35,392,000 mature in 1966, the balance in 1967 and 1968.

Basis of Valuation Not Set Forth

THE GOODYEAR TIRE & RUBBER COMPANY
Current Assets:

Cash and certificates of deposit	$48,761,191
United States Treasury and other marketable securities	2,343,633

PUROLATOR PRODUCTS, INC.
Current Assets:

Cash and marketable securities	$5,767,523

TRADE RECEIVABLES

The various types of accounts receivable shown in the current asset section of the balance sheets of the 600 survey companies are summarized in Table 6. Such trade receivables were shown as current assets and were most frequently described as "accounts receivable," "receivables," "notes and accounts receivable," "installment accounts receivable," or "notes receivable," all of which are generally understood to designate the aggregate amounts due from trade debtors. However, as may be noted in Table 6, some companies presented sundry receivables under various descriptions in addition to the normal trade accounts. Certain companies segregated the receivables, showing them in both the current and the noncurrent asset sections. The noncurrent types are treated separately following this presentation.

The reports of 85 survey companies disclosed 135 special features applicable to accounts receivable as follows:

	Number of Presentations	
Special Feature*	1965	1963
A: Assigned receivables	15	14
B: Discounted	18	5
C: Pledged	10	9
D: Used as security on collateral for debt	12	—
Secured	—	4
E: Contingent liability	36	1
F: Factored or hypothecated	1	2
G: Sold	38	21
H: Secured by collateral or otherwise	5	—
Total	135	56

*Refer to Company Appendix Section—A: 58, 102, 110, 138, 146, 150, 177, 194, 221, 250, 282, 288, 359, 411, 514; B: 6, 62, 70, 91, 96, 119, 126, 131, 170, 277, 288, 343, 379, 450, 519, 549, 560, 574; C: 2, 110, 158, 210, 270, 277, 560, 565, 571, 583; D: 93, 102, 110, 153, 287, 337, 359, 436, 514, 560, 562, 573; E: 6, 32, 33, 39, 70, 73, 91, 119, 126, 128, 131, 139, 170, 196, 208, 220, 245, 246, 277, 287, 288, 343, 379, 450, 472, 488, 519, 522, 549, 550, 560, 565, 574, 579, 587, 591; F: 102; G: 15, 33, 56, 73, 122, 128, 137, 138, 139, 142, 186, 196, 208, 220, 225, 235, 245, 246, 266, 278, 287, 308, 352, 355, 356, 382, 403, 424, 472, 487, 488, 522, 550, 565, 567, 579, 587, 591; H: 196, 211, 254, 278, 574.

The number of special features presented in the 1965 reports has been compared in the tabulation above with similar information for 1963, revealing a dramatic increase in the number of such presentations.

In its *Opinion No. 6* issued in October 1965 (and effective for fiscal periods beginning after December 31, 1965), the accounting principles board of the American Institute of Certified Public Accountants amended *Accounting Research Bulletin No. 43*,† Chapter 3A, by adding the following paragraph thereto:

> 10. Unearned discounts (other than cash or quantity discounts and the like), finance charges and interest included in the face amount of receivables should be shown as a deduction from the related receivables.

The following examples selected from the 1965 reports are illustrative of the various types of accounts receivable presentations. Some of these presentations include deductions for finance charges and interest. Further examples of this type may be found by reference to the company numbers appearing at the foot of Table 30 in this section.

†Included in *Accounting Research and Terminology Bulletins, Final Edition*, 1961.

TABLE 6: TRADE RECEIVABLES

Current Asset Description*	1965 Balance Sheet	1965 Notes	1965 Elsewhere in Report	1955
A: Accounts receivable or Receivables	427	1	1	439
B: Accounts and notes receivable combined	171	—	—	153
C: Notes receivable	11	—	—	18
D: Installment accounts receivable	18	4	2	14
E: Installment notes receivable	5	2	—	4
F: Trade acceptances—bills—drafts	2	—	—	14
G: Employees' receivables	5	—	—	2
H: Deferred receivables	2	—	5	5
I: Foreign receivables	1	—	—	2
J: Contracts receivable	11	—	—	11
Trading exchange accounts	—	—	—	4
K: Equity in (installment) accounts	5	1	3	5
L: Joint-venture accounts receivable	1	—	—	1
M: Claims receivable	6	—	—	2
N: Accounts receivable—vendors, suppliers	—	1	—	6
O: Reimbursable expenditures	3	—	—	1
P: Balance due on layaway merchandise sales	1	—	—	1
Q: Revolving credit accounts	—	1	1	1
Receivable from factor for accounts receivable sold	—	—	—	2
R: Amounts owed us	1	—	—	—
Total	670	10	12	685

Number of Companies presenting*:	1965	1955
Trade receivables in current assets	598	599
S: No trade receivables in current assets	2	1
Total	600	600

*Refer to Company Appendix Section—A: All 694 presentations not specifically listed below under other captions; B: 6, 8, 10, 14, 15, 18, 25, 33, 38, 41, 42, 48, 52, 54, 55, 58, 59, 60, 61, 65, 66, 67, 68, 69, 70, 74, 88, 97, 104, 107, 109, 111, 114, 116, 118, 121, 128, 129, 130, 133, 136, 139, 146, 151, 153, 156, 157, 159, 164, 170, 171, 179, 180, 182, 184, 186, 195, 196, 198, 200, 201, 202, 203, 206, 207, 213, 214, 219, 220, 221, 226, 229, 230, 249, 251, 253, 258, 262, 263, 270, 274, 275, 277, 279, 284, 287, 288, 294, 297, 298, 303, 305, 307, 308, 312, 316, 322, 325, 327, 334, 337, 347, 350, 357, 360, 368, 374, 379, 380, 393, 394, 396, 397, 404, 405, 412, 414, 426, 429, 430, 433, 435, 436, 438, 441, 443, 450, 463, 464, 465, 466, 467, 479, 480, 481, 495, 497, 500, 502, 505, 508, 510, 515, 516, 517, 519, 520, 521, 527, 529, 531, 532, 537, 538, 542, 544, 548, 550, 552, 556, 557, 563, 567, 568, 571, 572, 574, 577, 583, 584, 595, 597, 599; C: 123, 134, 197, 211, 367, 423, 453, 472, 488, 573, 591; D: 15, 33, 70, 84, 137, 180, 209, 220, 235, 266, 289, 360, 382, 391, 397, 450, 472, 487, 501, 504, 506, 579, 591, 597; E: 15, 110, 111, 221, 278, 315, 397; F: 26, 453; G: 241, 367, 378, 423, 504; H: 38, 67, 225, 259, 261, 352, 360; I: 347; J: 54, 63, 73, 189, 230, 242, 283, 374, 375, 406, 418; K: 225, 266, 278, 352, 356, 382, 403, 472, 487; L: 63; M: 10, 32, 219, 266, 341, 467; N: 15; O: 245, 344, 411; P: 190; Q: 15, 487; R: 439; S: 389, 440.

Accounts Receivable or Receivables

ALLEN INDUSTRIES, INC.

Current Assets:

Cash	$ 3,215,898
Trade accounts receivable, less allowances of $200,000 in 1965 and $146,000 in 1964	12,070,382
Inventories—at lower of cost or market—Note B:	
In-process and finished products	2,151,868
Raw materials and supplies	5,434,362
	$ 7,586,230
Total Current Assets	$22,872,510

BELDING HEMINWAY COMPANY, INC.

Current Assets:

Cash	$ 599,360
Accounts receivable—trade (less reserves of $277,580 and $228,038, respectively)	9,577,703
Miscellaneous receivables	131,434
Merchandise inventories (Note A):	
Raw materials and greige goods	6,537,155
Work in process	2,838,958
Finished goods	7,875,307

THE BENDIX CORPORATION

Current Assets:

Cash	$ 24,047,591
Receivables (including unbilled charges):	
United States Government departments or agencies	69,479,010
Other	92,542,993
Total receivables	162,022,003
Less allowance for losses on receivables	1,200,000
Net receivables	160,822,003
Inventories, at cost or market, whichever is lower (Note 5)	169,204,920
Total Current Assets	$354,074,514

COPPERWELD STEEL COMPANY

Current Assets:

Cash	$ 2,861,687
Marketable securities—at cost which approximates market	3,032,389
Accounts receivable less allowance for doubtful accounts	8,943,885

CROWN CORK & SEAL COMPANY, INC.

Current Assets:	
Cash	$ 6,968,000
Notes receivable from Crown Financial Corporation	1,850,000
Receivable from customers less allowance for loss 1965 — $814,000, 1964 — $958,000	34,899,000
Inventories at lower of cost or market:	
Finished goods and work in process	32,876,000
Raw materials and supplies	16,223,000
Prepaid expenses, deposits, etc.	3,191,000
Total Current Assets	$96,007,000

GIDDINGS & LEWIS MACHINE TOOL COMPANY

Current Assets:	
Cash	$ 1,410,888
Receivables	6,798,265
Inventories, at lower of cost (first-in, first-out) or market:	
Raw materials, purchased parts and supplies	3,418,432
Work in process, less progress billings — 1965, $515,603; 1964, $1,140,-559	9,294,787
	12,713,219
Prepaid expenses	101,075
Total Current Assets	$21,023,447

Accounts and Notes Receivable

AUTOMATIC CANTEEN COMPANY OF AMERICA

Current Assets:	
Cash	$ 8,143,641
Short-term investments, at cost approximating market	17,192,575
Notes and accounts receivable:	
Customers and distributors—including current portion of installment accounts	17,986,400
Sundry	4,631,570
Less allowance for doubtful receivables	(2,115,000)
Inventories at the lower of cost (first-in, first-out) or market:	
Merchandise for resale	10,625,747
Merchandising equipment	4,515,471
Work in process, parts, materials and supplies	8,149,228
Prepaid expenses	608,232
Total Current Assets	$69,737,864

J. I. CASE COMPANY

Current Assets:	
Cash	$ 8,225,164
Notes and accounts receivable:	
Customers—	
Notes	11,566,435
Accounts	8,777,576
Miscellaneous	1,511,748
Allowance for doubtful receivables	(800,000)
	21,055,759
Due from nonconsolidated subsidiaries:	
French subsidiaries	3,615,443
Inventories (Note 4)	97,120,133
Prepaid expenses	724,531
Total Current Assets (Note 3)	$130,741,030

REPUBLIC STEEL CORPORATION

Current Assets:	
Cash	$ 51,135,269
Marketable securities—at cost and accrued interest (approximate market)	76,082,743
Accounts and notes receivable—trade, less allowances for possible losses (1965 and 1964—$2,433,019)	87,862,975
Inventories—Note A	240,305,885
Total Current Assets	$455,386,872

RITTER PFAUDLER CORPORATION

Current Assets:	
Cash	$ 4,429,000
Marketable securities at cost (market value 1965—$3,811,000)	3,051,000
Accounts, notes and installment receivables net of deferred income and allowance for doubtful accounts	33,459,000
Inventories	35,761,000
Prepaid expenses	1,149,000
Total Current Assets	$77,849,000

Notes Receivable

DRESSER INDUSTRIES, INC.

	(Dollars in Thousands)
Current Assets:	
Cash	$ 15,811
Trade receivables:	
Notes and accrued interest	10,180
Accounts	57,646
	67,826
Less allowance for doubtful receivables	4,269
	63,557
Inventories—at lower of cost (principally average cost) or replacement market:	
Finished products and parts	49,963
In-process products and parts	25,582
Raw materials and supplies	17,832
	93,377
Less applicable advances from customers on contracts	941
	92,436
Prepaid expenses	1,770
Total Current Assets	$173,574

THE McKAY MACHINE COMPANY

Current Assets:	
Cash	$ 1,215,757
Accounts receivable, less reserve for doubtful accounts of $32,500 in each year	3,696,550
Notes receivable	125,493
Inventories (at cost not in excess of market) (Note 2):	
Raw materials and finished parts	2,182,479
In process products	4,549,629
Completed products	147,532
	6,879,640
Accounts and notes receivable—Employees	13,362
Prepaid insurance, royalties, etc.	235,143
Total Current Assets	$12,165,945

PEDEN IRON & STEEL CO.

Current Assets:	
Cash	$ 867,860
Certificates of Deposit and Accrued Interest	384,364
Accounts Receivable—Customers	3,610,331
Notes Receivable—Customers	198,365
Allowance for Bad Debts	(228,154)

Installment Accounts Receivable

BEECH AIRCRAFT CORPORATION

Current Assets:

Cash	$ 2,863,611
Marketable securities—at cost (approximate market)	4,399,761
Installment receivables, less allowances for losses and unearned finance charges—Note A	16,693,103
Accounts receivable—United States Government and prime contractors	6,811,597
Other accounts receivable	2,686,507
Inventories, less progress payments of $6,111,798 in 1965, and $5,675,934 in 1964—Note B	29,901,260
Prepaid expenses	166,430
Total Current Assets	$63,522,269

Notes to Financial Statements

Note A: *Installment Receivables*—The following is a summary of the year-end balances:

Installment receivables		$18,194,009
Less:		
Allowance for losses	468,818	
Unearned finance charges	1,032,088	
		$ 1,500,906
		$16,693,103

Installments not due within one year aggregated $6,445,500 in 1965, and $5,528,190 in 1964.

CITY PRODUCTS CORPORATION

Current Assets:

Cash and U. S. Treasury bills	$ 16,159,463
Receivables (excluding instalment accounts sold of $11,519,969 in 1965 and $27,005,867 in 1964)	55,026,584
Less—Reserves	(3,582,987)
Inventories, at the lower of cost or market	68,866,784
Prepaid expense, etc.	2,518,671
Total Current Assets	$138,988,515

ELECTROLUX CORPORATION

Current Assets:

Cash	$ 6,391,691
Marketable securities, at amortized cost which approximates market	8,779,480
Instalment accounts receivable, less unearned finance charges and reserves: 1965 $2,885,549, 1964 $2,856,576	31,522,494
Other receivables	398,090
Inventories, at lower of cost or market	15,559,191
Prepayments of United States income taxes (Note B)	2,730,000
Other prepaid expenses	630,611
	$66,011,557

WHITE MOTOR CORPORATION

Current Assets:

Cash	$ 12,927,064
Trade receivables:	
Accounts	46,770,663
Notes and installment contracts	9,411,200
	56,181,863
Less allowance for doubtful receivables	2,412,000
	53,769,863
Inventories—at lower of cost (first-in, first-out) or market—Note B:	
Finished goods	98,470,592
Raw materials, work in process, and supplies	89,444,375
	187,914,967

Installment Notes Receivable

BRUNSWICK CORPORATION

Current Assets:

Cash (including $8,073,000 collateral deposit in 1965 applied against current notes payable in March, 1966)	$ 35,369,000
Marketable securities, at cost which approximates market ($4,671,000 in 1965 pledged for collateral trust debentures)	4,802,000
Federal income tax refund claims (Notes 3 and 8)	18,225,000
Notes and accounts receivable:	
Installment notes, at principal balances including $227,928,000 in 1965 and $315,188,000 in 1964 due after one year (principal balances of $100,204,000 in 1965 and $153,740,000 in 1964, plus unearned interest thereon, assigned to C.I.T. Corporation and others) (Notes 4 and 7)	319,050,000
Accounts	60,532,000
Less—Reserves for possible losses on receivables (Note 6)	(88,842,000)
Inventories at lower of cost or market:	
Finished goods (Note 5)	45,064,000
Work in process	22,929,000
Raw materials and supplies	11,254,000
Total Current Assets	$428,383,000

HARRIS-INTERTYPE CORPORATION

Current Assets:

Cash	$ 2,975,791
United States Treasury securities	22,606,166
Trade accounts and notes receivable:	
Accounts receivable	32,432,492
Installment notes (principally secured by title-retaining contracts on equipment sold) including approximately $10,200,000 in 1965 and $5,600,000 in 1964 due after one year	17,845,563
Equity in installment notes and accounts sold without recourse	1,296,093
	51,574,148
Less deferred interest income ($1,826,875 in 1965 and $1,229,787 in 1964) and allowances for collection losses	2,552,703
	49,021,445
Inventories—Note B:	
Work in process and finished products	33,791,480
Raw materials and supplies	3,123,764
	36,915,244
Total Current Assets	$111,518,646

Trade Acceptances—Bills—Drafts

QUAKER STATE OIL REFINING CORPORATION

Current Assets:

Cash	$ 4,012,198
U.S. Treasury Bills, at cost and accrued interest	2,477,089
Notes and trade acceptances receivable	1,267,819
Accounts receivable, less allowance	5,450,878
Inventories, at cost, principally on last-in first-out basis, but not in excess of market:	
Crude oil and petroleum products	9,315,718
Other products and supplies	845,851
Prepaid expenses	623,136

AMERICAN CAN COMPANY
Current Assets:

	(Dollars in Thousands)
Cash and temporary cash investments	$ 59,053
Accounts and bills receivable, less allowances	112,671
Inventories (Note 2)	229,541
Total Current Assets	$401,265

Employees' Receivables

GENERAL BOX COMPANY
Current Assets:

Cash	$ 516,160
U. S. Treasury bills, at cost	296,880
Receivables—	
Trade, less $36,000 ($54,900 in 1964) allowance for doubtful accounts	2,957,852
Employees	39,461
Other	190,621
Inventories, at the lower of average cost or market	2,169,273
Prepaid expenses and other assets	180,736
Property under construction to be sold and leased back	309,949
Total Current Assets	$6,660,932

THE McKAY MACHINE COMPANY
Current Assets:

Cash	$ 1,215,757
Accounts receivable, less reserve for doubtful accounts of $32,500 in each year	3,696,550
Notes receivable	125,493
Inventories (at cost not in excess of market) (Note 2):	
Raw materials and finished parts	2,182,479
In process products	4,549,629
Completed products	147,532
	6,879,640
Accounts and notes receivable—Employees	13,362
Prepaid insurance, royalties, etc.	235,143
Total Current Assets	$12,165,945

SNAP-ON TOOLS CORPORATION
Current Assets:

Cash	$1,437,222
Marketable securities—at cost which approximates market	139,180
Accounts receivable:	
Customers, less allowance for doubtful receivables	2,888,570
Installment receivables (including amounts maturing after one year) less unearned finance charges and allowance for losses	3,505,735
Salesmen, dealers and branch managers	1,555,573
Other	192,504

Deferred Receivables

AMERICAN OPTICAL COMPANY
Current Assets:

Cash	$ 1,835,051
Marketable securities, at cost (same as market) and accrued interest	2,507,099
Notes and accounts receivable, including $3,227,000 of deferred payment contracts due after one year ($3,190,400 in 1964), less allowance for possible losses	24,716,945

Contracts Receivable

FMC CORPORATION
Current Assets:

Cash	$ 26,904,512
U. S. Government and other marketable securities, at cost plus accrued interest, which approximates market	40,266,510
Customers' notes, contracts and accounts receivable, less allowance for doubtful receivables ($3,023,619 in 1965 and $2,565,108 in 1964)	112,893,681
Amounts receivable from U. S. Government	16,828,569
Inventories (Page 19)	164,900,315
Sundry receivables and prepaid expenses	12,737,238
Total Current Assets	$374,530,825

NEWPORT NEWS SHIPBUILDING AND DRY DOCK COMPANY
Current Assets:

Cash in banks and on hand	$ 7,109,509
Accounts receivable:	
Contracts and orders	8,549,373
Other	269,234
Excess of expenditures on shipbuilding contracts and estimated profits recorded thereon over progress billings thereon (Note 1)	49,056,990
Expenditures on other work, less billings (Note 1)	8,090,182
Inventory of materials and supplies, at average cost	6,094,586
Prepaid and deferred items	659,197
Total Current Assets	$79,829,071

Equity in Installment Accounts Sold

W. T. GRANT COMPANY
Current Assets:

Cash	$ 30,970,373
Short term securities	7,996,014
Accounts receivable:	
Customers' installment accounts not sold	53,090,139
Equity in customers' installment accounts ($56,935,089 and $61,113,869, respectively) sold	5,693,510
	58,783,649
Less allowance for doubtful accounts	4,407,045
	54,376,604
Other accounts receivable, claims, etc.	2,903,394
Total accounts receivable, net	57,279,998
Merchandise inventories (including merchandise in transit)—at the lower of cost or market determined principally by the retail inventory method	140,715,930
Total Current Assets	$236,962,315

MARSHALL FIELD & COMPANY
Current Assets:

Cash	$ 9,029,175
Short-term investments, at cost (see note)	25,625,376
Receivables from customers and others, including at January 31, 1965, $1,381,660 due from purchaser of installment receivables sold (see note), less allowance for doubtful accounts of $951,000 at the end of each year	25,620,910

Claims Receivable

ALLEGHENY LUDLUM STEEL CORPORATION

Current Assets:

Cash in banks and on hand	$11,307,921
Marketable securities—at cost (approximately market) and accrued interest	30,462,491
Notes and accounts receivable—trade, less estimated allowances of $509,500 (1964—$462,500)	27,900,991
Claims and miscellaneous accounts receivable	522,806

EX-CELL-O CORPORATION

Current Assets:

Cash	$ 6,227,705
Marketable securities at cost (approximates market)	5,500,000
Accounts and notes receivable, less allowance for possible credit losses	26,372,792
Other receivables and claims	1,432,910
Inventories, at the lower of cost or market	51,024,867
Prepaid expenses	1,144,746
Total Current Assets	$91,703,020

Accounts Receivable Assigned

BRUNSWICK CORPORATION

Current Assets:

Cash (including $8,073,000 collateral deposit in 1965 applied against current notes payable in March, 1966)	$ 35,369,000
Marketable securities, at cost which approximates market ($4,671,000 in 1965 pledged for collateral trust debentures)	4,802,000
Federal income tax refund claims (Notes 3 and 8)	18,225,000
Notes and accounts receivable:	
Installment notes, at principal balances including $227,928,000 in 1965 and $315,188,000 in 1964 due after one year (principal balances of $100,204,000 in 1965 and $153,740,000 in 1964, plus unearned interest thereon, assigned to C.I.T. Corporation and others) (Notes 4 and 7)	319,050,000
Accounts	60,532,000
Less—Reserves for possible losses on receivables (Note 6)	(88,842,000)
Inventories, at lower of cost or market:	
Finished goods (Note 5)	45,064,000
Work in process	22,929,000
Raw materials and supplies	11,254,000
Total Current Assets	$428,383,000

NORTHROP CORPORATION

Current Assets:

Accounts receivable—Note B	$25,519,898

Note B: Notes Payable to Banks—Under the terms of a credit agreement, as amended, expiring March 31, 1966, the Company may borrow up to $40,000,000. At July 25, 1965, the Company had borrowed $29,000,000, composed of (1) short-term revolving notes payable of $9,000,000 and (2) long-term notes payable of $20,000,000 (see Note D to financial statements). Under the terms of another credit agreement, a subsidiary may borrow up to $4,000,000 ($1,750,000 borrowed at July 25, 1965). As collateral to their respective borrowings under the credit agreements, the Company and the subsidiary assign amounts due and to become due under their respective sales contracts with minor exceptions. The agreement to which the Company is a party requires the Company to maintain an excess of current assets over current liabilities of not less than $25,000,000.

Notes Receivable Discounted

CORN PRODUCTS COMPANY

Notes to Financial Statements

Contingent Liabilities: Certain international subsidiaries are contingently liable for notes receivable discounted in the amount of $8,925,842.

Accounts Receivable Pledged

ELGIN NATIONAL WATCH COMPANY

Current Assets:

Cash	$ 311,886
Receivables, less reserves of $955,862 in 1965 and $781,593 in 1964, pledged under 7¾% notes payable (Note 1)	11,431,080
Inventories, at lower of first-in, first-out cost or market (Note 1)	14,569,732
Prepaid expenses and other assets	572,351
Total Current Assets	$26,885,049

Notes to Financial Statements

Note 1: Notes Payable—In June, 1964, the Company arranged with a finance company and a bank to refinance a portion of its indebtedness. The initial loans under the financing agreement totaled $10,250,000 and were evidenced by 7¾% notes payable. The notes are payable on demand and are secured by substantially all accounts receivable, contract rights and equipment. The shareholders will be asked to approve, in June, 1965, the pledging of all or substantially all assets under this or any other loan agreement. . .

Receivables as Collateral or Security for Debt

R. G. LeTOURNEAU, INC.

Current Assets:

Cash	$1,302,880
Notes and accounts receivable (Note 2)	3,767,798
Less, Allowance for doubtful accounts	226,500
	$3,541,298

Note 2: . . . Collateral for the above notes consists of assigned future proceeds from a United States Army supply contract and the below listed assets:

Notes and accounts receivable	$ 736,041
Inventories	5,516,419
Construction and rental equipment	866,400
Property, plant and equipment, net of depreciation	5,846,212
	$12,965,072

Installment Receivables Sold

SEARS, ROEBUCK AND CO.

Current Assets:

Cash	$ 200,083,007
Marketable securities (market value $18,282,303)	1,350,409
Receivables—net (Schedule 1)	2,327,471,629

Schedule 1: Receivables—

Customer installment accounts receivable:	
Easy payment accounts	$1,680,343,683
Revolving charge accounts	658,234,845
	2,338,578,528
Other customer accounts	50,944,252
Notes receivable—Allstate Enterprises, Inc.	65,850,000
Dividend receivable—Allstate Insurance Company	19,950,000
Miscellaneous accounts and notes receivable	34,017,955
	2,509,340,735
Less allowance for collection expense and losses on customer accounts	171,835,643
	2,337,505,092
Deduct installment accounts sold—less portion of proceeds withheld pending collection	10,033,463
	$2,327,471,629

NONCURRENT RECEIVABLES

Accounting Research and Terminology Bulletins, Final Edition, issued by the committees on accounting procedure and accounting terminology was published in 1961.

This edition discusses among other things the nature of current assets (Chapter 3, Section A) from which the following excerpts, relative to accounts receivable, etc., are submitted:

> 4. For accounting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. Thus the term comprehends in general such resources as (a) cash available for current operations and items which are the equivalent of cash; (b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts; (c) trade accounts, notes, and acceptances receivable; (d) receivables from officers, employees, affiliates, and others, if collectible in the ordinary course of business within a year; (e) installment or deferred accounts and notes receivable if they conform generally to normal trade practices and terms within the business; (f) marketable securities representing the investment of cash available for current operations; and (g) prepaid expenses such as insurance, interest, rents, taxes, unused royalties, current paid advertising service not yet received, and operating supplies. Prepaid expenses are not current assets in the sense that they will be converted into cash but in the sense that, if not paid in advance, they would require the use of current assets during the operating cycle.
>
> 6. This concept of the nature of current assets contemplates the exclusion from that classification of such resources as: (a) cash and claims to cash which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated[1] for the liquidation of long-term debts; (b) investments in securities (whether marketable or not) or advances which have been made for the purposes of control, affiliation, or other continuing business advantage; (c) receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) which are not expected to be collected within twelve months; (d) cash surrender value of life insurance policies; (e) land and other natural resources; (f) depreciable assets; and (g) long-term prepayments which are fairly chargeable to the operations of several years, or deferred charges such as unamortized debt discount and expense, bonus payments under a long-term lease, costs of rearrangement of factory layout or removal to a new location, and certain types of research and development costs.

[1] Even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes should also, under this concept, be excluded from current assets. However, where such funds are considered to offset maturing debt which has properly been set up as a current liability, they may be included within the current asset classification.

For receivables due from unconsolidated subsidiary and affiliated companies see this section, Table 21.

The following tabulation summarizes the 161 presentations of noncurrent receivables presented by the survey companies in their annual reports for 1965, and is supplemented by selected examples.

Noncurrent Asset Description*	Number of Presentations
A: Accounts receivable or Receivables	37
B: Long-term receivables	38
C: Notes receivable	30
D: Notes and accounts receivable combined	22
E: Employees' receivables	17
F: Deferred receivables	4
G: Installment accounts receivable	1
H: Installment notes receivable	1
I: Contracts receivable	6
J: Trade acceptances—bills—drafts	1
K: Claims receivable	3
L: Various other	1
Total	161

*Refer to Company Appendix Section—A: 14, 18, 54, 70, 77, 100, 121, 126, 178, 184, 194, 232, 249, 255, 299, 310, 318, 319, 325, 338, 393, 399, 402, 405, 417, 418, 429, 446, 452, 453, 479, 493, 499, 558, 584, 587, 597; B: 2, 35, 60, 68, 73, 150, 177, 208, 211, 229, 244, 246, 247, 272, 384, 414, 426, 435, 450, 460, 466, 474, 489, 492, 495, 500, 502, 505, 515, 516, 532, 535, 544, 553, 566, 574, 582, 592; C: 56, 64, 78, 95, 97, 109, 129, 142, 179, 189, 196, 197, 201, 251, 275, 277, 301, 337, 360, 370, 383, 404, 461, 477, 485, 488, 514, 518, 542, 571; D: 9, 25, 58, 59, 65, 74, 88, 109, 120, 128, 136, 153, 156, 195, 234, 330, 355, 443, 458, 550, 555, 557; E: 29, 39, 89, 116, 133, 183, 190, 196, 246, 254, 258, 297, 396, 411, 447, 525, 577; F: 20, 26, 64, 311; G: 70; H: 136; I: 156, 166, 211, 374, 530, 561; J: 26; K: 35, 98, 423; L: 119.

In Noncurrent Asset Section

Accounts Receivable or Receivables

ALLIED MILLS, INC.
Noncurrent Assets

Non-Current Receivables and Investments	$948,497.45

CARNATION COMPANY
Noncurrent Assets

Non-Current Receivables and Miscellaneous Investments, at the lower of cost or estimated realizable values	$6,387,442

Long-term Receivables

COLT INDUSTRIES INC.
Noncurrent Assets

Long-term receivables	$3,840,287

PENNSALT CHEMICALS CORPORATION
Supplementary Financial Information

Investments and Advances:	
Subsidiaries not consolidated	$ 9,399,046
50% owned companies	2,376,000
Investments and long-term receivables	2,429,029
	$14,204,075

Notes and Accounts Receivable

ASHLAND OIL & REFINING COMPANY

Investments and Other Assets:	
Investments in and receivables from unconsolidated foreign subsidiaries—at cost, less reserve	$ 2,653,029
Capital stock of other companies—at cost	5,731,415
Notes and accounts receivable, less reserve	9,400,743
Contracts—at cost, less amortization	4,157,605
	$21,942,792

UNITED ENGINEERING AND FOUNDRY COMPANY
Noncurrent Assets

Accounts and Notes Receivable, Noncurrent	$2,149,783

Notes Receivable

THE NEW BRITAIN MACHINE COMPANY

Investments and Other Assets:	
Investments in and accounts with foreign subsidiaries—Note B	$1,767,396
Deposits with mutual insurance companies	163,388
Notes receivable, installments due beyond one year	542,937
Miscellaneous assets and receivables	368,086
	$2,841,807

STANDARD KOLLSMAN INDUSTRIES INC.

Other Assets:	
Patents—net of amortization	$122,284
Notes receivable, deferred charges, etc.	532,324
	$654,608

Employees' Receivables

BURROUGHS CORPORATION

Other Assets:	
Investment in Burroughs Finance Corporation	$ 5,209,988
Notes receivable from officers and key employees for purchase of common stock of the Company	2,640,808
Deferred charges and other assets	3,488,710
	$11,339,506

THE GILLETTE COMPANY
Noncurrent Assets

Due from employees under stock purchase and option plans	$474,000

Deferred Receivables

AMERADA PETROLEUM CORPORATION
Noncurrent Assets

Deferred Receivables, Etc.	$5,334,890

INTERNATIONAL SHOE COMPANY
Noncurrent Assets

Customers' secured loans, deferred maturities	$3,187,548

Installment Receivables

AUTOMATIC CANTEEN COMPANY OF AMERICA

Other Receivables and Investments:	
Installment and other receivables, less allowance for losses $600,000	$ 6,653,243
Investments in finance subsidiaries (Note 1)	12,336,867
Other investments	107,672
Total Other Receivables and Investments	$19,097,782

Installment Notes Receivable

CITIES SERVICE COMPANY

Investments, Advances and Sundry Assets:	
The Atlantic Refining Company preference stock—at cost (current quoted market value approximates $225,000,000)	$ 30,390,383
Other investments and advances (including subsidiaries not consolidated $13,574,146 in 1965 and $13,350,905 in 1964)—at cost or less	55,381,650
Installment notes receivable—due in varying amounts to 1977	35,324,698
Accounts and notes receivable—not current	11,534,503
	$132,631,234

Contracts Receivable

METRO-GOLDWYN-MAYER INC.

Investments and Other Assets:	
Investments in nonsubsidiaries, at cost	$ 2,101,000
Television contract instalments due after one year	14,060,000
Miscellaneous receivables and other assets	4,884,000
	$21,045,000

SUNDSTRAND CORPORATION

Other Assets:	
Cash value of life insurance	$ 106,600
Preproduction costs (less income tax credits)	980,520
Contract receivables and sundry assets	94,834
	$1,181,954

TERMINOLOGY FOR "UNCOLLECTIBLE ACCOUNTS"

Accounting Terminology Bulletin Number 1, Review and Résumé, 1953, issued by the committee on terminology of the American Institute of Certified Public Accountants, restates a recommendation previously made with reference to the use of the term "reserve," "that the use of the term in the income statement or to describe in the balance sheet deductions from assets or provisions for particular liabilities should be avoided."

The steady decrease in the use of the term "reserve" to describe uncollectible accounts appears to give recognition to the soundness of this recommendation.

Table 7 is a tabulation in comparative form of the terminology used by the 600 survey companies; it has been divided into three sections. The first section summarizes the primary descriptive terms, such as "allowance," "reserve," "provision," etc., used in the balance sheet to describe *uncollectible accounts*. The second section of Table 7 sets forth the various secondary terms used in such balance sheet descriptions. The third section of the tabulation shows the various combinations of primary and secondary terms used in 1965 and the frequency of their use.

In this connection it may be noted that many companies add the word "less" although this term has been omitted from the examples cited.

The uncollectible accounts terminology used in the 1965 survey reports are presented below.

Allowance—(324 Companies):

Allowance(s) (*26, 62, 76, 78, 83, 87, 93, 162, 198, 208, 256, 260, 334, 364, 370, 375, 383, 413, 417, 429, 431, 447, 448, 453, 483, 489, 512, 530, 535, 543, 556, 565)

Allowance(s) of $xxx (*4, 11, 17, 18, 36, 109, 130, 143, 145, 167, 188, 189, 214, 237, 244, 251, 289, 294, 295, 297, 300, 302, 309, 342, 347, 353, 380, 395, 457, 461, 466, 471, 491, 494, 528, 529, 541, 545, 546, 574, 582, 593)

Allowances and doubtful accounts (*125)

Allowance for cash discounts and doubtful accounts (*311)

Allowances for cash discounts and doubtful accounts: $xxx (*400)

*Refer to Company Appendix Section.

TABLE 7: UNCOLLECTIBLE ACCOUNTS

Primary Descriptive Term*	1965**	1960	1955	1950
"Allowance"—used alone	74	52	31	169
Allowance, etc.	250	230	217	
"Reserve"—used alone	77	117	122	248
Reserve, etc.	25	38	59	
Provision, etc.	29	38	31	37
Estimated, etc.	17	22	27	36
Deduction, etc.	—	3	4	3
Other terms	6	6	7	4
Total	478	506	498	497
No "uncollectible accounts" indicated	122	94	102	103
Total	600	600	600	600

*Combined with:	1965	1960	1955
Doubtful accounts	212	195	197
Doubtful notes and accounts	3	6	9
Doubtful amounts	1	1	2
Doubtful balances	2	3	4
Doubtful items	7	10	12
Doubtful receivables	18	14	17
Doubtful	2	4	4
Uncollectible accounts	5	5	5
Uncollectible amounts	4	3	4
Uncollectible items	—	—	1
Uncollectibles	2	2	2
Loss(es)	27	37	28
Collection losses	8	10	14
Carried forward	291	290	299

	1965	1960	1955
Brought forward	291	290	299
Credit losses	—	1	2
Receivable losses	1	1	1
Possible losses	22	22	17
Possible collection losses	4	4	7
Possible credit losses	1	1	1
Possible future losses	1	1	1
Bad debts	5	12	10
Allowances	1	—	—
Other phrases	—	1	1
"Allowance"—used alone	74	52	31
"Reserve"—used alone	77	117	122
Other terms used alone	1	4	6
No "uncollectible accounts"	122	94	102
Total	600	600	600

	Primary Descriptive Term Above:					
**1965 Descriptive Terms Combined as:	Allowance	Reserve	Provision	Estimated	Other	Total
Doubtful	199	22	11	7	6	245
Uncollectible	3	1	2	5	—	11
Losses	46	2	13	3	—	64
Bad debts	2	—	2	1	—	5
With other phrases	—	—	—	1	—	1
Used alone	74	77	1	—	—	152
Total	324	102	29	17	6	478

Allowances for cash discounts, returns and doubtful accounts (*388)
Allowance for claims, discounts and doubtful notes and accounts $xxx (*184)
Allowance for discounts and doubtful accounts (*327, 379)
Allowance for discounts and doubtful accounts of $xxx (*155)
Allowances for discounts and doubtful receivables (*275)
Allowance for doubtful (*288, 552)
Allowance(s) for doubtful accounts (*5, 8, 9, 23, 29, 43, 51, 53, 67, 68, 72, 77, 94, 96, 103, 104, 119, 133, 138, 148, 153, 156, 169, 173, 179, 180, 183, 191, 195, 196, 200, 203, 204, 206, 212, 223, 226, 228, 239, 242, 262, 266, 269, 277, 284, 290, 291, 303, 318, 320, 337, 339, 356, 360, 385, 397, 402, 403, 404, 420, 442, 451, 455, 469, 472, 473, 481, 484, 485, 490, 492, 493, 500, 507, 509, 514, 524, 538, 553, 557, 566, 587, 590, 592, 594)
Allowance for doubtful accounts $xxx (*526)
$xxx allowance for doubtful accounts (*328, 499)
Allowance(s) for doubtful accounts and discounts (*120, 134, 254)
Allowance for doubtful accounts and discounts: $xxx (*314)
Allowances ($xxx) for doubtful accounts and discounts (*92)
Allowances for doubtful accounts, freight, and discounts of $xxx (*575)
Allowance(s) for doubtful accounts of $xxx (*1, 32, 34, 41, 55, 58, 59, 60, 74, 116, 135, 151, 157, 172, 202, 240, 249, 265, 280, 281, 306, 312, 335, 336, 369, 394, 408, 424, 428, 437, 456, 470, 475, 498, 519, 522, 523, 537, 542, 549, 555, 559, 567, 571, 576, 583, 585, 599)
Allowance(s) for doubtful items (*147, 158, 412)
Allowance(s) for doubtful items: $xxx (*52, 229)
Allowance for doubtful items and unearned finance charges (*450)
Allowance for doubtful notes and accounts (*270)
Allowance(s) for doubtful receivables (*69, 70, 90, 123, 197, 222, 235, 258, 405, 504, 591, 598)
Allowance(s) for doubtful receivables: $xxx (*230, 233, 321)
Allowance for doubtful receivables and discounts, $xxx (*520)
Allowance(s) of $xxx for doubtful accounts (*37, 127, 132, 201, 217, 236, 241, 323, 324, 330, 372, 376, 419, 521, 572, 577, 578)
Allowance of $xxx for doubtful accounts and deferred service charges (*190)
Allowance of $xxx for doubtful accounts and discounts (*13, 301)
Allowance of $xxx for doubtful accounts, deferred income taxes on installment sales and unearned carrying charges (*261)
Allowances of $xxx for doubtful items, etc. (*182)
Unearned carrying charges and allowances for doubtful accounts (*501)
Allowance for amounts uncollectible (*211)
Allowance for uncollectible accounts of $xxx (*199)
Allowance for uncollectibles of $xxx (*128)
Allowance for collection expense and losses on customer accounts (*487)
Allowance for collection losses (*317)
Allowance(s) for loss(es) (*22, 82, 84, 112, 149, 176, 207, 250, 264, 467)
Allowances for losses $xxx (*40, 174, 175, 296, 365)
Allowances for losses, adjustments and discounts $xxx (*511)
Allowances for losses and discounts $xxx (*416)
Allowance for losses and refunds (*12)
Allowance for losses and unearned interest: $xxx (*308)
Allowances for losses in collection ($xxx) (*322)
Allowance for losses on receivables (*89)
Allowance for possible credit losses (*219)
Allowance(s) for possible loss(es) (*33, 38, 57, 126, 248, 351, 399, 463, 479, 558)
Allowances for possible losses and cash discounts (*111)
Allowances for possible losses in collection (*506)
Allowances for possible losses in collection $xxx (*238)
Allowance for possible losses of $xxx (*331, 433)
Allowances for possible losses on collection (*15)
Allowance of $xxx for cash discounts and possible losses (*341)
Allowance of $xxx for discounts and losses (*378)
Allowance of $xxx for possible losses (*42, 48, 527)
Deferred interest income ($xxx) and allowances for collection losses (*278)
Allowance for bad debts (*423, 462)

Reserve—(102 Companies):
Reserve(s) (*7, 25, 31, 44, 65, 88, 95, 102, 107, 137, 150, 160, 170, 177, 245, 246, 274, 286, 298, 307, 326, 343, 361, 368, 377, 387, 415, 421, 427, 444, 452, 464, 465, 480, 495, 497, 502, 513, 515, 532, 533, 548, 560, 581)
Reserve(s) of $xxx (*16, 86, 91, 106, 113, 142, 154, 159, 178, 205, 210, 255, 285, 292, 319, 329, 338, 355, 358, 396, 449, 454, 458, 486, 496, 510, 525, 579, 589, 600)
Reserve for discounts and doubtful accounts (*282)
Reserve(s) for doubtful accounts (*14, 99, 213, 333, 366, 384, 445, 508, 597)
Reserve for doubtful accounts and allowances of $xxx (*165)
Reserve for doubtful accounts and discounts of $xxx (*171)
Reserves for doubtful accounts and unearned carrying charge income (*382)
Reserve for doubtful accounts of $xxx (*310, 367, 381, 586)
Reserve for doubtful notes and accounts (*488)
Reserves for returns and allowances and doubtful receivables (*186)
Reserve of $xxx for doubtful accounts (*49, 105, 432)
Reserve for uncollectible accounts (*47)
Reserve for losses (*6)
Reserves for possible losses on receivables (*110)
Unearned finance charges and reserves: $xxx (*209)
Net of reserve(s) (*392, 564)

Provision—(29 Companies):
Provisions of $xxx (*247)
Provision for allowances and doubtful accounts (*550)
Provision for allowances and doubtful accounts—$xxx (*220)

*Refer to Company Appendix Section.

Provisions for allowances, claims and doubtful balances of $xxx (*304)
Provision for doubtful accounts (*28, 146, 436)
Provision for doubtful accounts $xxx (*243)
Provision for doubtful accounts and discounts (*81)
Provision for doubtful accounts, etc. (*259)
Provision for doubtful receivables of $xxx (*446)
Provision for estimated doubtful accounts (*391)
Provisions for uncollectible accounts (*536)
Provisions of $xxx for estimated uncollectible accounts (*121)
Provision against losses (*39)
Provision for collection losses (*131)
Provision for losses (*61, 474)
Provision for losses in collection: $xxx (*287)
Provision for losses of $xxx (*64, 231)
Provision for possible future losses and deferred service charges (*225)
Provision for possible losses (*101, 315, 371)
Provision for possible losses—$xxx (*595)
Provision of $xxx for possible losses in collection (*215)
Provision for bad debts (*263, 563)

Estimated—(17 Companies):
Estimated doubtful accounts (*272, 410, 505)
Estimated doubtful accounts, discounts and allowances, $xxx (*551)
Estimated doubtful accounts of $xxx (*346, 544)
Estimated doubtful amounts (*443)
Estimated amount(s) uncollectible (*430, 443)
Estimated uncollectible accounts (*584)
Estimated uncollectible amounts (*352)
Estimated uncollectibles (*518)
Estimated collection losses (*253, 354)
Estimated losses: $xxx (*441)
Estimated bad debts (*569)
Estimated allowances of $xxx (*10)

Various Other Terms—(6 Companies):
After deduction of $xxx for doubtful accounts and allowances (*580)
After deduction of $xxx for doubtful accounts, discounts, returns and allowances (*114)
$xxx for doubtful accounts and allowances (*305)
$xxx for doubtful accounts and cash discounts (*348)
Net of doubtful accounts and allowances (*299)
Other investments and noncurrent receivables, at cost less reserve (*325)

U. S. GOVERNMENT CONTRACTS

The committee on accounting procedure of the American Institute of Certified Public Accountants, in *Accounting Research and Terminology Bulletin, Final Edition,* 1961, Chapter 11, discusses in detail the recommended procedures in accounting for cost-plus-fixed-fee contracts, renegotiation, terminated war and defense contracts, and their presentation in financial statements.

As shown in Table 8, the number of companies indicating government contracts or defense business in their

*Refer to Company Appendix Section.

TABLE 8: GOVERNMENT CONTRACTS AND DEFENSE BUSINESS

	Balance Sheet Information*	1965	1955
	Current Asset Section		
A:	Accounts receivable due from government	36	62
B:	Inventory less billings or progress payment received	30	42
C:	Unbilled costs or fees	12	14
	Recoverable costs	—	5
D:	Reimbursable expenditures	8	10
E:	Fees or costs less progress payments received	5	4
	Advances or payments to subcontractors less progress payments received from government	—	2
F:	Deferred general and administrative expense applicable to contracts	1	1
	Contract termination claims	—	2
	Government inventory not further described	—	7
	Advances or progress payments received deducted from current asset subtotal	—	4
	Emergency facilities purchased, to be acquired by U. S. Government	—	1
	Noncurrent Asset Section		
	Advances received with liability account contra thereto	—	1
	Recoverable costs	—	1
	Current Liability Section		
	Invoices, payrolls, etc., applicable to contracts	—	1
G:	Estimated price adjustments	1	9
H:	Advances received	2	2
I:	Advance payments received in excess of expenditures	1	2
J:	Unearned billings	2	—
	Provision for contract settlement, or refunds due—U. S. Government	—	4
	Estimated costs to be incurred	—	2
	Liability under incentive type contracts	—	2
	Noncurrent Liability Section		
	Advances received (contra to asset account)	—	1
K:	Notes payable due to government	1	1
	Funds for payments under U. S. Government contracts	—	1
	Total	99	181

Number of Companies referring to Government Contracts or Defense Business	1965	1955
In balance sheet presentation	50	88
In report, but not included in balance sheet presentation	136	190
Not referring to contracts, defense business, etc.	414	322
Total	600	600

*Refer to Company Appendix Section—A: 6, 71, 79, 84, 89, 97, 129, 146, 163, 181, 182, 194, 221, 230, 245, 271, 283, 285, 308, 334, 345, 359, 385, 392, 409, 454, 460, 462, 476, 508, 509, 514, 527, 530, 555, 574; B: 6, 71, 84, 97, 116, 129, 146, 163, 182, 194, 220, 221, 230, 236, 245, 271, 290, 345, 357, 359, 409, 411, 454, 460, 476, 495, 508, 509, 514, 555; C: 21, 79, 89, 116, 211, 212, 221, 271, 357, 460, 509, 514; D: 163, 194, 245, 344, 411, 476, 514, 543; E: 283, 334, 385, 392, 406; F: 359; G: 146; H: 89, 181; I: 194; J: 64, 406; K: 411.

annual reports has decreased from 278 in 1955 to 186 during the year under review. There were 50 companies which made specific reference to United States Government contracts or defense business within the balance sheet, and 136 companies which included such information elsewhere in their annual reports. Table 8 also discloses the various methods used by the survey companies in presenting this information in the balance sheet.

In this and other tables it may be noted that there is a difference between the number of items cited in the detail section of the table and the number of companies reporting, as shown in the summary. This difference arises because *one* company may cite *two or more* pertinent items.

Contracts with the United States Government were ordinarily described by the companies as "defense contracts" or "U. S. Government contracts." Some of the various terms used by the companies to identify such contracts are given below.

Descriptive Term
- Cost-plus-fixed-fee contracts (*2, 460)
- Cost-reimbursement type contracts (*163, 194, 409, 476, 514, 576)
- Defense contracts (*7, 32, 73, 124, 223, 293, 388, 407, 493, 591)
- Fixed-price type or fixed-fee contracts (*97, 345, 462, 555)
- Incentive type contracts (*97, 514, 572)
- Price redetermination contracts (*555)
- Prime contracts (*89, 146, 182, 230, 253, 292, 411, 495, 541, 587)
- Research-development type contracts (*10, 57, 150, 181, 208, 238, 278, 344, 470, 552)
- Subcontracts (*8, 112, 172, 274, 328, 349, 358, 501)
- U.S. Government contracts (*43, 63, 82, 139, 236, 308, 353, 406, 467, 510)
- U.S. Ordnance contracts (*33, 141, 220, 355, 357, 394, 397, 572)

The amount and nature of the information given in the 1965 reports of the survey companies with respect to their United States Government contracts and defense business differed widely. Some of the survey companies gave specific information as to the nature of the contracts while others indicated that contracts existed, only by reference to accelerated depreciation of emergency facilities, or by stating that certain sales were subject to renegotiation.

Many companies disclosed special features applicable to United States Government contracts, some of which are listed below.

*Refer to Company Appendix Section.

Special Feature
- Certain assets pledged as collateral or security—or title vested in U.S. Government—for loan or financial aid from government (*84, 163, 181, 271, 411, 476)
- Certain receivables due to company from government pledged to secure loans obtained from nongovernment sources (*146, 150, 221, 337, 359, 514)
- Government-owned plant and equipment operated by company (*2, 18, 82, 97, 195, 226, 245, 263, 381, 454)
- Price redetermination or contract adjustment clause (*6, 212, 406, 540, 576)
- Contract completed during year (*43, 79, 300, 397, 555)

The following examples selected from the 1965 annual reports illustrate the methods of disclosure used by the companies regarding their United States Government contracts.

Cost-Plus-Fixed-Fee Contracts

ACF INDUSTRIES, INCORPORATED
Letter to Stockholders

The Albuquerque Division manages the South Albuquerque, New Mexico facility of the Atomic Energy Commission. Its achievements in the manufacture of complex components and assemblies of high reliability, and its applied research with conventional and exotic metals, and with plastics, have enhanced ACF's national reputation as a manufacturer and have served as a standard of excellence within the Company. The Division shared to a minor degree the general retrenchment by the AEC in direct defense work, a reduction that is being partially balanced in the current year by increased field engineering support, special component fabrication and expanded activity in the NERVA (Nuclear Engine for Rocket Vehicle Application) program. The Division operates on a cost-type fixed-fee contract.

CONTROL DATA CORPORATION
Notes to Financial Statements

Note 10: Contingent Liabilities and Commitments—Substantial portions of sales for periods subsequent to June 30, 1961 are subject to statutory renegotiation and costs on cost-plus-fixed-fee contracts are subject to audit. In the opinion of the Company, refunds and unallowable costs, if any, which may be determined will not have a material effect on the consolidated financial position as of June 30, 1965.

RAYTHEON COMPANY

Current Assets:	
Cash	$ 5,068,898
Accounts receivable:	
Government contracts, direct and indirect, including unbilled costs and fees on cost-type contracts: 1965, $16,276,823; 1964, $24,386,947	57,548,452
Commercial	29,065,713
Inventories (Note B):	
Fixed price contracts in progress, less progress payments: 1965, $54,568,109; 1964, $71,687,202	54,756,745
Other	62,095,960
Prepaid expenses	2,333,935
Total Current Assets	$210,869,703

Cost-Reimbursement Type Contracts

CONTINENTAL MOTORS CORPORATION

Current Assets:

Cash	$ 2,059,405
U.S. Treasury bills	1,979,727
Accounts receivable:	
United States Government agencies	6,369,089
Other	12,672,339
Unreimbursed costs and fees under cost reimbursement type contracts	3,716,686
Inventories (Note 1):	
Finished goods, work in process and materials	40,809,156
Manufacturing supplies	769,076
	41,578,232
Less progress payments	846,051
	40,732,181
Prepaid expenses	763,467
Total Current Assets	$68,292,894

DOUGLAS AIRCRAFT COMPANY, INC.
Financial Review

Of the 1965 sales under government contracts, space programs accounted for $318,390,000, military missiles for $57,479,000 and military aircraft for $135,956,000. Of these sales 66 per cent were under cost-type contracts as compared with 65 per cent in 1964. The remaining government sales were under fixed-price contracts largely of the incentive type. In the future, however, it is expected that the percentage of the fixed-price type contracts will increase.

THE RYAN AERONAUTICAL CO.

Current Assets:

Cash and U.S. treasury bills	$ 5,090,599
Accounts receivable:	
United States government agencies	10,948,618
Other	13,411,832
Unreimbursed costs and fees under cost reimbursement type contracts	7,925,775
Inventories, at lower of cost or market (Note 2):	
Materials, parts and supplies	1,069,059
Finished goods and work in process	43,408,931
	44,477,990
Less progress payments	846,051
	43,631,939
Prepaid expenses	1,249,169
Total Current Assets	$82,257,932

STANDARD KOLLSMAN INDUSTRIES INC.
Notes to Financial Statements

Note 1: *Contract Accounting*—Revenues and profits on cost reimbursement and long-term fixed price contracts are recorded on the percentage of completion basis as the contracts progress. Amounts so recorded which remain unbilled are shown separately in the accompanying balance sheet, net of progress payments received. Fees taken into income on contracts with incentive provisions include that portion of incentive amounts reasonably determined to be attainable. If estimates of total contract cost indicate a loss, provision is made currently for the total loss anticipated on the contract.

Fixed-Price Type or Fixed Fee Contracts

THE BOEING COMPANY
Notes to Financial Statements

Inventories: Work in process on military fixed-price incentive type contracts is stated at the total of direct costs and overhead applicable thereto, less the estimated average cost of deliveries based on the estimated total cost of the contracts. Work in process on straight fixed-price contracts is stated in the same manner, except that applicable research, developmental, administrative, and other general expenses are charged directly to earnings as incurred. In addition, effective January 1, 1965, the Company adopted the policy of charging basic engineering and planning costs applicable to commercial jet transport programs directly to earnings instead of to work in process. The effect of this change was to reduce net earnings for 1965 by $9,700,000. At December 31, 1965, work in process aggregated $527,853,000, less advances and progress payments of $346,288,000.

LOCKHEED AIRCRAFT CORPORATION
Financial Review

Profit Analysis: When allowance is made for new business expenses in 1965, of course, our profit increase is even more marked. Reasons include the continuing shift to fixed price contracts that offer greater rewards to offset higher risks than those involved in cost-plus-fixed-fee, the larger sales volume, even more effective cost reduction and quality assurance programs that raised efficiency, and sustained volume of such big programs as our C-141 and Polaris.

REMINGTON ARMS COMPANY, INC.
Letter to Stockholders

Fees covering operation of the Lake City Army Ammunition Plant for the United States Government under a fixed-fee contract, included in other income, were $1,443,000 for 1965, compared with $1,371,000 for 1964. Value of production at the Lake City Plant, not included in company sales, amounted to $54,275,000 in 1965, compared with $47,336,000 in 1964. After deduction of applicable Federal and state taxes, fee compensation amounted to about 1.35 percent of the value of production.

UNITED AIRCRAFT CORPORATION
Letter to Stockholders

Sales to the Government in 1965 amounted to $939,516,217, an increase of $64,963,461 over 1964, with higher shipments of products and parts more than offsetting lower billings of $24 million under experimental contracts, which amounted to $348,835,794. The greater part of the Corporation's sales to the Government are made under fixed-price or price-redetermination type contracts, with sales under cost-reimbursement type contracts accounting for only 18% of total sales in 1965 compared to 23% in 1964.

Incentive Type Contracts

UNIVERSAL AMERICAN CORPORATION
Financial Review

During the year, limited production was instituted on a new 40mm aluminum cartridge case to help propel a destructive projectile in the Army's hand-held grenade launcher. Amron engineers were successful in obtaining government acceptance of a basic design innovation which eliminated the expensive cadmium plating of the M384 projectile by replacing it with an alternative coating at substantially less cost. This was accepted under the value engineering incentive provisions of the supply contract.

Research-Development Type Contracts

AMERICAN OPTICAL COMPANY
Operations Review

During 1965 this Division continued to push forward a balanced program of basic and applied research. The research undertaken included a number of projects under direct contract with the government.

TEXAS INSTRUMENTS INCORPORATED
Operations Review

A contract for continued research and development work on the Shrike tactical missile was awarded to the company in 1965. Shrike subsystem production orders brought TI's total for the program to $25 million.

Defense Financing

Certain of the companies which operated under United States Government contracts disclosed the methods used to finance such production. Funds for defense work frequently were indicated as obtained through Regulation-V or revolving credit agreements with banks, or received directly from the United States Government as advance payments on uncompleted contracts or work in progress, etc. In some cases a government-owned plant is operated by the company or certain assets are pledged as collateral for government loans.

Examples of the amount of disclosure given by these companies with regard to defense contracts and financing follow.

ADMIRAL CORPORATION

Current Assets:	
Cash, including in 1964 temporary investments	$ 10,655,519
Notes and accounts receivable:	
Due from United States Government	2,732,406
Trade, less reserve for losses (1965—$1,874,613; 1964—$1,663,965)	39,602,305
	42,334,711
Excise tax floor stock refund claims (under Excise Tax Reduction Act of 1965)—Note B(2)	1,265,212
Inventories—at the lower of cost or market:	
Government contracts, less progress payments (1965—$4,061,795; 1964—$1,220,156)	5,394,751
Civilian	41,565,863
	46,960,614
Total Current Assets	$101,216,056
Current Liabilities:	
Notes payable:	
Banks:	
Civilian line—foreign	$ 160,000
Defense line	6,000,000
Current installment of long-term debt—domestic—Note C	1,000,000
	$7,160,000

THE BENDIX CORPORATION

Current Assets:	
Cash	$ 24,047,591
Receivables (including unbilled charges):	
United States Government departments or agencies	69,479,010
Other	92,542,993
Total receivables	162,022,003
Less allowance for losses on receivables	1,200,000
Net receivables	160,822,003
Inventories, at cost or market, whichever is lower (Note 5)	169,204,920
Total Current Assets	$354,074,514

Note 5: *Customers' Advances on Sales Orders*—By the terms of agreements with Government departments, under which the Corporation has received advances and partial payments on sales orders, inventories and non-durable tools acquired for such orders were subject to lien at September 30, 1965.

COLLINS RADIO COMPANY

Current Assets:	
Cash	$ 6,032,018
Accounts and notes receivable (Note 1):	
United States Government, prime and subcontracts	35,780,890
Others (less provision for doubtful accounts of $350,029—1965 and $315,538—1964)	24,062,669
Inventories, at the lower of cost or market, except United States Government inventories at cost (less unliquidated progress payments of $16,360,253—1965 and $10,458,997—1964) (Note 1)	74,628,943
Prepaid expenses	789,500
Total Current Assets	$141,294,020

Note 1: *Notes Payable and Long-Term Liabilities*—A bank credit agreement dated May 29, 1964 provides a revolving credit of up to $75,000,000 extending to November 30, 1965. The Company intends to apply for extension of all or a portion of this credit. At July 30, 1965, $45,750,000 was in current use. Proceeds from inventories and receivables under certain United States Government contracts and from receivables under certain commercial sales are assignable upon request of the lenders as collateral security under this agreement. At year end, the total collateral available for this purpose approximated $84,000,000.

BEECH AIRCRAFT CORPORATION

Current Assets:	
Cash	$ 2,863,611
Marketable securities—at cost (approximate market)	4,399,761
Installment receivables, less allowances for losses and unearned finance charges—Note A	16,693,103
Accounts receivable—United States Government and prime contractors	6,811,597
Other accounts receivable	2,686,507
Inventories, less progress payments of $6,111,798 in 1965, and $5,675,934 in 1964—Note B	29,901,260
Prepaid expenses	166,430
Total Current Assets	$63,522,269

Note B: *Inventories*—Inventories at the balance sheet date were as follows:

Demonstrator Airplanes	$ 1,348,138
Work in Process	24,979,787
Raw Materials and Parts	9,685,133
	$36,013,058

Demonstrator airplanes were included at cost less an estimated allowance for reconditioning. The amounts for work in process were the total costs accumulated under a job cost system, after deducting the estimated cost of units delivered and, for certain projects, estimated amounts required to reduce the balances to market (based on current selling prices). Engineering and tooling costs applicable to work in process were included to the extent recoverable under specific contracts. Raw materials and manufactured parts were priced at standard costs (adjusted to the lower of actual cost or market at the balance sheet dates) for material, labor, and burden.

Amounts shown for inventories included items, title to which is vested in the United States Government by reason of progress payment provisions of related contracts.

MAXSON ELECTRONICS CORPORATION

Current Assets:

Cash	$1,053,962
Accounts receivable (including amounts due from the U. S. Government—$1,027,290 in 1965; $565,500 in 1964) (Note 4)	2,036,320
Inventories (Notes 2 and 4):	
U. S. Government contracts and subcontracts in process (less progress payments—$3,243,893 in 1965; $124,854 in 1964)	2,979,664
Commercial products	925,082
Prepaid expenses	149,293
Total Current Assets	$7,144,321

Noncurrent Liabilities

Debt due after one year:

Notes payable to banks (Note 4)	$1,600,000
5¾% mortgage—due in monthly installments of $11,250 (including interest), balance due October 1, 1973	1,345,595
5% mortgage—due in quarterly installments to February 1, 1971	72,871
Total Debt Due After One Year	$3,018,466

Note 4: *Notes Payable to Banks*—On December 10, 1965 the Company entered into a credit agreement with two banks providing for a $6,000,000 line of credit until December 15, 1967 at an interest rate of 5½%. The first borrowing under the agreement included $1,600,000 which replaced short-term borrowings under the Company's previous credit agreement and is evidenced by notes maturing on December 15, 1967. Other borrowings are to be evidenced by ninety-day notes. Borrowings are to be based on receivables and inventories and collateralized by amounts due or to become due under assigned U. S. Government contracts, by certain commercial receivables and inventories and by a second mortgage on the Company's Great River property.

Renegotiation

There were 50 survey companies that referred to renegotiation or to renegotiable sales in their 1965 reports. Of these companies, four included in their balance sheets, mostly under current liabilities, a provision for estimated renegotiation liability, and an additional eight companies referred to such provision in the notes to the financial statements or in the letter to the stockholders. The remaining 38 companies made no provision for possible renegotiation liability, even though they referred thereto or mentioned renegotiable sales. In such instances the reports usually contained further discussion and comments explaining the reasons for the absence of any provision for possible renegotiation liability. The most common explanations were either that it was felt that no renegotiation refund would be required, or that any refund, if required, would not materially affect net income. Other explanations stressed that it was believed that no excessive profits were realized though it was impossible to predict the Renegotiation Board's actions, while some companies not accepting the assessed refunds filed petitions with the Tax Court for a redetermination of assessments.

Table 9 gives the balance sheet or other presentation of estimated renegotiation liability as shown in the survey reports.

TABLE 9: ESTIMATED RENEGOTIATION LIABILITY

Balance Sheet or Other Presentation*	1965	1955	1951
Provision for estimated renegotiation liability—			
Set forth under Current Liabilities:			
A: Combined with liability for taxes	3	24	18
B: Combined with nontax liability	1	4	3
Separately set forth	—	6	1
Referred to in:			
C: Notes to financial statements	5	9	16
D: Letter to stockholders	3	5	5
E: No provision made for possible renegotiation liability, although reference made thereto or to "renegotiable sales"	38	133	175
Number of Companies Referring To:			
Renegotiation or renegotiable sales	50	181	218
Not referring thereto	550	419	382
Total	600	600	600

*Refer to Company Appendix Section—A: 271, 540, 548; B: 246; C: 6, 212, 221, 307, 406; D: 48, 94, 122; E: 79, 89, 97, 129, 141, 146, 166, 194, 205, 219, 230, 243, 245, 248, 287, 292, 297, 343, 345, 357, 359, 392, 397, 409, 411, 420, 474, 476, 495, 504, 509, 510, 514, 515, 527, 543, 555, 598.

Examples—Renegotiation

The following examples, taken from the 1965 reports, illustrate the nature and scope of the information disclosed therein concerning renegotiation and the provision, if any, made therefor.

Set Forth Under Current Liabilities

GENERAL ELECTRIC COMPANY

Current Liabilities:

Other costs and expenses accrued	$392,598,568

Financial Summary

Other costs and expenses accrued included payrolls accrued of $34.0 million at December 31, 1965 and interest expense accrued amounting to $4.6 million. The remaining costs and expenses accrued included liabilities for items such as replacements under guarantees, renegotiation, allowances to customers and employee benefit costs.

GRUMMAN AIRCRAFT ENGINEERING CORPORATION

Current Liabilities:

Notes payable to banks and other, including installments due within one year on long-term debt	$ 37,150,000
Accounts payable and accrued wages	64,973,530
Federal income and other taxes, and renegotiation (Note 3)	19,274,896
Other liabilities	9,894,248
Total Current Liabilities	$131,292,674

Note 3: A substantial portion of sales are subject to the Renegotiation Act of 1951. Renegotiation has been concluded through 1964. The Company believes that no excessive profits exist in 1965; however, the policy of maintaining reserves has been continued.

TEXAS INSTRUMENTS INCORPORATED

Current Liabilities:

Loans payable (overseas subsidiaries)	$ 3,489,532
Accounts payable	27,953,382
Income taxes, redeterminations and renegotiation	22,010,001
Accrued retirement and profit sharing contributions	19,359,876
Accrued expenses and other liabilities	14,343,172
Dividends payable	1,262,066
Total Current Liabilities	$88,418,029

THE TORRINGTON COMPANY

Current Liabilities:

Accounts Payable and Accrued Expenses	$ 8,715,344
Reserve for U.S. and Foreign Income Taxes and Renegotiation	7,554,687
Total Current Liabilities	$16,270,031

Referred to in Notes to Financial Statements

EMERSON ELECTRIC CO.
Notes to Financial Statements

Note 5: *Commitments and Contingent Liabilities*—The companies operate at sixteen locations under lease agreements expiring between 1970 and 1984. The minimum annual rentals under such leases aggregate approximately $1,250,000.

The unfunded past service liability of the companies under pension plans at September 30, 1965 has been estimated by independent actuaries at approximately $7,600,000. The cost of past services is being funded principally over a period of approximately 30 years.

Proceedings under the Renegotiation Act of 1951 have been concluded for all years to and including the year 1962 with no refund required. Provision has been made in the accounts to cover anticipated amendments or refunds with respect to price adjustments of United States government contracts.

FAIRCHILD HILLER CORPORATION
Notes to Financial Statements

Note 6: The Renegotiation Board made a determination that for the year 1953 the Corporation had excessive profits of $2,000,000 which, after tax adjustments, would require a net refund of approximately $400,000. The Corporation petitioned the Tax Court of The United States to review this determination and the Corporation believes that adequate provision has been made in the accounts to cover any required refund. Clearance has been received for the years 1954 through 1964. The Corporation believes that no excessive profits were earned in 1965.

INTERNATIONAL BUSINESS MACHINES CORPORATION
Notes to Financial Statements

Renegotiation: The Consolidated Statement of Earnings and Retained Earnings includes estimated provision for renegotiation of U.S. government contracts.

Referred to in Financial Review

CARRIER CORPORATION
Financial Review

Final clearance on all Federal income tax matters for the years 1958-1962 was received during the year. Clearance on renegotiation matters has been received through 1964.

No Provision Made Although Reference Made to Renegotiation Liability or Renegotiable Sales

THE CESSNA AIRCRAFT COMPANY
Financial Review

Earnings on government contracts and subcontracts were improved over last year; however, no provision for refund under the Renegotiation Act is considered necessary. Clearance of all results through 1963 has been granted by the Renegotiation Board.

DOUGLAS AIRCRAFT COMPANY, INC.
Notes to Financial Statements

Note H: *Renegotiation*—Certain business done by the Company during the fiscal years 1963, 1964, and 1965 is subject to renegotiation by the U. S. Government, but the Company believes no renegotiation refund will be required. The Company has filed petitions in the Tax Court of the United States for recovery of renegotiation refunds for fiscal years 1953, 1954, and 1955 which are still pending.

MARTIN MARIETTA CORPORATION
Financial Review

Renegotiation: Substantially all sales of the Martin Company Division are subject to the Renegotiation Act of 1961, but only a nominal amount of the Commercial Group's sales falls within the provisions of the Act. Renegotiation proceedings have been completed through September 30, 1961. As to subsequent years, management believes that no excessive profits have been realized and no provision for refunds has been made.

NATIONAL COMPANY, INC.
Notes to Financial Statements

Note 1: Federal income tax returns of the parent company have been examined through December 31, 1964 and resulting minor adjustments have been reflected herein. The parent company has made no provision for federal income taxes for 1965 because of the loss carry-forward from 1963 and has approximately $525,000 additional carry-forward available against taxable income of future years.

In February, 1966, in connection with an examination of federal income tax returns of National Radio Company, Inc. for the years ended February 28, 1963 and February 29, 1964, the examining agent proposed disallowance of net operating loss carry-forward deductions. If this proposal is sustained, the resulting federal income tax would be $138,000, which has been provided for in the accompanying statements. The company does not agree with this proposal and will contest any claim arising therefrom.

Renegotiation clearance has been received for all years through 1964 and the company believes that no renegotiation liability exists for 1965.

INVENTORY

Accounting Research and Terminology Bulletins, Final Edition, 1961, issued by the committee on accounting procedure of the American Institute of Certified Public Accountants, Chapter 4, states in part:

> The term *inventory* is used herein to designate the aggregate of those items of tangible personal property which (1) are held for sale in the ordinary course of business, (2) are in process of production for such sale, or (3) are to be currently consumed in the production of goods or services to be available for sale. . .
>
> The basis of stating inventories must be consistently applied and should be disclosed in the financial statements; whenever a significant change is made therein, there should be disclosure of the nature of the change and, if material, the effect on income. . . .

Presentation

Inventories were presented on the balance sheets of the 600 survey companies in varying detail. The term *inventory* or *inventories* was used by 145 companies exclusive of other detail on the balance sheet. An additional 121 companies used the same manner of presentation on the balance sheet but supplied supplementary detail as to the composition of the inventory in the notes to the financial statements or elsewhere in the report. The remaining 334 companies provided inventory details on the balance sheet as follows:

Separate captions and amounts presented for:	*Number of Items*
Finished goods or products	157
Work in process	115
Raw materials	61
Materials	2
Supplies	52
Merchandise	27
Various other separate captions	4

Combined caption with one total amount presented for:	*Number of Items*
Finished goods and work in process	72
Finished goods, work in process, and raw materials	35
Finished goods, work in process, raw materials, and supplies	13
Finished goods and raw materials	4
Work in process and raw materials	14
Work in process, raw materials, and supplies	15
Raw materials and supplies	112
Raw materials and parts	6
Raw materials, supplies, and finished goods	6
Materials and supplies	50
Merchandise and supplies	7
Merchandise, materials, and supplies	5
Various other combined factors	9

Inventories Pledged

Twenty-four companies indicated that some portion of their inventory was pledged as security on a loan (*84, 89, 146, 163, 177, 181, 194, 236, 250, 271, 288, 337, 345, 357, 359, 387, 409, 411, 436, 514, 555, 565, 573, 583). At least 4 companies (*92, 266, 331, 403) referred to inventories in transit.

Pricing Basis

The most commonly used basis of valuation for inventories continues to be "lower of cost or market," as shown in the 1965 reports of the 600 survey companies. Table 10 summarizes the various bases stated by the survey companies to have been used in the pricing of their inventories.

The subject of inventory pricing is discussed in Chapter 4 of *Accounting Research and Terminology Bulletins, Final Edition,* 1961, issued by the American Institute of Certified Public Accountants, from which the following excerpts are taken.

> The primary basis of accounting for inventories is cost, which has been defined generally as the price paid or consideration given to acquire an asset. As applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location....
>
> Cost for inventory purposes may be determined under any one of several assumptions as to the flow of cost factors (such as first-in first-out, average, and last-in first-out); the major objective in selecting a method should be to choose the one which, under the circumstances, most clearly reflects periodic income....
>
> ... Selling expenses constitute no part of inventory costs. It should also be recognized that the exclusion of all overheads from inventory costs does not constitute an accepted accounting procedure.

METHODS OF "COST" DETERMINATION

Table 10 also discloses the methods of "cost" determination for the pricing of either all or part of the inventories as reported by 445 of the 600 survey companies. The remaining 155 companies did not disclose their method of cost determination, and of these, one (*98) did not refer to the basis of pricing its inventories. The most frequently used method of cost determination for the pricing of inventories disclosed by the survey companies is the first-in first-out (fifo) method. The only other extensively mentioned methods were "average cost" and last-in first-out (lifo). This is the second year since 1950, when this table was first compiled, that the number of survey companies using the first-in first-out (fifo) method surpassed the number of companies using the last-in first-out (lifo) method.

Examples illustrating the various methods of cost determination used in the valuation of inventories follow, and it may be noted that many of the methods disclosed apply to part of the inventory only. In 1965 alone, 14 companies more than in 1964, used the first-in first-out (fifo) method of cost determination.

Last-in First-out "Cost"

PULLMAN INCORPORATED

Current Assets:

Inventories, at lower of cost or market (including $8,729,618 for 1965 on a last-in, first-out basis):	
Finished goods	$ 7,667,305
Costs accumulated on uncompleted contracts and work in process	48,839,840
Raw materials, service parts and operating supplies	25,103,664
Total Inventories	$81,610,809

*Refer to Company Appendix Section.

TABLE 10: INVENTORY PRICING

I: Basis of Pricing

Bases:*		1965	1964	1960	1955	1950
	Lower of Cost or Market—					
A:	Lower of Cost or Market	431	416	381	349	342
B:	Lower of Cost or Market; and Cost	52	67	91	82	67
C:	Lower of Cost or Market; and one or more other bases	8	8	20	40	53
D:	"Cost not in excess of Market"	49	41	35	54	24
		540	532	527	525	486
	Cost—					
E:	Cost	34	33	42	34	63
F:	Cost; and one or more other bases	3	9	15	60	57
G:	Cost; and Lower of Cost or Market (See above)	52	67	91	82	67
H:	Cost; less than market	42	33	13	20	6
		131	142	161	196	193
	Other Bases —					
I:	Cost or Less than Cost	23	21	14	29	37
J:	Cost or Less than Cost "not in excess of market"	6	6	8	6	10
K:	Market	4	5	5	18	29
L:	Market or Less than Market	7	3	4	5	8
	Contract price	—	—	1	4	11
M:	Selling price	2	2	1	3	4
	Assigned values	—	—	1	3	7
N:	Prime cost	1	—	—	—	—
O:	Direct cost	1	—	—	—	—
P:	Various other bases	2	2	3	23	12
		46	39	37	91	118
	Total	717	713	725	812	797

II: Method of Determining "Cost"

Methods:**		1965	1964	1960	1955	1950
A:	Last-in first-out (Lifo)	191	190	196	202	161
B:	Average cost	176	163	157	146	136
C:	First-in first-out (Fifo)	213	199	182	138	134
D:	Standard costs	28	30	35	31	32
E:	Approximate cost	5	5	10	11	16
F:	Actual cost	13	14	9	8	7
G:	Invoice cost	1	1	2	1	5
H:	Production cost	5	7	9	4	5
	Estimated cost	—	1	6	5	2
I:	Replacement or current cost	12	10	6	4	2
J:	Retail method	17	15	16	14	6
K:	Base stock method	1	1	5	4	6
L:	Job-order method	3	2	4	1	2
M:	Prime cost	2	2	N/C	N/C	N/C
N:	Accumulated costs	6	6	N/C	N/C	N/C
O:	Other methods	3	2	3	8	4
	Total	676	648	640	577	518

Number of Companies:	1965	1964	1960	1955	1950
Stating inventory pricing basis and cost method	264	278	323	382	361
Stating inventory pricing basis, but cost method with regard to part of inventory only	181	151	103		
Stating inventory pricing basis, but omitting cost method	154	170	174	212	232
Not stating inventory pricing basis or cost method	1	1	—	6	7
Total	600	600	600	600	600

N/C—Not compiled.

*Refer to Company Appendix Section—I: A: 5, 14, 21, 147, 167, 199, 277, 303, 312, 331, 357, 419, 464, 491, 493, 501, 512, 540, 571, 589; B: 10, 40, 66, 114, 138, 187, 207, 269, 287, 308, 379, 384, 386, 414, 471, 480, 509, 551, 558, 596; C: 149, 169, 202, 375, 405, 437, 485, 495; D: 74, 77, 96, 106, 108, 115, 222, 246, 283, 336, 350, 369, 399, 408, 427, 453, 542, 556, 557, 572; E: 46, 81, 124, 176, 234, 244, 259, 273, 340, 348, 418, 440, 457, 468, 518, 521, 534, 555, 570, 587; F: 51, 84, 373; H: 68, 72, 94, 163, 168, 183, 227, 243, 268, 276, 320, 321, 325, 352, 360, 361, 435, 505, 590; I: 20, 23, 25, 35, 54, 56, 164, 165, 272, 326, 409, 492, 515, 516, 517, 531, 532, 544, 550, 584; J: 125, 200, 354, 416, 462, 553; K: 54, 57, 534, 568; L: 60, 248, 384, 457, 535, 547, 592; M: 13, 44; N: 4; O: 97; P: 99, 561.

**Refer to Company Appendix Section—II: A: 18, 57, 90, 117, 146, 159, 184, 223, 256, 291, 316, 365, 379, 394, 432, 464, 517, 531, 559, 593; B: 8, 43, 76, 119, 154, 180, 229, 240, 262, 307, 347, 376, 405, 412, 440, 492, 493, 520, 557, 580; C: 1, 32, 79, 111, 149, 177, 194, 210, 224, 289, 303, 333, 346, 387, 421, 448, 488, 509, 530, 579; D: 30, 80, 84, 91, 92, 115, 206, 216, 280, 373, 395, 407, 414, 441, 467, 481, 540, 542, 572, 574; E: 16, 277, 287, 354, 466; F: 80, 84, 93, 94, 129, 155, 192, 196, 214, 414, 443, 472, 555; G: 99; H: 81, 97, 126, 345, 482; I: 24, 62, 120, 183, 318, 339, 443, 469, 482, 535, 555, 567; J: 15, 67, 99, 138, 225, 259, 261, 264, 266, 352, 360, 371, 403, 424, 487, 494, 594; K: 202; L: 84, 373, 557; M: 4, 99; N: 283, 357, 359, 367, 409, 411; O: 169, 337, 375.

Last-in First-out "Cost" (continued)

THE ANACONDA COMPANY

Current Assets:	
Cash	$ 55,850,102
Marketable securities—at cost, which approximates market	74,644,475
Accounts receivable, less allowance for doubtful accounts	101,695,055
Metals and manufactured products — Note C	136,466,136
Supplies—Note C	72,385,604

Note C: *Metals and Manufactured Products, Supplies*—Finished metals held for sale or in process of fabrication are carried at cost, principally on the last-in, first-out basis, except by-products, including silver and gold, which are carried at market or less. All other inventories in process or finished are carried at cost computed on the last-in, first-out, average or other appropriate basis. Such costs are not in excess of current market values.

Supplies include operating and replacement parts, and are carried at cost on the last-in, first-out, average or other appropriate basis.

CONTINENTAL CAN COMPANY, INC.

	In thousands
Current Assets:	
Cash and Short Term Securities	$ 42,022
Receivables, less Allowances	92,635
Inventories	206,179
Total Current Assets	$340,836

Notes to Financial Statements

Inventories: Inventory valuations, stated at the lower of cost or market, were as follows:

	In thousands
Raw Materials and Supplies	$ 81,194
Work in Process and Finished Goods	124,985
	$206,179

Cost has been determined principally on the basis of standard or average costs with the exception of 39% of the 1965 inventory (32% in 1964), which have been valued on a last-in, first-out (LIFO) basis.

GOLDBLATT BROS., INC.

Current Assets:	
Cash	$ 1,129,288
Receivables (including $3,100,000 at January 30, 1965, due after one year) less allowance of $4,938,855 and $3,829,560 at respective dates for doubtful accounts, deferred income taxes on installment sales and unearned carrying charges	18,425,181
Merchandise inventories and supplies, priced at the lower of cost or market, primarily by the retail method applied in part (approximately 70% in both years) on a "last-in, first-out" basis	25,018,496

McCORMICK & COMPANY, INCORPORATED

Current Assets:	
Cash	$ 607,171
Receivables, less allowance for losses (1965—$47,000; 1964—$41,000)	9,196,093
Inventories (Note A)	13,445,777
Expenses paid in advance	505,054
Total Current Assets	$23,754,095

Note A: Inventories are valued at the lower of cost (approximately 8% Lifo and remainder generally at average cost) or market.

Average "Cost"

LILY-TULIP CUP CORPORATION

Current Assets:	
Inventories—at the lower of average cost or market	$21,705,837

THE AMERICAN SHIP BUILDING COMPANY

Current Assets:	
Cash	$ 2,752,772
Accounts receivable, less allowance for doubtful accounts	4,209,790
Unbilled work, at cost—less progress billings: 1965, $23,916,413—1964, $6,497,937—Note A	4,574,797
Inventory, at lower of cost (generally average) or market	1,514,252
Prepaid expenses	387,116
Total Current Assets	$13,438,727

THE CLEVELAND-CLIFFS IRON COMPANY

Current Assets:	
Inventories—at lower of cost (principally average cost) or market:	
Iron ore	$13,711,816
Other materials and supplies	1,057,496
	$14,769,312

PITTSBURGH PLATE GLASS COMPANY

Current Assets:	
Inventories	$163,394,000

Notes to Financial Statements

Note 2: *Inventories*—Inventories are stated generally at the lower of cost or market, with cost being determined at average or standard excluding certain fixed expenses.

Finished products	$ 92,701,000
Work in process	16,692,000
Raw materials	28,508,000
Supplies	25,493,000
Total	$163,394,000

THATCHER GLASS MANUFACTURING COMPANY, INC.

Current Assets:	
Inventories (not in excess of market prices):	
Finished ware and ware in process, at standard costs which approximates actual	$ 9,427,018
Materials and supplies, at average cost	4,777,203
Total Inventories	$14,204,221

First-in First-out "Cost"

AMERICAN BAKERIES COMPANY

Current Assets:	
Inventories (Note 1)	$6,299,741

Note 1: *Inventories*—Inventories consist of flour and other ingredients, supplies, and products valued at the lower of cost (first-in, first-out) or market.

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION

Current Assets:	
Inventories, at the lower of cost (principally first-in, first-out) or estimated realizable market:	
U. S. Government contracts and other work in process, less progress payments — 1965, $3,732,599; 1964, $3,660,580	$15,737,714
Raw materials and parts	9,307,499
Finished goods	8,812,036
	$33,857,249

KELSEY-HAYES COMPANY

Current Assets:

Inventories of raw materials, work in process, finished products, and supplies—at lower of cost (first-in, first-out method) or market	$44,565,030

PARKER-HANNIFIN CORPORATION

Current Assets:

Cash	$ 4,419,747
Accounts receivable, less allowance for doubtful accounts	14,926,494
Inventories, at the lower of cost (principally first-in, first-out) or market:	
Finished products	8,136,760
Work in process	10,071,956
Raw materials	4,156,977
	22,365,693
Prepaid expenses	722,524

Standard "Cost"

AMERICAN ENKA CORPORATION

Current Assets:

Inventories (Note 1)	$30,102,979

Note 1: *Inventories*—Inventories are stated at the lower of standard cost (approximating average cost) or market. Market represents replacement cost or estimated net realizable value.

A summary of inventories follows:

Finished goods	$ 9,036,019
Work in process	9,605,060
Raw materials	7,793,108
General stores	3,668,792
	$30,102,979

BURNDY CORPORATION

Current Assets:

Inventories—at standard cost (which approximates average cost) not in excess of market (Note 1)	$13,440,054

EATON YALE & TOWNE INC.

Current Assets:

Inventories—at lower of cost (principally at current standards) or market—Note B	$162,096,673

THE NEW YORK AIR BRAKE COMPANY

Current Assets:

Inventories—generally at standard cost, not in excess of lower of cost or market	$12,691,989

OTIS ELEVATOR COMPANY

Current Assets:	(Thousands of Dollars)
Cash	$ 14,283
Marketable securities, at cost which approximates market	9,760
Notes and accounts receivable	88,203
Inventories, at the lower of cost or market	85,340
Cost of contracts in progress	212,708
Prepayments	3,074
	413,368
Less: Billings on contracts in progress	199,108
Total Current Assets	$214,260

Financial Review

The uncompleted contracts in progress for elevator and escalator installations and service contracts shown on the Balance Sheet are priced at the standard cost of manufactured products and actual installation costs plus apportioned administrative and sales overhead costs, which amounts are recorded as other revenue and included in net income. Diversified uncompleted contracts are priced at actual costs.

Approximate Cost

HARNISCHFEGER CORPORATION

Current Assets:

Inventories of raw materials, work in process and finished goods—at lower of approximate cost or market	$48,613,965

HEWLETT-PACKARD COMPANY

Current Assets:

Cash and marketable securities	$ 3,534,224
Notes and accounts receivable less provision for losses in collection (Note 5): 1965—$98,164, 1964—$123,274	31,949,980
Inventories:	
Finished goods and work in process, at approximate cost	25,145,731
Raw materials, at lower of cost or market	10,386,665
Deposits and prepaid expenses	1,545,677
Total Current Assets	$72,562,277

Actual or Replacement Cost

DRAVO CORPORATION

Current Assets:

Inventories:	
Materials and supplies	$ 4,304,575
Finished goods	3,769,100
Contracts in progress and other work in process	91,026,878

Notes to Financial Statements

Inventories, Including Contracts in Progress: Cost of inventories and contracts in progress are determined by the use of actual direct costs and overhead where applicable at standard rates, except that the costs of approximately $16,738,000 of manufacturing and resale inventories are determined by the last-in, first-out method; used tools and small equipment returned from construction contracts and used equipment held for rental or resale are valued at cost, less estimated depreciation; and certain supplies are valued, generally, at the lower of cost or market.

THE PITTSTON COMPANY

Current Assets:

Inventories, at the lower of actual or replacement cost:	
Fuels	$21,442,944
Merchandise	1,396,812
Supplies	3,513,897
	$26,353,653

Job-Order Method

BEECH AIRCRAFT CORPORATION

Notes to Financial Statements

Note B: *Inventories*—Inventories at the balance sheet dates were as follows:

Demonstrator Airplanes	$ 1,348,138
Work in Process	24,979,787
Raw Materials and Parts	9,685,133
	$36,013,058

Demonstrator airplanes were included at cost less an estimated allowance for reconditioning. The amounts for work in process were the total costs accumulated under a job cost system, after deducting the estimated cost of units delivered and, for certain projects, estimated amounts required to reduce the balances to market (based on current selling prices). Engineering and tooling costs applicable to work in process were included to the extent recoverable under specific contracts. Raw materials and manufactured parts were priced at standard costs (adjusted to the lower of actual cost or market at the balance sheet dates) for material, labor, and burden.

Amounts shown for inventories included items, title to which is vested in the United States Government by reason of progress payment provisions of related contracts.

Production Cost

BAYUK CIGARS INCORPORATED
Current Assets:

Inventories, Note 2	$26,170,785

Note 2: Inventories comprise:

Manufactured goods principally at average production cost	$ 4,368,850
Raw materials, including those tobaccos held for aging which will not be used within one year, at average cost	20,749,485
Supplies, at first-in, first-out cost	1,052,450
	$26,170,785

Current Cost

AMERICAN BRAKE SHOE COMPANY
Current Assets:

Cash	$ 8,103,325
Short term investments—at cost (approximates market)	14,049,306
Accounts receivable	34,468,083
Inventories—at lower of cost or market (Notes 3 and 4):	
Raw materials and supplies	17,210,948
Finished product and work in process	25,949,769
Total Current Assets	$99,781,431

Note 3: At December 31, 1965, 34% of total inventories, measured by approximate current cost, are stated on the last-in, first-out basis. Such cost exceeds the last-in, first-out basis by $4,127,000.

CANNON MILLS COMPANY
Current Assets:

Inventories—at lower of cost ($50,931,830 based on the last-in first-out method, and $2,549,331 based on current costs) or market	$53,481,161

Retail Method

W. T. GRANT COMPANY
Current Assets:

Merchandise inventories (including merchandise in transit)—at the lower of cost or market determined principally by the retail inventory method	$140,715,930

J. J. NEWBERRY CO.
Current Assets:

Merchandise on hand and in transit, at lower of cost (principally retail method) or market	$77,082,291

Prime Cost

ADAMS-MILLIS CORPORATION
Notes to Financial Statements

Note B: Inventories—The major classes of inventory and the amounts of each were as follows:

Hosiery, finished and in process	$3,614,032
Other products, finished and in process	188,734
Yarn	842,169
Other raw materials and supplies	530,396
	$5,175,331

Inventories were priced at the lower of cost (first-in, first-out) or market except that it has been the consistent policy of the Company not to include manufacturing overhead expenses in determining costs of finished and in-process hosiery inventories. If an allowance for manufacturing overhead expenses had been included in the amounts for hosiery inventories at the beginning and end of the year, the earnings after taxes on income would have been approximately $96,000 more for 1965 and $37,000 more for 1964.

Base Stock Method

THE EAGLE-PICHER COMPANY
Notes to Financial Statements

Inventories are stated at the lower of cost or market with the exception of certain quantities of lead and zinc valued under the base stock method at fixed prices which are lower than cost or market.

DETERMINATION OF "MARKET"

There were 578 of the 600 companies that mentioned market value in their presentation of inventories. Of these, 79 companies stated 87 methods used in the determination of such values in their 1965 reports as follows:

A:	Current replacement values (by purchase or reproduction)*	41
B:	Net realizable value (recoverable cost)*	31
C:	Selling price*	5
D:	Purchase price*	3
E:	Hedging procedure values*	7
	Total	87

*Refer to Company Appendix Section—A: 30, 40, 51, 57, 61, 84, 99, 114, 127, 145, 147, 148, 166, 168, 169, 184, 187, 197, 212, 216, 235, 238, 243, 256, 260, 275, 302, 308, 311, 330, 353, 375, 408, 412, 443, 461, 463, 516, 517, 533, 560; B: 13, 30, 35, 54, 60, 97, 110, 129, 163, 166, 207, 220, 221, 235, 271, 283, 323, 345, 357, 359, 363, 374, 384, 409, 411, 460, 476, 495, 535, 547, 557; C: 44, 84, 354, 457, 592; D: 243, 354, 485; E: 57, 126, 149, 248, 405, 437, 485.

The following examples, taken from the 1965 reports, illustrate the terms used to describe or amplify the word "market."

Current Replacement Values

AMERICAN ENKA CORPORATION
Current Assets:

Inventories (Note 1)	$30,102,979

Note 1: Inventories—Inventories are stated at the lower of standard cost (approximating average cost) or market. Market represents replacement cost or estimated net realizable value.

A summary of inventories follows:

Finished goods	$ 9,036,019
Work in process	9,605,060
Raw materials	7,793,108
General stores	3,668,792
	$30,102,979

INDIAN HEAD MILLS, INC.
Current Assets:

Inventories (Note C):	
Raw materials and supplies	$ 8,404,081
Work in process	10,769,369
Finished goods	9,008,889
	$28,182,339

Note C: Inventories—Inventories aggregating approximately $11,400,000 are valued at cost on the last-in, first-out method, which cost is lower than current replacement market. The remaining inventories are valued at the lower of first-in, first-out cost or market.

EMERSON ELECTRIC CO.

Current Assets:

Inventories, at the lower of cost (first-in, first-out) or replacement market:	
Finished products	$23,339,268
Work in process and fabricated parts	24,682,877
Raw material and purchased parts	14,934,047
Total Inventories	$62,956,192

NOPCO CHEMICAL COMPANY

Current Assets:

Inventories—at average cost, not in excess of replacement cost:	
Finished goods	$4,532,351
Raw materials and work in process	4,309,844
Containers and supplies	470,863
Total Inventories	$9,313,058

Net Realizable Value

FAIRCHILD HILLER CORPORATION

Current Assets:

Cash	$ 4,382,032
Marketable securities (Note 1)	1,113,649
Accounts and notes receivable:	
Military contracts and sub-contracts (including unbilled items) (Note 2)	35,417,138
Commercial (including installment notes due after one year of $494,959 and $183,428)	4,104,127
Material, labor and other costs incurred on work in progress (Note 3):	
Government contracts (less amounts applied to billings and less progress payments of $10,230,134 and $3,923,489)	24,259,727
Commercial programs	17,696,861

Note 3: Material, labor and other costs incurred on contracts are stated at the lower of cost or estimated realizable values, computed at sales prices less the estimated cost to complete.

JOHN MORRELL & CO.

Current Assets:

Inventories:	
Product and livestock—	
Valued at cost on basis of "last-in, first-out"	$ 8,123,349
Valued at lower of cost or market, or at market less allowance for distributing and selling expenses	20,133,872
Supplies at cost	5,229,894

SIGNAL OIL AND GAS COMPANY

Current Assets:

Inventories (Note 2)	$99,283,000

Note 2: Inventories—Inventories of the companies are as follows:

Petroleum operations:	
Crude oil	$ 8,019,000
Refined products	30,335,000
Materials, supplies, and merchandise	6,172,000
Total	44,526,000
Aerospace, etc. operations:	
Merchandise, finished products, and work in process (less progress payments)	33,061,000
Raw materials and processed parts	21,696,000
Total	54,757,000
Net Inventories	$99,283,000

Petroleum operations inventories are stated as follows: Crude oil at market; refined products at lower of first-in, first-out cost or market; and materials, supplies, and merchandise at lower of cost or market.

Aerospace, etc. operations inventories are stated as follows: Merchandise and finished products at lower of first-in, first-out cost or market; work in process at cost less credits for partial deliveries and, where necessary, reductions to estimated realizable values; and raw materials and processed parts at lower of average cost or market.

Selling Price

AMERICAN SMELTING AND REFINING COMPANY

Current Assets:

Inventories (Note 2)	$84,449,429

Note 2: Inventories—Inventories of smelters, refineries and secondary metal plants include $66,595,000 (1964—$60,695,000) at last-in first-out cost, reflecting some unearned profits of indeterminable amount, and $8,024,000 (1964—$18,831,000) of metals sold under firm contracts for future delivery, valued at sales prices. Inventories of mines aggregating $3,566,000 (1964—$4,676,000) are valued at first-in first-out cost. Inventory values do not exceed market.

LIFO INVENTORY COST METHOD

PRESENTATION OF LIFO

The changes in the number of survey companies adopting or abandoning the use of lifo are summarized comparatively in Table 11. There were 6 additions noted in the number of companies referring to the use of lifo during the year. Three companies abandoned lifo, while three companies that had referred to the use of lifo in 1964 made no such reference in the current year.

TABLE 11: LIFO INVENTORY COST METHOD

Number of Companies	1965	1960	1955	1950
Using Lifo at beginning of year as shown by the survey reports	191	202	200	118
Adopting Lifo during year (*16, 182, 466, 472, 568, 595)	6	—	4	42
Subsidiaries acquired with Lifo	—	2	2	—
No reference to Lifo in current year, referred to in previous year (*69, 100, 168)	(3)	(5)	—	—
Readopting Lifo during year	—	—	—	1
Abandoning Lifo during year (*204, 214, 433)	(3)	(3)	(4)	—
Using Lifo at end of year (See Table 12)	191	196	202	161
Not referring to use of Lifo	409	404	398	439
Total	600	600	600	600
Extending Lifo to additional inventory classes during year	—	—	3	16
Partially abandoning Lifo during year (*269)	1	—	—	1

*Refer to Company Appendix Section.

USE OF LIFO BY INDUSTRIAL GROUPS

Table 12 contains a classification of the 600 survey companies by industrial groups and subgroups, showing the number of companies in each classification which

TABLE 12: INDUSTRIAL GROUPS USING LIFO INVENTORY COST METHOD

Group Total	Industrial Group and Company Appendix Numbers	Lifo Used In: 1965	1960	1955	1950
	Chemicals and Chemical Products:				
30	Chemical (*305, 330, 426)	3	7	8	7
17	Drugs, Medicines, and Cosmetics (*449)	1	—	—	—
5	Paints and Varnish (*396)	1	2	2	3
23	Clay, Glass, Building Materials (*17, 276, 316, 335, 370, 395)	6	6	9	4
24	Electrical Appliances and Machinery (*127, 182, 243, 246, 461, 511, 587)	7	6	6	3
	Food Products:				
7	Bakery	—	—	1	1
10	Beverage (*55, 143, 222, 394)	4	3	2	2
11	Canning and Preserving (*117, 256, 299, 339, 365, 512, 526)	7	7	8	6
5	Confectionery (*85, 103, 286, 596)	4	4	5	4
6	Dairy	—	2	3	3
14	Grain Milled Products (*34, 57)	2	1	2	2
11	Meat Products (*60, 361, 384, 457, 535, 592)	6	6	7	6
8	Sugar (*45, 291, 575)	3	2	2	2
19	Instruments—Scientific (*87, 205, 275)	3	4	3	3
7	Leather and Shoe Products (*13, 311, 371)	3	3	3	3
9	Lumber and Wood Products (*189, 198, 589)	3	4	5	1
	Machinery:				
4	Agriculture (*16, 123, 186)	3	4	5	1
21	Business and Store (*391, 578)	2	3	4	3
27	General Industrial (*24, 42, 172, 320, 375, 523, 536, 541, 595)	9	7	6	3
7	Household and Service	—	—	3	1
23	Special Industrial (*94, 108, 230, 278, 466, 543)	6	6	4	2
36	Metal Products (*26, 36, 40, 141, 162, 223, 447, 483, 484, 497, 521, 549, 559)	13	8	8	5
5	Motion Pictures	—	—	—	—
18	Nonferrous Metals (*18, 35, 44, 49, 51, 104, 321, 326, 432, 464, 467, 478, 568)	13	12	14	12
19	Paper (*130, 187, 310, 329, 369, 417, 471, 551, 588)	9	8	10	9
27	Petroleum (*56, 65, 68, 136, 164, 272, 435, 453, 500, 505, 515, 516, 517, 518, 531, 544, 553)	17	19	17	16
9	Printing and Publishing	—	2	1	1
8	Radio, Records, Television	—	—	—	—
40	Retail Stores (*15, 138, 225, 227, 259, 261, 332, 352, 360)	9	9	12	13
10	Rubber Products (*226, 253, 556)	3	4	4	4
33	Steel and Iron (*9, 10, 59, 90, 148, 165, 176, 183, 188, 279, 304, 306, 318, 349, 399, 442, 463, 490, 496, 569, 577, 590, 599)	23	23	20	15
3	Construction Industry (*124, 196)	2	—	—	—
	Textiles:				
5	Floor Covering (*11, 61, 91, 379)	4	4	6	6
10	Synthetic Fibers (*114, 269, 302)	3	3	1	1
17	Wool and Cotton (*86, 96, 120, 145, 184, 325, 386, 428, 524, 560)	10	11	11	13
11	Tobacco (*155, 468)	2	2	1	1
	Transportation Equipment:				
17	Aircraft and Missiles	—	—	—	—
4	Boat and Ship	—	1	1	1
8	Railway (*252, 450)	2	4	4	3
17	Motor Vehicles (*112, 135, 236, 591)	4	5	1	—
15	Miscellaneous (*159, 312, 472, 593)	4	4	3	1
600	Total	191	196	202	161

*Refer to Company Appendix Section. Refer also to Table 11.

have referred to the use of the last-in first-out method of determining inventory value for the years 1965, 1960, 1955, and 1950.

The trend towards diversification through mergers, etc., makes it difficult in many cases to determine precisely the industrial group to which a company belongs. The original classification has been adhered to, in most cases.

Examples

Examples illustrating the disclosures of the use of lifo in the 1965 reports will be found under the immediately preceding subheadings dealing with "Methods of Cost Determination" and "Determination of Market." Consequently, additional examples of similar nature are not considered necessary here.

INVENTORY RESERVES

The committee on accounting procedure of the American Institute of Certified Public Accountants in *Accounting Research and Terminology Bulletins, Final Edition,* 1961, issued by the American Institute of Certified Public Accountants (Chapter 6), considers "problems which arise in the accounting treatment of two types of reserves whose misuse may be the means of either arbitrarily reducing income or shifting income from one period to another:"

(a) General contingency reserves whose purposes are not specific;
(b) Reserves designed to set aside a part of current profits to absorb losses feared or expected in connection with inventories on hand or future purchases of inventory.

2. Charges to provide, either directly or by use of a reserve, for losses due to obsolescence or deterioration of inventory or for reducing an inventory to market, or for reducing an inventory to a recognized basis such as *last-in first-out* or its equivalent in accordance with an announced change in policy to be consistently followed thereafter, are not under consideration here.

3. If a provision for a reserve, made against income, is not properly chargeable to current revenues, net income for the period is understated by the amount of the provision. If a reserve so created is used to relieve the income of subsequent periods of charges that would otherwise be made against it, the income of such subsequent periods is thereby overstated. By use of the reserve in this manner, profit for a given period may be significantly increased or decreased by mere whim. As a result of this practice the integrity of financial statements is impaired, and the statements tend to be misleading.

For additional information on the subject, see also quotation in this section under "Contingency Reserves."

Purpose Stated

Table 13 indicates the nature of the inventory reserves as shown by the survey companies disclosing such reserves. Formerly the most common types of inventory reserves were those for obsolescence, possible future inventory price declines, or for the restatement of, replacement of, or reduction to, lifo inventories. Since 1950, however, there has been a decrease of over 80 per cent in the number of companies revealing the existence of inventory reserves, with a corresponding decrease in the number of such reserves. The principal reductions appear in the categories "possible future inventory price decline," (49 in 1950, 2 in 1965), "basic lifo replacement" (18 in 1950, 1 in 1965), and "purpose not stated" (24 in 1950, 1 in 1965).

Examples of inventory reserves for various purposes follow.

TABLE 13: INVENTORY RESERVES

Purpose Stated*	1965	1960	1955	1950
A: Possible future inventory price decline or losses	2	8	14	49
B: Inventory obsolescence	6	12	12	19
C: Basic Lifo replacement	1	5	6	18
Restatement of Lifo	—	1	2	—
D: Reduction to Lifo cost	5	2	6	6
E: "Base stock" adjustment	3	4	4	5
Reduction to market	—	1	3	2
F: "Released film" amortization	6	4	5	5
Inventory shrinkage	—	3	3	3
G: Materials and Supplies adjustments	1	2	1	4
Inventory hazard	—	—	1	1
H: Purpose not stated	1	5	16	24
I: Miscellaneous	1	1	5	11
Total	26	48	78	147
Terminology Used				
Reserve	11	23	42	86
Provision	3	6	7	11
Various other terms	12	19	29	50
Total	26	48	78	147
Number of Companies With:				
Inventory reserves	26	45	71	124
No inventory reserves	574	555	529	476
Total	600	600	600	600

*Refer to Company Appendix Section—A: 182, 568; B: 215, 303, 528, 536, 561, 595; C: 535; D: 10, 172, 236, 447, 591; E: 170, 396, 525; F: 193, 363, 374, 418, 550, 584; G: 35; H: 581; I: 406.

Refer also to Table 14.

Inventory Obsolescence

ENDICOTT JOHNSON CORPORATION
Operations Review

Inventories were carefully evaluated during the year and current operations charged for all known obsolescence. All inventories were evaluated at year end. Adequate reserves have been set up to cover probable obsolescence represented in year-end inventories.

STUDEBAKER CORPORATION
Current Assets:

Inventories—at lower of cost (first-in first-out method) or market—Note B	$35,282,896
Other Liabilities:	
Reserve for costs related to discontinued operations—Note B	$10,000,000
Current Liabilities:	
Reserve for current portion of costs related to discontinued operations—Note B	$ 6,162,846

Note B: Automotive Operations and Special Credits and Charges—In December, 1963, the Corporation discontinued manufacturing automobiles in South Bend, and since that date has been liquidating its automotive manufacturing facilities at that location. The Corporation's Canadian subsidiary continued production of automobiles at its Hamilton, Ontario, plant for distribution to Canadian, United States, and export markets. Because of adverse operating results of the Canadian subsidiary and the continued decline in the demand for Studebaker automobiles, the Corporation announced on March 4, 1966, a program for discontinuance of manufacturing automobiles in Canada and disposition of its remaining automotive facilities.

The losses anticipated in connection with this program are $8,000,000 for liquidation of Canadian automotive operations and $14,000,000 for liquidation of remaining United States automotive operations. In addition, a provision of $7,500,000 was made in 1965 to cover possible losses in connection with discontinuance of appliance manufacturing in Bloomington, Indiana and operations at two other locations.

At December 31, 1965, reserves for anticipated losses in connection with discontinued operations have been provided in the following manner:

Total remaining reserves at December 31, 1964		$29,187,189
1965 South Bend liquidation charges:		
Settlements of commitments for materials, termination pay, etc.		749,690
Other liquidation costs and expenses		1,817,665
		2,567,355
		$26,619,834
Reduction in reserves for liquidation of United States automotive operations to estimated amounts required at December 31, 1965		12,619,834
		$14,000,000
Provision for possible loss on liquidation of Canadian automotive operations		8,000,000
Provision for possible losses in connection with discontinuance of operations of certain nonautomotive facilities	$7,500,000	
Losses incurred in 1965	337,154	7,162,846
Total reserves for liquidation of discontinued operations at December 31, 1965		$29,162,846

Of the above reserves, $6,000,000 has been applied to inventories, $7,000,000 to properties, and $6,162,846 has been classified as a current liability to cover estimated 1966 liquidation costs and expenses.

The following special credits and charges resulting from the foregoing have been summarized in the consolidated statement of income and retained-earnings deficit:

Special Credits:	
Reduction in reserves for liquidation of United States automotive operations to estimated amounts required at December 31, 1965	$12,619,834
Gain on sale of net assets and business relating to Mercedes-Benz automobiles	3,027,326
	$15,647,160
Special Charges:	
Provision for possible loss on liquidation of Canadian automotive operations	$ 8,000,000
Provision for possible losses in connection with discontinuance of operations of certain nonautomotive facilities	7,500,000
	$15,500,000
Special Credits, Less Special Charges	$ 147,160

Inventory Price Decline or Losses

CUTLER-HAMMER, INC.
Current Assets:

Inventories, at the lower of cost (approximately 35% valued at LIFO) or market, less progress payments received: 1965—$12,555,830; 1964—$10,374,528	$45,595,939
Above Stockholders' Equity	
Reserve for possible inventory losses and other contingencies	$ 1,500,000

UNITED STATES SMELTING REFINING AND MINING COMPANY
Current Assets:

Inventories (Note 2):	
Ores, by-products, metals in process and on hand	$10,212,921
Fabricated products, in process and finished	12,815,327
Supplies	6,580,852
Capital:	
Retained Earnings Appropriated for Contingencies (Note 7)	$ 6,200,008

Note 7: Retained Earnings Appropriated for Contingencies at December 31, 1965, consisted of the following:

Reserve for Development (Note 3)	$4,210,373
Reserve for Metal Price Fluctuations (Note 9)	1,509,203
Other Reserves for Contingencies	480,432
	$6,200,008

Lifo Inventory Reserves

CRANE CO.
Current Assets:

Inventories, at lower of cost or market (after deducting reserves of $20,817,526 in 1965 and $22,426,130 in 1964 to state the principal inventories in the U.S. on a LIFO basis):	
Raw materials and supplies	$10,816,708
Work in process	24,618,710
Finished goods	33,084,054
	$68,519,472

GAR WOOD INDUSTRIES, INC.
Current Assets:

Inventories—at lower of cost or market (after deducting $2,480,000 in 1965 and $2,570,000 in 1964 to state the inventories on a last-in, first-out method), less partial payments received under defense contracts of $1,056,498 at October 31, 1965:	
Raw materials and purchased parts	$ 3,069,161
Work in process and finished stock	7,131,577
	$10,200,738

H. K. PORTER COMPANY, INC.
Current Assets:

Inventories—at lower of cost or market (including $30,736,268 in 1965 on LIFO basis):	
Raw materials and supplies	$15,388,683
Work in process	16,731,918
Finished	22,063,161
	54,183,762
Less Allowance to state certain inventories on LIFO basis	5,691,458
Total Inventories	$48,492,304

Normal or Base Stock Adjustment

CORN PRODUCTS COMPANY

Current Assets:	
Inventories, at lower of cost or market	$143,622,316
Above Stockholders' Equity	
Reserves:	
Reduction of normal inventories to fixed prices	$ 1,943,138
Deferred taxes on income	10,796,481
	$12,739,619

NATIONAL LEAD COMPANY

Current Assets:	
Inventories (Note 2)	$133,311,663
Noncurrent Liabilities	
Inventory reserve (Note 2)	$ 11,552,690

Note 2: Inventories are priced at the lower of cost (on various "average," "first-in, first-out" or "last-in, first-out" bases) or market. The inventory reserve has been maintained on the basis of the following quantities and prices of normal stocks:

	Normal Quantities (Short Tons)	Fixed Inventory Price per Pound
Lead	49,687½	$.03
Tin	1,124½	.21
Antimony	1,400	.05

STEWART-WARNER CORPORATION

Current Assets:	
Inventories, priced at lower of cost (first-in, first-out) or market:	
Finished goods and work in process	$30,616,256
Raw materials and manufacturing supplies	5,230,100
	35,846,356
Less: Reserve to reduce basic inventories to 1945 price levels	4,360,000
	$31,486,356

Released Film Amortization

METRO-GOLDWYN-MAYER INC.

Current Assets:	
Inventories, at lower of cost or estimated value—	
Film productions—	
Released, less amortization	$ 39,236,000
Completed—not released	15,110,000
In process	39,627,000
Books and rights	4,292,000
Television productions, less amortization	8,987,000
Other inventories	5,016,000
Total Inventories	$112,268,000

Supplies Adjustments

AMERICAN METAL CLIMAX, INC.

Current Assets:	
Inventories	$74,130,000

Notes to Financial Statements

Inventories:

Metals refined and in-process, at the lower of cost (average; last-in, first-out; first-in, first-out) or market (at December 31 market quotations: 1965, $49,480,000; 1964, $49,380,000)	$29,380,000
Metal fabricated products, etc., at the lower of cost (first-in, first-out) or market	29,330,000
Ores, concentrates and chemicals, at the lower of cost or estimated realization value	6,590,000
Operating supplies, at cost, less reserves	8,830,000
	$74,130,000

Replacement of Lifo Inventories

SWIFT & COMPANY

Current Assets:	
Inventories—Note 4—	
Products	$164,119,807
Ingredients and supplies	17,751,177
Current Liabilities:	
Provision for replacement of "Lifo" inventories (net after income taxes)	$ 1,337,785

Purpose Not Stated

WALGREEN CO.

Current Assets:	
Inventories, at the lower of cost or market, less reserves	$63,562,358

BALANCE SHEET PRESENTATION

Inventory reserves were presented most frequently by the survey companies in the current asset section of the balance sheet with the related inventories (21 reserves in 1965), above stockholders' equity section (3 reserves in 1965), or in the current liabilities section (one reserve in 1965). Reserves are considered to have balance sheet presentation when there is direct reference to the notes to financial statements. Table 14 sets forth, by type of reserves, the various presentations in the annual reports of the survey companies for the years 1965, 1960, 1955, and 1950.

Examples of the various balance sheet presentations are shown on the preceding pages. Listed below Table 14 are company numbers for the various balance sheet presentations.

CASH SURRENDER VALUE OF LIFE INSURANCE

The treatment of this asset as "noncurrent" is generally recommended and is in conformity with the pronouncement in *Accounting Research and Terminology Bulletins, Final Edition,* 1961, (Chapter 3, Section A), issued by the committee on accounting procedure of the American Institute of Certified Public Accountants.

As may be noted from Table 15, the number of survey companies disclosing the asset "cash surrender value of life insurance" has gradually decreased from 113 in 1950 to 38 in 1965.

The examples which are provided below illustrate the methods used to present cash surrender value of life insurance policies in the financial statements.

As a Noncurrent Asset Separately Set Forth

GRANITEVILLE COMPANY

Current Assets:

Cash on hand and in banks	$ 3,459,362
Marketable securities—at cost plus accrued interest (market value—$5,042,493)	5,041,715
Accounts receivable—net of allowance for doubtful accounts	11,122,644
Inventories (Notes 2 and 4):	
Raw materials	2,164,328
Stock in process	1,820,755
Finished goods	12,493,116
Dyes, chemicals, etc.	1,139,164
Total inventories	17,617,363
Prepaid expenses	114,008
Total current assets	37,355,092
Cash surrender value, life insurance	172,330

TABLE 14: INVENTORY RESERVES

	Balance Sheet Presentation*	1965	1960	1955	1950
	With Inventories for:				
	Possible future inventory price decline or losses	—	4	2	9
A:	Inventory obsolescence	6	11	12	15
B:	Reduction to Lifo cost	5	2	4	5
C:	Materials and Supplies adjustments	1	2	1	3
D:	"Base stock" adjustments	1	1	3	4
	Reduction to market	—	1	2	1
E:	"Released film" amortization	6	4	5	5
	Inventory shrinkage	—	3	2	3
F:	Purpose not stated	1	5	7	11
G:	Miscellaneous	1	—	3	8
	Among Current Liabilities for:				
H:	Basic Lifo replacement	1	4	3	7
	Miscellaneous	—	—	1	1
	Above Stockholders' Equity for:				
I:	Possible future inventory price decline or losses	1	2	1	15
	Inventory obsolescence	—	1	—	4
	Reduction to Lifo cost	—	—	2	1
	Basic Lifo replacement	—	1	2	9
	Reduction to market	—	—	1	1
J:	"Base stock" adjustments	2	3	1	1
	Restatement of Lifo	—	1	2	—
	Purpose not stated	—	—	4	7
	Miscellaneous	—	1	2	2
	Within Stockholders' Equity for:				
K:	Possible future inventory price decline or losses	1	2	10	25
	Purpose not stated	—	—	5	7
	Miscellaneous	—	—	3	3
	Total	26	48	78	147

*Refer to Company Appendix Section—A: 215, 303, 528, 536, 561, 595; B: 10, 172, 236, 447, 591; C: 35; D: 525; E: 193, 363, 374, 418, 550, 584; F: 581; G: 406; H: 535; I: 182; J: 170, 396; K: 568.
Refer also to Table 13.

TABLE 15: CASH SURRENDER VALUE OF LIFE INSURANCE

	Balance Sheet Presentation*	1965	1960	1955	1950
	As a current asset separately set forth	—	—	1	3
A:	As a noncurrent asset separately set forth	5	9	36	31
B:	Combined with or shown under heading of other noncurrent assets	32	53	49	79
C:	Not shown on balance sheet but existence thereof discussed in notes	1	1	2	—
	Number of Companies:				
	Disclosing the above asset	38	63	88	113
	Not disclosing the above asset	562	537	512	487
	Total	600	600	600	600

*Refer to Company Appendix Section—A: 199, 204, 269, 314, 547; B: 13, 22, 36, 49, 171, 179, 193, 201, 261, 266, 277, 281, 288, 296, 322, 324, 342, 367, 380, 383, 405, 436, 446, 486, 488, 494, 503, 523, 530, 542, 556, 597; C: 365.

THE DUPLAN CORPORATION

Noncurrent Assets

Cash Value of Life Insurance $180,131

EASTERN STAINLESS STEEL CORPORATION

Noncurrent Assets

Cash surrender value of life insurance policies $491,000

JANTZEN INC.

Noncurrent Assets

Cash surrender value of life insurance $705,708

TOBIN PACKING CO., INC.

Noncurrent Assets

Cash surrender value of life insurance $739,033

Combined With or Shown Under Heading of Other Noncurrent Assets

ALLIED KID COMPANY

Other Assets:

Cash value of life insurance—Note C	$173,181
Prepaid expenses and miscellaneous	311,187
Excess of cost of investments in subsidiaries over recorded net assets acquired, less amortization	50,415
	$534,783

Note C: Life Insurance—All of the policies covering the lives of certain officers may be cancelled and the proceeds applied to general corporate purposes; however, in the event of the death of the insured prior to cancellation, proceeds are to be used to purchase the Company's Common Stock held by the decedent or his family at the book value of the stock as shown by the last quarterly financial statement preceding the death of the officer, provided such stock is offered to the Company within six months and ten days after the date of death.

THE CUNEO PRESS, INC.

Other Assets:

Cash surrender value of life insurance	$304,013
Notes receivable due after one year, investments, etc.	219,711
Total Other Assets	$523,724

THE SEEBURG CORPORATION
Other Assets:

Receivables—	
Notes	$1,273,722
Affiliated European distributors (Note 7)	1,138,817
Cash surrender value of $1,800,000 life insurance	246,322
Debt expense, less amortization	179,915
Investment in European affiliate, at underlying book value (Note 7)	150,767
Other assets	281,623
	$3,271,166

THE WURLITZER COMPANY
Other Assets:

Cash surrender value of insurance on lives of officers and others	$ 758,228
Miscellaneous securities, investments, and receivables	416,203
Prepaid rents, tooling, etc.	1,393,111
Total Other Assets	$2,567,542

CLAIMS FOR REFUND OF INCOME TAXES

Table 16 summarizes the 36 claims for income tax refunds as disclosed by 36 of the survey companies in their 1965 annual reports. Two more claims were reported this year with the greater proportion of companies not explaining specifically the cause of the claim.

The following examples illustrate the nature and degree of disclosure of information concerning the claims for refund of taxes and the accounting treatment given.

Operating Loss Carry-Back

ALPHA PORTLAND CEMENT COMPANY
Current Assets:

Estimated Federal income tax recoverable under carry-back provisions (Note A)	$864,898

Note A: *Federal Income Taxes*—The Company has adopted the policy of recognizing the allowable investment tax credit ($100,000 in 1965 and, due to carry-back provisions, $864,898 in 1964) in income over the estimated useful life of the related property.

BRUNSWICK CORPORATION
Current Assets:

Federal income tax refund claims (Notes 3 and 8)	$18,225,000

Note 3: *Income Taxes*—The Company and its subsidiaries have followed, for book purposes, the practice of recording income from sales financed by long-term installment notes receivable when customers take delivery of bowling lanes, automatic pinsetters and related products. This practice, which is known as the "accrual basis," is the income-reporting method followed by most companies. For income tax purposes, the Company and its subsidiaries follow the "installment basis" of reporting income from such sales.

Income taxes applicable to installment sales have been provided on the basis of book income at the tax rate in effect in the year of sale. These taxes are payable over the terms of installment notes receivable as payments are received from customers. Accordingly, deferred income taxes of $28,330,000 at December 31, 1965 (after reflecting the income tax effect of the substantial bowling losses charged against 1965 operations) will not be payable until future years. The loss in 1965 also resulted in carry-back refund claims of $18,225,000 for Federal income taxes paid in prior years.

Because of reductions in the United States Federal income tax rates, the provision (credits) for income taxes includes credits of $2,300,000 in 1965, and $1,100,000 in 1964, for the difference between income taxes at the current rate and the amount of deferred income taxes previously provided at higher rates.

GENERAL BAKING COMPANY
Current Assets:

Estimated refund of federal income taxes under carryback provisions	$665,000

Excise Taxes

EMERSON RADIO & PHONOGRAPH CORPORATION
Current Assets:

Claim for Federal excise tax floor stock refund	$1,079,143

PARKE, DAVIS & COMPANY
Current Assets:

Cash	$17,944,372
Time deposits and marketable securities—at lower of cost or market plus accrued interest	68,007,808
Trade accounts receivable, less allowance of $1,086,000 at December 31, 1965, for doubtful accounts	39,741,304
Recoverable excise taxes	912,095

TABLE 16: TAX REFUND CLAIMS

Nature of Tax Refund Claims*	1965	1960	1955
Claims for Refund of Federal Income or Excess Profit Taxes:			
Basis of Claims Explained as—			
A: Operating loss carry-back	4	37	16
B: Sections 721-722 of Internal Revenue Code	1	—	3
Replacement of basic Lifo inventory	—	—	7
C: Adoption of Lifo inventory	1	3	6
Excess profits credit—carry-back	—	1	2
D: Various other	5	3	2
Basis of Claims Not Explained—			
E: Income taxes	17	20	20
Excess profits taxes	—	3	9
F: Taxes	3	—	4
Claims for Refund of:			
G: State taxes	2	1	1
H: Foreign taxes	1	3	2
I: Excise taxes	2	—	—
Total	36	71	72

Presentation in 1965	A	B	C	D	E	F	G	H	I	1965 Total
Current assets	4	—	—	2	14	3	2	—	2	27
Noncurrent assets	—	—	1	—	1	—	—	1	—	3
Notes to statements	—	1	—	2	1	—	—	—	—	4
Letter to stockholders	—	—	—	1	1	—	—	—	—	2
										36

Number of Companies	1965	1960	1955
Referring to tax refund claims	36	64	62
Not referring to tax refund claims	564	536	538
Total	600	600	600

*Refer to Company Appendix Section—A: 17, 20, 110, 240; B: 465; C: 259; D: 6, 54, 126, 535, 563; E: 22, 76, 97, 181, 194, 199, 300, 301, 405, 450, 485, 494, 514, 519, 522, 568, 576; F: 81, 291, 423; G: 108, 440; H: 166; I: 213, 419.

State Taxes

PITTSBURGH BREWING COMPANY
Current Assets:

Demand deposits and cash on hand	$2,717,292
Marketable securities at cost and approximate market value	1,239,252
Federal and state excise stamps	80,570
Accounts receivable—sundry only (no trade receivables)	12,316
State excise tax refunds due	33,104

Foreign Taxes

CONTROL DATA CORPORATION
Deferred Charges and Other Assets:

Development, systems application and acquisition costs related to leases, less amortization (Note 2)	$ 8,444,131
Patents at purchase cost, less amortization	498,450
Recoverable foreign taxes and deposits	692,164
Prepaid rent, etc.	800,364
Total Deferred Charges and Other Assets	$10,435,109

Adoption of Lifo Inventory

GIMBEL BROTHERS, INC.
Noncurrent Assets

Overpayment of Federal Income Taxes Claimed for the Six Years Ended January 31, 1947 (See Note 1)	$5,960,000

Note 1: Merchandise inventories are stated at LIFO (last-in, first-out) cost as determined under the retail inventory method. Inventories are stated at January 31, 1965 and January 31, 1964 at $13,380,891 and $13,538,658, respectively, less than they would have been if the first-in, first-out principle had been applied in determining cost.

As explained in the report for the year ended January 31, 1948, the LIFO method was claimed by Gimbel Brothers, Inc. and its subsidiaries, for all years commencing with the fiscal year ended January 31, 1942. As a result of this claim, provision for federal income taxes for the periods since January 31, 1941 has been reduced by $7,180,000. Of this amount $5,960,000 represents overpayments claimed for the six years ended January 31, 1947 (carried in the accompanying balance sheet as a non-current asset). The balance of the reduction, $1,220,000 has been reflected in the reduced provision for federal income taxes in the eighteen years ended January 31, 1965 (however, this amount has been paid under protest to stop the running of interest). The court case involving the right to use the LIFO method for the year ended January 31, 1942 was decided in 1956 against the Company. The Company continues to take such action as is available to it to assert its right to use the LIFO method for the year ended January 31, 1943 and subsequent years, and no adjustments are being made in the financial statements as a result of the adverse decision for the year ended January 31, 1942 until clarification of the Company's position for all years.

Other

ANDERSON, CLAYTON & CO.
Notes to Financial Statements

Note 6: The Company's federal income tax returns through the years ended July 31, 1961, have been examined by the Internal Revenue Service. Deficiencies of $7,502,000 plus interest of $1,593,000 have been assessed and paid during the current year; however, claims for refund have been filed for the amounts paid and are recorded as a receivable. The principal item in dispute arises from the Internal Revenue Service's attempt to tax the liquidation of the Panama subsidiary as ordinary income rather than capital gain. The Internal Revenue Service has indicated that additional assessments of federal income taxes will be made for the fiscal years July 31, 1962 and 1963. Tax counsel has advised the Company that neither the facts nor the law justifies the Internal Revenue Service's position with respect to the Panama issue and that any net final differences from current provisions will be limited to amounts which are not material.

BROWN & SHARPE MANUFACTURING COMPANY
Notes to Financial Statements

Note 2: The City of Providence, Rhode Island has assessed Brown & Sharpe Manufacturing Company $467,000 for 1965 personal property taxes and the assessment is being contested by the company. In 1965 $117,000 of these taxes were paid under protest and the balance, $350,000, is required to be paid in 1966. Other assets include a claim for refund of the 1965 payment; the liability for 1966 payments is not reflected in the balance sheet.

CENTRAL SOYA COMPANY, INC.
Other Current Assets:

Margin deposits on commodity futures contracts	$2,995,050
Prepaid expenses	777,804
Refundable federal income taxes (Note 3)	891,432
Total Other Current Assets	$4,664,286

Note 3: *Refundable Federal Income Taxes*—In connection with examinations of tax returns for the years ended August 31, 1959 to 1962, inclusive, the Internal Revenue Service disallowed certain deductions relating to leased property which the Company subsequently purchased. The proposed deficiency plus interest has been paid. The Company believes that the basis of the assessment is in error and that the Company's position can be sustained, through the courts if necessary, and has, therefore, shown the payment as refundable federal income taxes.

SWIFT & COMPANY
Notes to Financial Statements

Note 5: *Income Taxes*—Income tax provisions have been reduced by investment tax credits realized of $1,165,067 in 1965 and $1,382,941 in 1964. Also in 1964, the deferred income tax provision was reduced by $1,306,489 to reflect the reduction in the accumulated provision for deferred income taxes to the 48% rate provided by the Revenue Act of 1964. No provision has been made for income taxes which will become payable in the event of distribution of the retained earnings of the insuranec affiliates and subsidiaries.

Certain losses from expropriation of Cuban properties in 1960 have been disallowed by the Internal Revenue Service. Refund claims, included in long-term receivables, have been filed as Management believes its original position on the deductibility of these losses was valid.

PROPERTY, PLANT AND EQUIPMENT

Basis of Valuation

In October 1965, the accounting principles board of the American Institute of Certified Public Accountants issued *Opinion No. 6* (effective for fiscal periods beginning after December 31, 1965), wherein *Accounting Research Bulletin No. 43,*† Chapter 9B, paragraphs 1 and 2 were deleted and the following paragraph has been substituted for them:

1. The Board is of the opinion that property, plant and equipment should not be written up by an entity to reflect appraisal, market or current values which are above cost to the entity. This statement is not intended to change accounting practices followed in connection with quasi-reorganizations or reorganizations. This statement may not apply to foreign operations under unusual conditions such as serious inflation or currency devaluation. However, when the

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

accounts of a company with foreign operations are translated into United States currency for consolidation, such write ups normally are eliminated. Whenever appreciation has been recorded on the books, income should be charged with depreciation computed on the written up amounts.

No reference to the above Opinion was observed in the review of the 600 survey companies.

Of the 600 survey companies, 578 disclosed the basis used in the valuation of property, plant and equipment as presented in their balance sheets. Table 17 summarizes the various bases used by the survey companies in valuing their property, plant and equipment. The great majority of these companies valued such assets at "cost." The method of valuing "subsequent additions" whenever indicated was usually "cost." Few companies disclosed a basis of valuation of property, plant and equipment other than "cost," although in some cases this was modified to read "substantially at cost" or "principally at cost," etc.

Examples

Illustrations of the various methods of presentation of the value of property, plant and equipment as disclosed in the 1965 reports are as follows:

At Cost

ALAN WOOD STEEL COMPANY

Property, Plant and Equipment, at cost, less accumulated depreciation and depletion: 1965—$64,224,293; 1964—$58,805,201	$60,044,980

AMERICAN SEATING COMPANY

Fixed, at cost:	
Land and timber	$ 664,394
Buildings, machinery and equipment	14,118,150
	14,782,544
Less accumulated depreciation	7,664,317
Net Fixed Assets	$ 7,118,227

BROWN & SHARPE MANUFACTURING COMPANY

Plant and equipment, at cost, less allowances for depreciation and amortization of $16,377,249 and $15,864,082	$19,643,316
Land	719,984

TABLE 17: PROPERTY, PLANT AND EQUIPMENT

	Basis of Valuation*	1965	1964	1960	1955	1950
A:	Cost	545	542	515	457	396
B:	Cost plus appraisal value	3	3	10	11	22
	Cost plus assigned, estimated, or revised values	—	1	2	6	7
C:	Cost and various other bases	4	4	7	10	9
D:	Cost in cash or securities	1	2	3	3	9
	Cost in cash or securities plus subsequent additions at cost	—	—	—	2	2
E:	Cost or below cost	3	5	6	10	17
F:	Approximate cost	3	3	4	12	11
G:	Substantially, or principally, at cost	15	12	N/C	N/C	N/C
	Approximate cost plus appraisal or revised values	—	—	—	1	2
H:	Appraisal value with subsequent additions at cost	1	1	5	13	24
	Appraisal value with subsequent additions at cost plus various other bases	—	—	—	1	6
	Assigned value with subsequent additions at cost	—	1	1	8	9
	Revised value with subsequent additions at cost	—	—	2	2	5
	Revised value with subsequent additions at cost plus various other bases	—	—	—	—	3
	Acquisition value with subsequent additions at cost	—	—	—	—	4
I:	Basis of predecessor plus additions at cost	3	3	4	3	2
	Book value	—	—	1	2	1
	Book value with subsequent additions at cost	—	—	1	2	4
	Reproductive value with subsequent additions at cost	—	—	1	4	2
	Number of Companies*					
	Stating valuation basis for property, plant and equipment	578	577	562	547	535
J:	Not stating valuation basis for property, plant and equipment	22	23	38	53	65
	Total	600	600	600	600	600

N/C—Not compiled.

*Refer to Company Appendix Section—A: All 600 companies not specifically listed below under other captions; B: 368, 417, 478; C: 43, 118, 159, 432; D: 51; E: 189, 332, 457; F: 117, 200, 462; G: 17, 94, 148, 165, 173, 203, 248, 258, 282, 325, 379, 399, 535, 560, 575; H: 29; I: 216, 561, 592; J: 35, 44, 98, 135, 171, 209, 237, 249, 268, 308, 326, 347, 355, 431, 436, 458, 466, 525, 548, 549, 557, 573.

GENERAL BOX COMPANY

Property, Equipment and Timber, at cost:	
Buildings and equipment	$10,545,771
Less accumulated depreciation	6,133,675
	4,412,096
Land	367,572
Timber and timberlands, less depletion	52,104
	$4,831,772

INTERNATIONAL BUSINESS MACHINES CORPORATION

Factories, Office Buildings, Other Property . . . at Cost:	
Land	$ 57,035,983
Buildings	446,926,652
	503,962,635
Less: Reserve for depreciation and amortization	156,055,003
	347,907,632
Factory and office equipment, rental machines and parts	4,047,998,304
Less: Reserve for depreciation and amortization	2,092,396,936
	1,955,601,368
	$2,303,509,000

MIDLAND-ROSS CORPORATION

Property, Plant and Equipment—Note C:	
Land, buildings, machinery, and equipment	$147,757,308
Less allowances for depreciation	81,157,596
	$ 66,599,712

Note C: Property, Plant, and Equipment—Amounts for property, plant, and equipment, stated on the basis of cost, were as follows:

Land	$ 4,549,793
Land improvements	1,675,859
Buildings	44,950,627
Machinery and equipment	96,581,029
	$147,757,308

Cost Plus Appraised Value

McKESSON & ROBBINS, INCORPORATED

Fixed Assets—Note 3	$21,617,014

Note 3: Fixed Assets—Fixed assets are stated at cost, except for certain items (approximately $2,084,000 as at March 31, 1965) included at October 31, 1934 appraisal amounts, and consist of the following:

Land	$ 2,669,826
Buildings, machinery and equipment	30,126,942
Improvements to leased properties	2,606,423
	35,403,191
Less: Accumulated depreciation and amortization	13,786,177
	$21,617,014

OXFORD PAPER COMPANY

Plants and Properties (Note 2):	
Manufacturing plants	$126,014,219
Power plant, development and rights	9,513,193
Timberlands, less depletion	3,851,809
Outside real estate	822,603
	140,201,824
Less accumulated depreciation	(58,883,539)
	$ 81,318,285

Note 2: Plants and Properties—Plants and properties are stated at cost, except that amounts shown for power plant, development and rights and outside real estate include adjustments made in 1928 and prior to 1922 to reflect the values determined in those years as a result of appraisals.

ST. JOSEPH LEAD COMPANY

Property, Plant and Equipment (Note 3)	$153,916,527
Less accumulated depreciation and depletion	97,041,384
	$ 56,875,143

Note 3: Property, Plant and Equipment—All properties are stated at cost except for $17,000,000 of mining properties and mineral rights stated at appraised values, for which full allowances for depletion have been provided.

The net amount of property, plant and equipment as shown in the consolidated balance sheet does not indicate the present value of these assets, as such value could be arrived at only by current estimates which would vary from time to time depending on the price of metals, rate of production, cost of labor, and other factors.

Cost or Less

DIAMOND INTERNATIONAL CORPORATION

Property, Plant and Equipment:	
Land, at cost or less	$ 3,209,000
Buildings, woods facilities and equipment (including construction in progress $16,730,000 in 1965 and $8,828,000 in 1964), at cost	222,391,000
	225,600,000
Allowance for depreciation	122,061,000
Property, Plant and Equipment—Net	103,539,000
Standing Timber and Cutting Rights, at cost	8,057,000

THE KROGER CO.

Land, buildings and equipment, at cost or less	$294,652,178
Less allowance for depreciation	(124,312,508)
Leaseholds and leasehold improvements, net	45,673,041

THE RATH PACKING COMPANY

Property, Plant and Equipment, not in excess of cost:	
Land	$ 446,365
Plant and equipment	44,284,529
Total	44,730,894
Less accumulated depreciation	23,108,692
Net	$21,622,202

Cost and Various Other Bases

CALUMET & HECLA, INC.

Property, Plants and Equipment:	
Land and standing timber	$ 6,600,714
Mine lands	4,817,117
Plants and equipment (less accumulated depreciation and amortization)	32,075,623
Capital work in progress	7,459,537
Total Property, Plants and Equipment—Note 2	$50,952,991

Note 2: Property, Plants and Equipment Valuations—Land and standing timber are carried at cost. Mine lands are carried at values assigned thereto in 1923 plus subsequent additions at cost, except as to certain extraordinary mine land development which is carried at cost reduced by tax savings realized thereon. During 1965, expenditures so treated amounted to $1,708,052, now carried at the net value of $888,175.

Plants and equipment are carried at cost. Depletion of mine lands and depreciation of mining equipment and facilities directly related are computed on a unit of production basis. Other plants and equipment are depreciated on the straight-line method, based on estimated useful life. Accumulated depreciation and amortization at December 31, 1965 and 1964 amounted to $38,283,389 and $37,036,087, respectively. Depreciation and amortization charged to operations in 1965 was $2,903,424.

THE ANACONDA COMPANY

Property, Plant and Equipment—Note E:

Buildings, machinery and equipment	$1,225,126,622
Less accumulated depreciation	729,996,595
	495,130,027
Mines and mining claims, water rights and lands	280,203,675
Timberlands and phosphate and gravel deposits, less accumulated depletion of $5,355,586 (1964—$5,201,475)	1,937,874
	$ 777,271,576

Note E: Property, Plant and Equipment—Property, plant and equipment are included in the consolidated balance sheet on the basis of cost to the consolidated group either in cash or in stock of the parent company at par value. No representation is made that the values at which property, plant and equipment are carried in the consolidated balance sheet indicate current values.

Approximate Cost

REMINGTON ARMS COMPANY, INC.

Plants and Properties, at approximate cost:

Land	$ 1,511,863
Buildings	12,593,668
Machinery and equipment	35,357,375
	49,462,906
Less: Accumulated depreciation and obsolescence	30,735,591
	$18,727,315

Appraisal Value with Subsequent Additions at Cost

THE AMERICAN DISTILLING COMPANY

Property, Plant and Equipment—Note 2:

Stated at values, including allowance for depreciation, determined by independent appraisers at December 31, 1934, plus subsequent additions at cost, less retirements:

Buildings, machinery and equipment	$11,142,919
Less: Accumulated depreciation and amortization	6,418,741
	$ 4,724,178
Land	182,376
	$ 4,906,554

Basis of Predecessor Company with Subsequent Additions at Cost

UNITED PARK CITY MINES COMPANY

Property, Plant and Equipment, partially pledged (Note A):

Buildings and equipment	$ 3,444,426
Less accumulated depreciation	786,533
	2,657,893
Mines, mining claims and lands	12,550,132
Total property, plant and equipment	$15,208,025

Note A: Property, Plant and Equipment—Mines, mining claims and lands were acquired in the consolidation of Park Utah Consolidated Mines Company and Silver King Coalition Mines Company on May 8, 1953 and in the merger with Daly Mining Company on June 28, 1957 and are carried at the book values as of those dates, such values generally representing cost to the respective companies either in cash or in capital stock at par value. Property acquired since May 8, 1953 is carried at cash cost.

Substantially or Principally at Cost

CONTINENTAL STEEL CORPORATION

Fixed Assets—principally at cost:

Land, buildings, machinery and equipment	$42,509,844
Less—Depreciation and amortization	24,643,492
	$17,866,352

UTAH-IDAHO SUGAR COMPANY

Property, Plant, and Equipment—substantially at cost, less allowances for depreciation of $23,598,230 in 1965 and $24,051,405 in 1964—Note A	$28,847,195

TERMINOLOGY FOR "ACCUMULATED DEPRECIATION"

The committee on terminology of the American Institute of Certified Public Accountants recommended that use of the word *reserve* should be avoided in connection with accounts such as "accumulated depreciation." The survey of the 600 companies indicates that there has been a definite trend in this direction. In 1950, 275 companies used the term *reserve* as compared with 67 companies in 1965. The term *accumulated* has gained wide acceptance, increasing in usage from 98 companies in 1950 to 378 companies in 1965. The term *allowance* was used in 1965 by 105 companies as compared with 108 companies in 1950.

Table 18 is a summary of the terminology used to describe "accumulated depreciation." The first section of the table shows the frequency of the primary terms, such as *reserve, accumulated, allowance,* etc., as used in the balance sheets. The second section of the table classifies the various secondary terms used in the balance sheet descriptions, showing for the year 1965 the frequency of their combination with the primary terms.

Examples

The terminology used in the 1965 reports for accumulated depreciation, and the appendix numbers of the companies using the terminology, are listed below. As may be observed from the examples shown under "Property, Plant and Equipment—Basis of Valuation," immediately preceding, the word *less* is generally used in this connection, although it has been omitted here.

Reserve—(67 Companies):

Reserve(s) (*177, 210, 319, 355, 560)

Reserves for intangible drilling and development costs, depreciation, depletion, etc. (*20)

Reserves for depletion, depreciation, and amortization (*502)

Reserve(s) for depreciation (*14, 88, 95, 98, 99, 105, 144, 160, 186, 205, 243, 255, 274, 282, 286, 298, 310, 326, 333, 374, 382, 392, 401, 421, 440, 452, 459, 486, 496, 497, 564, 586)

*Refer to Company Appendix Section.

TABLE 18: ACCUMULATED DEPRECIATION

Primary Descriptive Terms	*1965	1964	1960	1955	1950
A: Reserve—used alone	5	6	12	9	275
Reserve, etc.	62	69	106	157	
B: Accumulated, etc.	378	351	266	190	98
C: Allowance, etc.	105	112	129	127	108
D: Depreciation—used alone	21	25	34	41	80
Depreciation, etc.	22	27	37	44	
E: Provision, etc.	2	2	6	13	17
F: Accrued, etc.	1	1	1	3	4
Estimated, etc.	—	—	2	3	2
G: Other phrases used:					
Wear and exhaustion	—	—	—	1	16
Wear of facilities	—	—	—	1	
Portion allocated to operations	2	2	2	3	
Portion charged to operations	1	1	1	—	
Amount charged to expense	1	1	1	1	
Amount charged to operations	—	2	2	2	
Amount charged to past operations	—	—	—	2	
Amounts applied to past operations	—	—	—	1	
Depreciated cost	—	1	1	1	
Depreciated ledger values	—	—	—	1	
Total	600	600	600	600	600

*1965 Term Used With:	Primary Term Shown Above: A	B	C	E	F	G	None Used	1965 Total
Depreciation	33	221	56	1	1	1	21	334
Depreciation—amortization	19	102	33	1	—	—	9	164
Depreciation—amortization—depletion	6	20	6	—	—	—	7	39
Depreciation—amortization—obsolescence	1	4	—	—	—	—	—	5
Depreciation—depletion	3	23	8	—	—	—	6	40
Depreciation—obsolescence	—	6	1	—	—	—	—	7
Other phrases used	—	2	1	—	—	3	—	6
Reserve—used alone	5	—	—	—	—	—	—	5
Total	67	378	105	2	1	4	43	600

Reserve(s) for depreciation and amortization (*31, 39, 86, 132, 137, 185, 285, 292, 307, 387, 406, 427, 445, 488, 525, 581, 600)
Reserves for depreciation, amortization and obsolescence (*508)
Reserves for depreciation, amortization and special reserves (*548)
Reserves for depreciation, amortization, etc. (*110)
Reserves for depreciation, etc. (*245)
Reserves for depreciation and depletion (*358)
Reserve(s) for depreciation, depletion, and amortization (*47, 396, 435, 515, 568)
Reserves for depreciation, depletion, etc. (*159)

Accumulated—(378 Companies):
Accumulated allowances for amortization, depletion and depreciation (*18)
Accumulated allowances for depreciation (*322, 483)
Accumulated allowances for depreciation and amortization (*8, 15, 261, 262)
Accumulated depletion, depreciation and amortization (*534)
$xxx accumulated depreciation (*328)
Accumulated depreciation (*2, 6, 7, 16, 19, 21, 23, 27, 32, 33, 37, 40, 41, 42, 43, 45, 46, 48, 49, 51, 52, 55, 58, 59, 60, 62, 66, 70, 71, 72, 79, 80, 85, 91, 93, 100, 106, 107, 111, 112, 115, 116, 117, 120, 121, 122, 123, 124, 130, 131, 135, 141, 142, 145, 147, 150, 151, 152, 156, 157, 161, 163, 172, 174, 176, 178, 180, 182, 183, 191, 193, 199, 204, 208, 209, 215, 217, 218, 219, 222, 223, 226, 232, 233, 235, 237, 240, 241, 244, 246, 247, 248, 253, 258, 259, 267, 269, 273, 276, 277, 280, 284, 289, 297, 299, 301, 308, 311, 313, 314, 323, 324, 330, 336, 337, 339, 340, 342, 343, 344, 348, 349, 350, 359, 361, 363, 364, 366, 369, 376, 378, 384, 386, 393, 400, 402, 413, 414, 415, 416, 417, 418, 419, 423, 428, 430, 431, 436, 437, 438, 439, 442, 444, 446, 448, 449, 450, 454, 455, 456, 457, 458, 464, 465, 466, 470, 473, 480, 481, 482, 487, 491, 498, 501, 503, 504, 506, 509, 510, 511, 512, 513, 514, 519, 521, 522, 523, 524, 527, 529, 535, 536, 537, 542, 547, 549, 551, 554, 556, 558, 561, 566, 567, 570, 572, 573, 580, 585, 591, 592, 594, 596, 597, 598)

*Refer to Company Appendix Section.

Accumulated depreciation and amortization (*3, 10, 25, 29, 34, 38, 54, 64, 67, 69, 73, 74, 77, 89, 90, 94, 96, 97, 101, 102, 113, 118, 119, 129, 138, 146, 149, 155, 158, 169, 179, 181, 190, 196, 197, 206, 207, 211, 213, 220, 221, 224, 225, 228, 231, 236, 239, 250, 254, 257, 271, 275, 281, 287, 290, 293, 302, 334, 345, 352, 356, 360, 367, 368, 371, 379, 398, 408, 409, 420, 425, 429, 447, 451, 460, 469, 474, 476, 479, 484, 494, 520, 526, 539, 540, 541, 550, 552, 555, 557, 559, 571, 574, 577, 579, 582, 584, 590)
Accumulated depreciation, amortization and depletion (*28)
Accumulated depreciation, amortization and obsolescence (*30, 114, 184, 576)
Accumulated depreciation and depletion (*9, 35, 63, 75, 125, 136, 148, 162, 195, 260, 309, 316, 321, 433, 441, 471, 475, 478, 518)
Accumulated depreciation and depletion and allowance for loss on abandonment and disposal (*251)
Accumulated depreciation and depletion, etc. (*381)
Accumulated depreciation and depletion of $xxx (*422)
Accumulated depletion, depreciation, and other allowances (*553)
Accumulated depreciation, depletion, and amortization (*12, 65, 68, 76, 153, 164, 230, 272, 296, 315, 329, 412, 492, 500, 505, 544)
Accumulated depreciation, depletion, and amortization, etc. (*495)
Accumulated depreciation and obsolescence (*154, 200, 249, 265, 338, 462)
Accumulated depreciation and quarry depletion (*268)
Accumulated depreciation, etc. (*291)
Accumulated depreciation reserves (*562)
Accumulated reserves (*426)
Accumulated provisions for depreciation (*528)
Accumulated wear and exhaustion (*317)

Allowances—(105 Companies):
Allowances for depletion, depreciation and amortization (*354)
Allowance(s) for depreciation (*1, 4, 22, 26, 53, 57, 78, 82, 83, 92, 103, 104, 126, 143, 167, 171, 175, 187, 188, 189, 194, 201, 203, 238, 256, 278, 288, 295, 300, 332, 341, 351, 362, 372, 375, 380, 390, 395, 397, 404, 405, 407, 432, 434, 461, 468, 472, 485, 489, 493, 546, 563, 575, 578, 593)
Allowance(s) for depreciation and amortization (*11, 36, 84, 108, 109, 127, 134, 166, 192, 212, 216, 234, 242, 252, 264, 266, 270, 279, 294, 320, 327, 353, 388, 389, 403, 411, 499, 507, 543, 545, 565, 583, 587)
Allowances for depreciation (deduction) (*87)
Allowance(s) for depreciation and depletion (*56, 173, 202, 229, 347, 370, 453, 532)
Allowances for depreciation and revaluation (*13)
Allowances for depreciation, depletion, and amortization (*140, 399, 463, 467)
Allowances for depreciation, depletion, amortization, etc. (*357)
Allowances for depreciation and obsolescence (*198)

*Refer to Company Appendix Section.

Depreciation—(43 Companies):
Depreciation (*5, 24, 128, 133, 139, 168, 170, 214, 227, 303, 305, 325, 331, 373, 377, 385, 391, 394, 410, 424, 477)
Depreciation and amortization (*165, 263, 306, 312, 346, 383, 530, 595, 599)
Depreciation, amortization and cost depletion (*335)
Depreciation, amortization and depletion (*304)
Depreciation and depletion (*17, 518, 531, 569, 588)
Depreciation, depletion, and amortization (*44, 318, 490, 516, 538)
Depreciation and depletion to date (*443)

Provision—(2 Companies):
Provision for depreciation (*283)
Provision for depreciation and amortization (*61)

Accrued, Estimated, and Various Other—(5 Companies):
Accrued depreciation (*533)
Amount charged to expense to date (*365)
Portion allocated to operations (*81)
Portion allocated to operations to date (*50)
Portion charged to operations to date as depreciation (*589)

LONG-TERM LEASES—Disclosure by Lessees

Opinion No. 5, *Reporting of Leases in Financial Statements of Lessee,* released in September, 1964 by the accounting principles board of the American Institute of Certified Public Accountants, in paragraph 1, ". . . sets forth the Board's views as to proper procedures or methods for implementing generally accepted accounting principles governing accounting for assets and liabilities and income and expense with respect to leases and sale and leasebacks. . . . This Opinion makes no distinction between leases of real property and leases of personal property. Because of the highly specialized problems involved, this Opinion does not apply to agreements concerning natural resources such as oil, gas, timber and mineral rights."

Opinion No. 5 distinguishes between executory type contracts for the rental of property and ". . . some lease agreements . . ." which ". . . are essentially equivalent to installment purchases of property."[1]

As to the former (executory type contracts) the accounting principles board states in paragraph 14, that "Leases of this type involve future rights and obligations, however, and pertinent information should be disclosed as described in paragraphs 16, 17, and 18. In the opinion of the Board, disclosure rather than capitalization is the correct accounting treatment of these leases."

[1] Paragraph 9 of Opinion No. 5 of accounting principles board of the American Institute of Certified Public Accountants.

16. The Board believes that financial statements should disclose sufficient information regarding material, noncancelable leases which are not recorded as assets and liabilities (see paragraphs 13 and 14) to enable the reader to assess the effect of lease commitments upon the financial position and results of operations, both present and prospective, of the lessee. Consequently, the financial statements or the accompanying notes should disclose the minimum annual rentals under such leases and the period over which the outlays will be made.
17. In many cases, additional disclosure will be required. The Board believes that rentals for the current year on leases covered by this Opinion should be disclosed if they differ significantly from the minimum rentals under the leases. Type or types of property leased, obligations assumed or guarantees made, and significant provisions of lease agreements (such as restrictions on dividends, debt, or further leasing or unusual options) are examples of other types of information which should also usually be disclosed.
18. The specific details to be disclosed and the method of disclosure will vary from one situation to another depending upon the circumstances. In many cases, a simple statement will suffice. In more complicated situations, more detailed disclosure will be appropriate. For example, it may be useful to provide a schedule of rentals by years or by three- or five-year periods if annual rentals will fluctuate significantly; or it may be desirable to provide a brief description of the basis for calculating the rental if the amount of rent is dependent upon some factor other than the lapse of time; or it may be necessary to indicate the effect of lease renewals in order to avoid misleading implications.

When the lease is in substance an installment purchase of property, the Board, in paragraph 9 of Opinion No. 5, goes on to state that, "The property and the related obligation should be included in the balance sheet as an asset and a liability, respectively, at the discounted amount of the future lease rental payments, exclusive of payments to cover taxes and operating expenses other than depreciation. Further, in such cases, it is appropriate to depreciate the capitalized amount for property over its estimated useful life rather than over the initial period of the lease." Paragraphs 10, 11, and 12 of Opinion No. 5 set forth criteria for recognizing a purchase as opposed to an executory contract for the rental of property.

Special attention was given by the accounting principles board in Opinion No. 5 to the sale-and-leaseback transactions. The Board indicated that the principal details should be disclosed in the originating year, that material gains and losses from such transactions should be amortized over the term of the lease as a rental adjustment, and that other provisions of Opinion No. 5 apply when pertinent.

Twenty-six companies* reported the existence of leases which were treated as purchases of property or as sale-and-leaseback transactions. The following tabulation includes 35 presentations by the 26 companies. Some of the companies, therefore, are represented in more than one of the subdivisions of the tabulation.

A:	Report refers to recording of assets and liabilities, created by leases which in substance are purchases	18
B:	The initial term of the lease is essentially equal to the useful life of the property and company may acquire property without further payment or with only nominal payment upon expiration of lease	2
C:	The initial term of the lease is less than the useful life of the property, and the lessee has an option to renew the lease for the remaining useful life of the property at substantially less than fair rental value	1
D:	The property was acquired by the lessor to meet the special needs of the lessee and will probably be usable only for that purpose and only by the lessee	3
E:	The lessee has treated the lease as a purchase for tax purposes	1
F:	Report states that the capitalized amount for leased property is being depreciated over its useful life rather than over the initial period of the lease	1
G:	Report refers to the amortization of material gains or losses resulting from sale-and-leaseback transactions	6
H:	Payments under lease aggregate approximate purchase over term of lease plus payments for interest and carrying charges	3
	Total	35

*Refer to Company Appendix Section—A: 64, 127, 167, 177, 236, 250, 313, 347, 364, 379, 383, 436, 464, 475, 533, 551, 553, 565; B: 7, 436; C: 45; D: 364, 551; E: 464, 551; F: 379; G: 254, 337, 352, 364, 563, 565; H: 98, 131, 436.

Examples—Lease Agreements Which in Substance Are Purchases of Property

The examples below illustrate the type of information furnished in 1965 reports for leases which in substance are purchases of property or which are sale-and-leaseback transactions.

Leases Recorded as Assets and Liabilities

COOK PAINT AND VARNISH COMPANY
Noncurrent Liabilities

Long-Term Debt—Less current maturities:	
Lease purchase agreement relating to manufacturing plant and equipment carried at $1,104,910. Payable $6,642 monthly including interest at approximately 4.2%	$1,170,711
Other	204,000
	$1,374,711

GENERAL PLYWOOD CORPORATION
Noncurrent Liabilities

Long-term obligations, less current portion (Note 3) $258,012

Note 3: The long-term obligations consist of the following:

	Current	Due after one year
5% subordinated debentures	$16,300	$146,700
Contracts payable	48,394	111,312
	$64,694	$258,012

The 5% subordinated debentures, issued in connection with the retirement of preferred stock of the subsidiary Paine Lumber Company, Ltd., are due in amounts of $16,300 each April 1, 1966 through 1975. The contracts payable arise primarily from equipment leases which have been treated as purchases. Payments, excluding normal financing charges, are due in each of the five years subsequent to October 31, 1966, in the approximate amounts of $42,000, $23,000, $21,000, $10,000 and $3,000, and $12,000 is due after five years.

MOORE DROP FORGING COMPANY
Noncurrent Assets

Leasehold Interest in Facilities, less amortization of $179,651—Note 4 .... $716,713

Noncurrent Liabilities

Long-term rental—Note 4 .... $653,156

Note 4: The company entered into a lease agreement for manufacturing facilities in Hillsboro, Ohio during 1960. The lease runs for 20 years with two ten-year renewal options. Under the terms of the lease, the lessee is granted an option to purchase the property at the landlord's depreciated tax cost at any time prior to one year before the expiration date of the lease or any renewal period. In order to conform with accounting principles, which during the period since the last fiscal year of the company have become generally advocated, the company, as of June 30, 1965, changed its accounting practice to reflect the leasehold interest as an asset and the commuted value of the company's liability to pay rent (for the initial and extended periods of the lease) plus the estimated cost of exercising the purchase option at the expiration of the lease as long-term debt.

Company May Acquire Property Upon Expiration of Lease with Nominal Payment

PHOENIX STEEL CORPORATION
Noncurrent Liabilities

Long-Term Debt:

		Pro Forma
Mortgage notes payable (Note 2)	$1,060,000	—
5½% convertible subordinated debentures due in 1969 (Note 2)	4,539,000	—
Industrial revenue bonds 5¾%, due 1991 (Note 5)	—	35,000,000
Five-year revolving bank loan 6% (Note 5)	—	6,000,000
Miscellaneous	338,857	338,857
	5,937,857	41,338,857
Less current portion shown above	2,162,709	303,709
	$3,775,148	$41,035,148

Note 5: *Capital Improvements, Financing Commitments and Pro Forma Adjustments*—The Company has made arrangements with Northern Delaware Industrial Development Corporation whereby funds for the financing of plant improvements and other purposes will be obtained by the sale of the Development Corporation bonds in the aggregate initial amount of $35,000,000 with an additional $6,000,000 authorized. The Company has also made arrangements with Northern Delaware Industrial Development Corporation to sell (and lease back) its properties at Claymont to the Development Corporation. The bonds will be secured by mortgages on the Claymont and Phoenixville properties of the Company from the Development Corporation and the Company, respectively, and by an assignment of the lease. The proceeds of this financing, after provision for bond discount and expense of $1,970,000, will be used for the payment of federal income tax claims of $5,404,446, including interest to December 31, 1965, with the balance held in escrow for construction of improvements of $22,595,554 and two and ½ years' interest of $5,030,000. The Company is committed to pay the remaining $3,900,000 of the estimated costs of construction. The Development Corporation will construct to the Company's specifications a continuous casting mill and make other improvements to the Claymont property. In accordance with generally accepted accounting principles, the proposed sale will not be recognized in subsequent financial statements and the proposed lease will be treated as an instalment purchase.

The Company will continue to occupy and use the facilities of the Claymont properties under a long-term lease from the Development Corporation at an annual cost of $50,000 in 1966, $300,000 in 1967, $1,050,000 in 1968 and $2,415,700 in 1969 and 1970, and larger amounts thereafter, which together with the interest held in escrow is equal to the payments required under the trust indenture pursuant to which the bonds of the Development Corporation will be issued. The lease will provide that upon the payment of all of the outstanding bonds of the Development Corporation, the Claymont property will, at the Company's option, be reconveyed to the Company for $1.

Initial Term Less than Useful Life of Property with Option to Renew Lease at Less than Fair Rental Value

AMERICAN SUGAR COMPANY
Notes to Financial Statements

Note 6: *Long-Term Lease*—In 1964 the Company entered into an agreement to lease a beet sugar factory to be constructed in Maricopa County, Arizona. The factory is scheduled to start operations in the spring of 1967. The term of the lease is 22 years with annual rents on an average level rate, starting in mid-1967, of about $1,700,000. The Company may renew the lease for up to 40 one-year terms at nominal annual rentals.

Lease Treated as a Purchase for Tax Purposes

UNION BAG-CAMP PAPER CORPORATION
Notes to Financial Statements

Note 4: The long-term obligations are summarized as follows:

	Current	Noncurrent
Notes payable to insurance companies:		
4.65% due 1966 to 1978	$1,500,000	$24,000,000
4.75% due 1966 to 1976	70,000	787,500
4.00% due 1966 to 1972	41,997	290,208
Other notes due 1966 to 1988	140,232	1,404,381
Long-term lease obligation covering Alabama industrial revenue bonds:		
4.40% due 1968 to 1973	—	9,870,000
4.00% due 1974 to 1987 (effective rate 4.04%)	—	35,130,000
Total	$1,752,229	$71,482,089

The 4.65% note is payable in annual installments of $1,500,000 from 1966 to 1977 and $7,500,000 in 1978. The note and loan agreement contain, among other matters, various restrictions on the payment of cash dividends. At December 31, 1965, approximately $37,187,000 of earnings retained for use in the business was free of such restrictions.

Under the terms of the long-term lease obligation annual rental of approximately $3,300,000 is payable beginning in 1967 and ending in 1987 to cover bond principal and interest. The transaction has been treated as a purchase for both accounting and tax purposes.

Property Acquired to Meet Special Needs of Lessee

REVERE COPPER AND BRASS INCORPORATED
Noncurrent Liabilities

Long-Term Lease Obligations (Note B)	$59,200,000

Notes to Financial Statements

Note B: Funds Held by Trustees and Long-Term Lease Obligations—During 1965, the Company entered into agreements with The Industrial Development Board of Scottsboro, Alabama, and with Jackson County, Arkansas, which provide for constructing, equipping and leasing of new mill facilities. The Scottsboro project consists of a new aluminum rolling mill and related facilities estimated to cost $55,000,000; the Jackson County (Newport) project represents an expansion of aluminum foil rolling mill facilities estimated to cost $4,200,000. The cash proceeds of the two industrial development revenue bond issues (aggregating $59,200,000 principal amount) sold by the Scottsboro and Jackson County governmental agencies are restricted to the payment of the construction costs of such facilities. At December 31, 1965, the unexpended bond proceeds held by the Trustees were invested principally in time deposits and short-term commercial paper.

The Scottsboro project is to be leased to the Company upon completion (but no later than January 1, 1968) to July 1, 1987; the Newport project was leased to the Company effective March 1, 1965 to December 1, 1984. Semi-annual rentals are to be in amounts sufficient to pay the interest and debt retirement requirements of the respective bond issues. Such interest costs during construction of the Scottsboro project are to be included in construction costs.

The Company has options to purchase the Scottsboro project (from July 1, 1975 to termination of the lease) and the Newport project (from December 1, 1974 to termination of the lease) for an amount in each instance which will be sufficient to retire and redeem all outstanding bonds of the applicable issue. Both transactions are being treated for accounting and tax purposes as projects being constructed and owned by the Company. Debt retirement requirements to be included in rental payments aggregate approximately $2,000,000 beginning in 1968 and increase approximately $100,000 annually thereafter through 1987.

Capitalized Amount for Leased Property Depreciated Over Useful Life

MOHASCO INDUSTRIES, INC.
Noncurrent Liabilities

Long-Term Debt, less Current Maturities:	
Twenty-year promissory notes (Note 5)	$30,000,000
Other notes (Note 5)	2,631,096
Capitalized lease payments (Note 4)	9,048,302
Total Long-Term Debt	$41,679,398

Note 4: Property, Plant and Equipment—In 1965 and prior years the company entered into several long-term leases for manufacturing facilities to be constructed by various local government bodies from the proceeds of the sale of industrial revenue bonds. Inasmuch as the leases provide for annual rentals over the initial terms in amounts sufficient to cover bond principal and interest, and for renewals at substantially reduced annual rentals, the company, in accordance with recommendations of the Accounting Principles Board of the American Institute of Certified Public Accountants, capitalized as of January 1, 1965, the remaining principal payments ($10,390,341 at December 31, 1965) under such leases and reflected the related liability. The capitalized amounts are included in property, plant and equipment and are being depreciated over their estimated useful lives. The effect of this change on consolidated net earnings for 1965 was not significant.

Report Refers to Amortization of Material Gains or Losses Resulting from Sale-and-Leaseback Transactions

R. H. MACY & CO., INC.
Noncurrent Liabilities

Deferred Credits:	
Federal income taxes (Note 1)	$26,550,000
Deferred investment credit ($2,161,319 and $1,701,875) and unamortized capital gain on sale and leaseback	3,424,457
Deferred contingent compensation and pension costs, less estimated Federal income tax effect	1,606,002

McCALL CORPORATION
Noncurrent Liabilities

Long-term debt due after one year	$39,400,000
Deferred subscription revenue and related deferred federal income taxes	26,380,000
Allowance for pattern discards	2,894,000
Other deferred federal income taxes	5,443,000
Deferred credit arising from sale and leaseback of equipment	437,000

U. S. INDUSTRIES, INC.
Noncurrent Liabilities

Deferred Credit—gain on sale and leaseback transaction—Note B	$5,401,460

Note B: Long-Term Leases—On December 30, 1963, the Company sold certain real estate and equipment, which had a net book value of $6,349,330, for $13,101,155. These properties were then leased back from the purchaser at an aggregate annual net rental of $1,732,495 for ten years, with certain options to repurchase the property and equipment during this ten-year period, and with the option to repurchase the real estate at the end of the ten-year period for $1,680,000, or to continue to lease the real estate for an additional five years at an annual net rental of $390,000. The net gain was deferred and is being amortized at the rate of $675,182 per year as an adjustment of the related rental cost.

Other long-term leases in effect at December 31, 1965, provided for annual rentals of approximately $1,950,000.

Rentals Aggregate, Over Period of Lease, Approximate Purchase Price Plus Interest and Carrying Charges

CHEMETRON CORPORATION
Notes to Financial Statements

Note 9: Commitments and Contingent Liabilities—At December 31, 1965, the Company had unspent authorities for equipment purchases aggregating $8,618,000 and commitments of up to three years' duration relating to purchases of additional investments in consolidated subsidiaries requiring maximum expenditures of $700,000.

The Company has leased certain equipment for periods of five to fifteen years at basic rentals which (over the period of the leases) aggregate, in some instances, the approximate purchase price of the equipment, plus additional rentals to cover interest on unpaid balances and carrying charges. The total rental payable for calendar year 1966 approximates $1,675,000. The total rental payable over the remaining period of the leases approximates $10,681,000 at December 31, 1965. At December 31, 1965, the Company was obligated under a long term lease on real estate, relating to its office building, which has a remainder of 19 years under the primary term at an annual rental of $154,750 plus taxes and maintenance.

The Company is contingently liable for approximately $478,000 with respect to notes receivable discounted with banks.

Method of Disclosure

Table 19 summarizes the nature of the information disclosed in the 1965 survey reports with regard to long-term leases and the related methods of disclosure.

There were 292 survey companies that referred to, or implied, the existence of long-term leases in their 1965 reports. Of these companies, 237 provided in varying degrees and combinations such factual information as is indicated in the upper part of Table 19, while 27 companies (*39, 185, 222, 308, 409, 576) merely implied or indicated the existence of such leases by reference to leaseholds or leasehold improvements. The remaining 28 companies referred to their long-term leases only in a general way (*20, 140, 292, 305, 502, 555) without

*Refer to Company Appendix Section.

relating any fundamental features. The foregoing information was usually presented in the notes to the financial statements.

As an indication of the trend towards more adequate disclosure relating to long-term leases, the figures for the year 1951 are presented in Table 19 for comparison. These figures were taken from the 1952 edition of *Accounting Trends and Techniques* which was the first year for which such statistics were given for the 600 companies.

Examples—Long-Term Leases

Examples selected from the 1965 annual reports to illustrate the various types of long-term lease disclosures are as follows:

Footnote Disclosure

ALLEN INDUSTRIES, INC.
Notes to Financial Statements

Note D: Long-Term Leases—The Corporation and two of its subsidiaries occupy premises under seven long-term leases which

TABLE 19: LONG-TERM LEASES

Disclosure by Lessees:*	Details set forth in: Footnotes	Letter to Stockholders	1965 Total	1963 Total	1960 Total	1951 Total
A: Annual rental amount	136	5	141	173	137	59
B: Minimum annual rental	79	2	81	N/C	N/C	N/C
C: Aggregate rental amount	18	—	18	12	11	2
D: Basis for calculating rent other than time	28	—	28	N/C	N/C	N/C
E: Lease expiration date	54	2	56	66	28	14
F: Number of leases	47	—	47	41	60	37
G: Renewal or purchase option	46	—	46	29	15	13
H: Sell-leaseback feature	10	3	13	17	22	3
I: Unrealized profit on sale and leaseback	3	—	3	N/C	N/C	N/C
J: Term of leases	70	4	74	63	87	12
K: Schedule of rentals by period of years	31	—	31			
L: Type or types of property	73	8	81			
M: Obligations assumed or guarantees made	13	—	13	N/C	N/C	N/C
N: Restrictions on dividends, debt, or further leasing	3	—	3			
Total	611	24	635	401	360	140

Number of Companies	1965	1963	1960	1951
Setting forth details of long-term leases	237	177	117	61
Mentioning long-term leases but omitting details thereof	28	40	68	139
Indicating long-term leases (without mention thereof) by reference to leaseholds or leasehold improvements	27	29	37	
	292	246	222	200
Neither referring to nor indicating long-term leases	308	354	378	400
Total	600	600	600	600

N/C—Not compiled.

*Refer to Company Appendix Section—A: 2, 7, 8, 11, 12, 22, 33, 37, 38, 45, 60, 62, 65, 68, 70, 77, 78, 80, 82, 88, 91, 94, 96, 100, 102, 106, 110, 118, 119, 130, 131, 134, 146, 147, 150, 155, 158, 161, 164, 166, 175, 176, 177, 179, 182, 187, 191, 192, 194, 197, 201, 210, 215, 218, 220, 221, 225, 229, 235, 236, 239, 241, 243, 267, 281, 287, 288, 293, 294, 301, 302, 305, 308, 309, 313, 314, 327, 329, 330, 331, 337, 339, 342, 344, 345, 349, 351, 355, 357, 364, 365, 366, 369, 371, 379, 381, 387, 390, 391, 403, 409, 411, 412, 430, 437, 457, 460, 469, 475, 481, 482, 483, 489, 493, 500, 507, 516, 518, 519, 524, 531, 532, 533, 535, 541, 543, 545, 547, 553, 565, 566, 567, 574, 582, 583, 587, 592, 593, 594, 597, 598; B: 3, 5, 6, 15, 25, 42, 58, 67, 68, 86, 98, 99, 102, 109, 114, 115, 116, 117, 136, 137, 138, 142, 156, 180, 184, 190, 212, 225, 227, 228, 234, 254, 259, 261, 262, 263, 264, 266, 272, 281, 282, 293, 299, 305, 309, 311, 332, 346, 352, 356, 360, 368, 371, 382, 389, 401, 424, 425, 427, 429, 435, 447, 465, 477, 487, 491, 492, 494, 495, 501, 505, 515, 517, 538, 544, 553, 560, 569, 571, 581, 594; C: 62, 65, 70, 118, 131, 177, 194, 197, 233, 277, 281, 294, 314, 355, 387, 541, 543, 583; D: 15, 25, 99, 102, 137, 138, 142, 147, 227, 259, 261, 266, 282, 293, 309, 346, 352, 360, 368, 382, 401, 403, 424, 465, 491, 544, 571, 594; E: 6, 22, 62, 69, 70, 88, 98, 99, 116, 118, 142, 175, 177, 182, 184, 192, 212, 218, 220, 229, 234, 241, 277, 288, 293, 301, 305, 313, 314, 327, 329, 344, 346, 355, 369, 371, 382, 390, 403, 409, 411, 412, 469, 475, 483, 489, 491, 494, 507, 545, 547, 553, 560, 582, 583, 592; F: 3, 5, 11, 15, 22, 25, 42, 45, 58, 67, 98, 115, 119, 137, 147, 182, 192, 201, 212, 218, 220, 225, 227, 235, 259, 261, 264, 266, 267, 281, 301, 305, 331, 346, 360, 366, 382, 401, 477, 489, 501, 545, 566, 571, 581, 587, 598; G: 3, 7, 25, 37, 38, 45, 68, 77, 78, 94, 102, 114, 116, 119, 130, 134, 136, 175, 179, 235, 236, 259, 262, 263, 282, 327, 332, 337, 339, 352, 364, 369, 383, 411, 465, 475, 477, 482, 487, 524, 535, 565, 566, 567, 592, 598; H: 8, 33, 38, 175, 212, 254, 339, 364, 457, 565, 583, 592, 597; I: 254, 337, 364; J: 2, 3, 5, 7, 8, 15, 21, 36, 37, 38, 45, 47, 60, 65, 67, 82, 94, 96, 98, 100, 106, 109, 114, 131, 134, 136, 138, 146, 147, 156, 158, 166, 179, 182, 190, 201, 215, 225, 233, 236, 259, 261, 262, 263, 264, 266, 267, 277, 281, 308, 327, 329, 332, 366, 381, 383, 387, 412, 424, 427, 429, 475, 482, 487, 493, 495, 516, 518, 524, 565, 566, 593, 597, 598; K: 11, 15, 25, 58, 68, 115, 117, 137, 146, 156, 210, 239, 254, 261, 277, 282, 294, 305, 331, 345, 352, 425, 430, 465, 477, 487, 515, 543, 571, 594, 597; L: 2, 7, 8, 12, 38, 45, 47, 57, 60, 65, 68, 70, 94, 110, 114, 116, 117, 118, 126, 136, 142, 158, 161, 163, 164, 175, 176, 179, 184, 187, 197, 210, 227, 233, 236, 253, 262, 263, 272, 277, 289, 299, 308, 309, 313, 322, 327, 339, 354, 357, 366, 369, 381, 391, 412, 429, 435, 457, 465, 469, 475, 482, 487, 492, 494, 495, 500, 505, 515, 516, 517, 518, 524, 531, 532, 538, 544, 553, 566, 569, 583; M: 69, 99, 137, 138, 150, 156, 173, 179, 264, 287, 339, 477, 533; N: 70, 177, 337.

presently require the payment, in addition to maintenance, property taxes and insurance, of average annual rentals as follows: 1966 to 1969—$310,413; 1970—$227,926; 1971—$171,233; 1972—$130,264; 1973 to 1980—$79,133; 1981 to 1983—$48,897; 1984 to 1985—$27,798.

ALLIED STORES CORPORATION
Notes to Financial Statements

Note L: At January 31, 1965, the Corporation and its consolidated subsidiaries were lessees under 242 leases having terms of more than three years from that date. The rentals under these leases for the year ending January 31, 1965, amount to a minimum of $19,855,600, (of which $12,115,586 is payable to Alstores Realty Corporation and subsidiaries), plus in most cases real estate taxes and other expenses and, in certain instances, increased amounts based on percentage of sales. The aforementioned minimum annual rental classified as to the periods within which the related leases expire is as follows: $151,163 prior to 1970; $2,478,165 in 1970-1979; $6,772,795 in 1980-1989; $6,939,067 in 1990-1999; $3,514,410 in 2000-2059.

AMERICAN AIR FILTER COMPANY, INC.
Notes to Financial Statements

Note 5: *Plant Relocation*—The Company has entered into an agreement with the City of Brownsville, Tennessee, to lease a new plant for the purpose of manufacturing products now produced at the Morrison, Illinois, plant. The Brownsville plant and related machinery have been financed by an industrial revenue bond issue of $3,200,000 which will be amortized by lease payments over a twenty year period. The sale of the Morrison property has been arranged and, during 1966, operations will be transferred from it to the Brownsville facility. The Company has established a reserve to cover the estimated costs to be incurred in 1966 in connection with this transfer by means of a charge to 1965 operations of $219,000 which is net of related income taxes.

THE ATLANTIC REFINING COMPANY
Notes to Financial Statements

Note 7: *Commitments*—Minimum annual rentals under long term leases covering production (except oil and gas leases), transportation, office and storage facilities, average:

	Per Year
1966 through 1975	$10,510,000
1976 through 1985	2,246,000
1986 through 1995	335,000

Rentals received for service station properties are expected to approximately offset rentals paid on such properties. Rentals paid for such service station properties during 1965 were $13,528,000. In general, options are available to purchase such properties.

Pursuant to the 1963 acquisition agreement with the shareholders of Hondo Oil and Gas Company, The Atlantic Refining Company is obligated to deliver 200,000 shares of its common stock, subject to adjustments under certain conditions, on January 3, 1967. This obligation may be fulfilled by either newly issued common stock or treasury stock or some of each at the option of the Company.

ELGIN NATIONAL WATCH COMPANY
Notes to Financial Statements

Note 7: *Leases of Property*—The Company and its subsidiaries occupy manufacturing and office space under various leases with aggregate annual rentals of $391,000 for 1966; $360,000 for 1967; $289,000 for 1968; $250,000 for 1969; $196,000 for 1970 through 1972; $157,000 for 1973; $142,000 for 1974; and $64,000 thereafter to 1978.

FOREMOST DAIRIES, INC.
Notes to Financial Statements

Note 8: *Contingent Liabilities and Commitments*—There are various contingencies and pending legal actions which are considered routine to operations of Foremost; in the opinion of counsel and management, these matters are either without merit or do not involve material amounts. Foremost has guaranteed indebtedness of approximately $6,500,000 of foreign subsidiary and associated companies, and in the ordinary course of business Foremost has incurred certain contractual commitments pursuant to terms of lease agreements, employment contracts, pension plans, etc., and is contingently liable as guarantor or endorser of other notes and contracts; in the opinion of management, adequate provision has been made for any losses which may reasonably be foreseen.

Lease agreements provide for aggregate rentals of $6,350,000 for equipment and $6,150,000 for land and buildings during periods extending generally, for equipment, to seven years and, for facilities, to fifteen years after January 1, 1966.

AMERICAN BROADCASTING COMPANIES, INC.
Notes to Financial Statements

Note J: *Long-Term Leases*—Minimum annual rentals, under 314 leases for real property in effect at January 1, 1966 amounted to $7,126,000, which is summarized according to lease expiration periods: 1966-1968, $1,162,000; 1969-1973, $2,100,000; 1974-1978, $1,142,000; 1979-1983, $506,000 and subsequent to 1983, $2,216,000. The foregoing includes rental for the Company's new headquarters building under a lease which became effective January 1, 1966. The Company will become the owner of the ground lease and the building, if it exercises a purchase option which it holds. Total rent, including rentals based on a percentage of receipts, charged to operations in 1965 amounted to $6,850,000.

GENESCO INC.
Notes to Financial Statements

Note 8: *Commitments and Contingent Liabilities*—

(a) Long-term Leases: Minimum Annual rentals, exclusive of specifically identified operating costs, under leases in effect at July 31, 1965 with expiration dates as indicated are summarized as follows:

1965-1970	$12,009,073
1971-1975	3,518,867
1976-1980	3,063,081
1981-1985	3,733,168
1986-1990	6,884,159
After 1991	262,808
	$29,471,156

Certain leasehold improvements have in the current and previous years been sold to and leased back from a charitable foundation. The net equity arising from these rentals is reflected in fixed assets. The aggregate rentals of such leases entered into during the current year were not considered material in relation to the consolidated net assets.

(b) Merchandise in Transit: At July 31, 1965 the company had in transit merchandise aggregating approximately $4,000,000 which is not reflected in the accompanying financial statements.

(c) Legal Matters: Certain stockholders of S. H. Kress and Company, approximately 94% of the outstanding stock of which is owned by the company, have instituted actions against the company, Kress and certain directors of both companies. The complaints allege that S. H. Kress and Company was damaged as a result of the sale and lease-back of certain of its properties. It is the opinion of counsel and company officials that the actions will be successfully defended. In addition the company is the defendant or plaintiff in other actions which in the opinion of counsel and company officials will be successfully defended and would not affect materially the financial position of the company in the event of adverse decisions.

REXALL DRUG AND CHEMICAL COMPANY
Notes to Financial Statements

Commitments and Contingencies—Minimum annual lease rentals payable by Rexall under real estate, store fixture and transportation equipment leases in effect at December 31, 1965, before reduction for fixed annual sub-lease rentals receivable aggregating $2,498,000, are as follows:

Leases expiring in—	
1966-1970	$ 5,999,000
1971-1975	2,803,000
1976-1980	1,116,000
1981-1985	1,006,000
After 1985	425,000
	$11,349,000

Some leases provide for rentals based upon a percentage of sales and nearly all require additional payments for property taxes, insurance and maintenance. Some leases contain purchase options. Provision has been made for estimated lease losses on properties no longer operated.

Certain lawsuits have been filed against Rexall. In the opinion of counsel, none of these suits is likely to result in significant liability.

SAFEWAY STORES, INCORPORATED
Notes to Financial Statements

Property Leases: Leases are in effect on 2,503 properties of which 1,891 contain options to cancel. Should the Company exercise these options it could be required to purchase 1,638 properties. Minimum rental on leases in effect at the year-end was approximately as follows for the years or periods indicated:

1966	$60,821,000	1971-1975	$281,063,000
1967	60,491,000	1976-1980	253,216,000
1968	58,883,000	1981-1985	126,650,000
1969	58,510,000	After 1985	18,900,000
1970	57,977,000		

LIBBY, McNEILL & LIBBY
Notes to Financial Statements

Note 7: Long-Term Lease Commitments, Etc.—Annual rentals under leases expiring more than three years from July 3, 1965 on property and equipment amount to approximately $2,150,000 of which rentals on leases of more than 20 years' duration are $835,000.

Included in the above amounts are rentals applicable to certain citrus groves leased by the Company, the purchase of which was financed by the lessor principally by the issuance of bonds, of which $2,970,224 are outstanding at July 3, 1965. Of these bonds, the Company owns $591,154 and has guaranteed payment of principal and interest on an additional $1,468,594 of bonds. The Company has an option to purchase the groves on June 1 of any year at a price equal to the lessor's then unamortized cost of the property. Also, the Company has options to purchase various other leased properties and equipment, including properties sold and leased back in 1964, at termination of the leases.

SEARS, ROEBUCK AND CO.
Notes to Financial Statements

Note 6: Rentals—Long-Term Leases—Minimum fixed rentals, exclusive of taxes, insurance and other expenses payable directly by the Company, under long-term leases (over three years) in effect as of January 31, 1965 were, for the years or periods indicated, as follows:

1965	$23,054,000	1970-1974	$94,717,000
1966	23,866,000	1975-1979	77,726,000
1967	23,809,000	1980-1984	60,659,000
1968	23,143,000	1985-1989	35,708,000
1969	21,617,000	After 1989	38,146,000

The Company is leasing a number of store and warehouse properties from various insurance and educational institutions and from private investors. Most of these leases are for maximum terms ranging from 25 to 99 years with the right, after initial periods ranging from 25 to 45 years, to terminate or continue at reduced rentals, and contain one or both of the following two additional types of options: (a) The Company can, after the initial period of years, purchase the property at the then fair value of the land alone. (b) The Company can, on various specified dates (usually within the first 25 to 35 years), make a rejectable offer to purchase the property at specified prices and, in the event the lessor does not accept the offer, can either terminate or continue the lease.

Disclosure in Letter to Stockholders

CONTINENTAL MOTORS CORPORATION
Letter to Stockholders

Toward the close of the fiscal year the company leased a 5,000 square foot facility in Walterboro, South Carolina, to be used for certain light assembly and packaging operations.

THE HOBART MANUFACTURING COMPANY
Letter to Stockholders

After extensive analyses relating to the selection of an additional location in which to provide for the needs of the KitchenAid dishwasher business, an industrial site in Mt. Sterling, Kentucky, was secured and plant construction started. Assembly operations were begun promptly in leased quarters and, as a result, experienced personnel will be available locally upon the completion of the new facility, illustrated above. This new plant is being constructed under the terms of a long-term lease agreement between the Company and the City of Mt. Sterling. Funds for its construction and equipment were provided through the sale of City of Mt. (Mount) Sterling, Kentucky, Industrial Building Revenue Bonds totaling $2,750,000.

Reference or Disclosure in Balance Sheet

BELDING HEMINWAY COMPANY, INC.
Below Stockholders' Equity

Long-term Leases and General Comments (Note G)

Note G: Minimum annual rentals, under leases (exclusive of leases between the Company and its subsidiaries) aggregate approximately $350,000 (of which leases for $225,000 expire from 1970 to 1983 and the remainder expire prior to 1970), plus real estate taxes, insurance, etc. One of such leases, having an annual rental of $92,000 plus real estate taxes, insurance, etc., and expiring in 1979, is with an affiliated company.

Total pension plan expense for 1965 was $342,884 of which $84,173 was for past service costs. It is the Company's intention to fund past service costs (estimated to be $2,100,000 as at October 1, 1965) over a remaining 29-year period.

AUTOMATIC CANTEEN COMPANY OF AMERICA
Above Stockholders' Equity

Commitments and Contingent Liabilities (Note 5)

Note 5: Commitments and Contingent Liabilities—At October 2, 1965 the Company had no significant commitments for capital expenditures and at that date had contingent liabilities approximating $12,900,000 (1964, $14,700,000) in respect of customers' installment notes receivable discounted, of which 41% is with Commercial Discount Corporation.

Unfunded past service costs of two noncontributory trusteed pension plans for hourly employees approximated $700,000 at October 2, 1965 of which $173,000 in respect of one plan is being funded through 1989.

Rentals payable in respect of long-term leases of real estate and office space aggregate approximately $6,300,000 over the terms of leases expiring at various dates through 1988 and $564,000 under a lease expiring in 2016. Approximately $700,000 of such rentals are payable during fiscal 1966.

The Company and its subsidiaries are defendants in certain legal proceedings. In the opinion of Company's counsel the outcome of these suits will not materially affect the financial position or results of operations of the Companies.

BURLINGTON INDUSTRIES, INC.
Below Stockholders' Equity

Contingent liabilities and commitments (Note E)

Note E: Contingent Liabilities, Commitments and Other Matters—(2) The Corporation and subsidiary companies have leases principally for manufacturing facilities and sales offices with minimum annual rentals totaling approximately $5,320,000 ($5,530,000 at October 3, 1964), of which about 66% (64% at October 3, 1964) relate to leases expiring within ten years; certain leases (current annual rentals of approximately $2,015,000) have options for extension at substantially reduced annual rentals. Further, commitments for additions to fixed assets and other capital items amounted to approximately $78,000,000 at October 2, 1965 ($28,000,000 at October 3, 1964).

THE CUDAHY PACKING COMPANY
Long-Term Liabilities:

Purchase agreements payable, 4¾%, due in annual installments to October, 1968, less current maturities	$ 582,684
Lease obligations, excluding amounts due within one year (Note 5)	884,995
Cost of partial discontinuance of Omaha operations due after one year	318,051
	$1,785,730

Contingent Liabilities and Commitments (Notes 3, 4, 5, and 6)

Note 5: Lease Commitments—Amounts payable under certain real estate and equipment leases have been capitalized during the year ended October 30, 1965, and are included in property and equipment with the amount of future payments reflected as liabilities, in accordance with recent interpretations of generally accepted accounting principles for leases. The Company and its subsidiaries have long-term leases which have not been capitalized and which expire at various dates after November 1, 1968 to 1977. Such leases, excluding motor vehicle rentals, will require rental payments of $320,000 in 1966; as of October 30, 1965, the aggregate future rental payments was $1,600,000.

SUNSHINE BISCUITS, INC.
Noncurrent Liabilities

Notes payable, less current portion (Note 2)	$ 7,875,000
Liability under capitalized leases, less current portion	2,507,656
Mortgages payable, less current portion	1,573,154
Reserve for employees' pensions (Note 1)	200,000
Deferred credit—transfer of buildings to pension plan (Note 1)	1,545,614
	$13,701,424

SMALL TOOLS, CONTAINERS, DIES, ETC.

Small tools, returnable containers, dies, etc., were disclosed in the 1965 annual reports of 89 of the 600 survey companies. Such assets were generally shown in the noncurrent asset section of the balance sheet although, as in previous years, items having "inventory" characteristics were included in the current asset section under inventories. Table 20 shows the various types of assets included under the above caption and indicates the methods of presentation and the basis of valuation disclosed in the 1965 survey reports.

The examples which follow illustrate the various methods of presentation and valuation referred to above.

TABLE 20: SMALL TOOLS, CONTAINERS, DIES, ETC.

	Balance Sheet Presentation						
	Shown in Current Asset Section Under Inventories	Shown in Noncurrent Asset Section					
Type of Asset*		Separately Set Forth	Under Fixed Assets	Under Deferred Charges	Under Other Assets	Shown in Notes to Financial Statements	1965 Total
A: Small tools, tools	1	1	19	2	2	5	30
B: Dies, lasts	—	1	7	2	—	2	12
C: Jigs, fixtures	—	2	3	2	—	1	8
D: Molds, chills, flasks, stools	3	—	—	1	—	1	5
E: Drawings, patterns	—	4	4	1	1	2	12
F: Returnable containers, cases	4	—	6	—	—	2	12
G: Rolls	4	—	1	—	—	1	6
H: Component parts, stores	13	1	—	1	—	3	18
I: Spare parts, spares	7	2	1	1	—	6	17
J: Equipment — annealing, repair, can-making, and charging box	2	—	—	—	—	—	2
K: Utensils, silverware, signs	—	—	1	—	—	—	1
L: Other	—	—	2	—	—	—	2
Total	34	11	44	10	3	23	125

	Balance Sheet Valuation					
Type of Asset	Amortized Value	Unamortized Value	Nominal Value	Inventory Value	Fixed or Arbitrary Value	1965 Total
Small tools, tools	18	7	—	3	2	30
Dies, lasts	4	5	2	—	1	12
Jigs, fixtures	3	2	2	—	1	8
Molds, chills, flasks, stools	1	—	—	4	—	5
Drawings, patterns	4	3	5	—	—	12
Returnable containers, cases	5	—	—	6	1	12
Rolls	—	1	—	5	—	6
Component parts, stores	—	—	—	16	2	18
Spare parts, spares	2	1	—	13	1	17
Equipment — annealing, repair, can-making, and charging box	—	—	—	2	—	2
Utensils, silverware, signs	1	—	—	—	—	1
Other	1	1	—	—	—	2
Total	39	20	9	49	8	125

Number of Companies Presenting	
Small tools, containers, dies, etc.	89
Account not presented	511
Total	600

*Refer to Company Appendix Section—A: 6, 37, 60, 64, 74, 88, 89, 135, 186, 196, 199, 201, 207, 232, 236, 249, 308, 351, 385, 391, 406, 456, 466, 496, 499, 555, 580, 582, 591, 592; B: 6, 23, 37, 64, 89, 113, 186, 199, 201, 311, 385, 591; C: 64, 89, 113, 192, 201, 277, 284, 582; D: 169, 188, 349, 463, 542; E: 10, 89, 113, 115, 186, 192, 277, 308, 311, 580, 582, 591; F: 12, 119, 126, 143, 149, 222, 231, 243, 248, 408, 429, 440; G: 23, 165, 169, 188, 265, 463; H: 70, 84, 133, 166, 189, 199, 212, 220, 235, 279, 290, 342, 421, 438, 476, 569, 572, 595; I: 17, 51, 63, 97, 129, 194, 197, 307, 327, 345, 347, 415, 416, 438, 450, 463, 496; J: 165, 265; K: 491; L: 201, 284.

Current Asset Section

DETROIT STEEL CORPORATION

Inventories—at lower of cost or market:	
Finished and in-process	$12,684,000
Raw materials	7,148,000
Rolls, molds, and supplies	4,354,000
	$24,186,000

DIAMOND INTERNATIONAL CORPORATION

Other inventories (Note 4):	
Finished goods and work in process	$20,239,000
Raw materials, stores and supplies	14,822,000

GRANITE CITY STEEL COMPANY

Inventories:	
Finished and semifinished products, at lower of average cost or market	$11,462,177
Raw materials, supplies and by-products, at lower of average cost or market	21,968,694
Rolls and other short-life equipment, at depreciated values	3,292,009

LONE STAR CEMENT CORPORATION

Inventories at the lower of average cost or market:	
Finished products and process stocks	$11,753,246
Packages, fuel, spare machinery parts and general supplies	8,840,467

PULLMAN INCORPORATED

Inventories, at lower of cost or market (including $8,729,618 for 1965 on a last-in, first-out basis):	
Finished goods	$ 7,667,305
Cost accumulated on uncompleted contracts and work in process	48,839,840
Raw materials, service parts and operating supplies	25,103,664
Total inventories	$81,610,809

Noncurrent Asset Section Separately Set Forth

THE BULLARD COMPANY

Patents, Drawings, Jigs, Dies, etc.	$ 1

HARNISCHFEGER CORPORATION

Patents, Patterns, Drawings, Jigs, Development, etc. at record value	$ 1

SIGNODE CORPORATION

Strapping Tools, Machines and Parts:	
In service with customers, at cost	$20,886,765
Less—Reserves for depreciation	11,161,710
	$ 9,725,055

Under Fixed Assets

GENERAL MOTORS CORPORATION

Real Estate, Plants, and Equipment:	
Gross real estate, plants, and equipment	$9,526,463,680
Less accumulated depreciation and obsolescence	5,365,217,893
Net balance	4,161,245,787
Unamortized special tools	455,359,116
Net Real Estate, Plants, and Equipment	$4,616,604,903

INTERNATIONAL SHOE COMPANY

Physical properties, at cost:	
Land	$ 4,144,107
Buildings and structures	46,103,184
Machinery and equipment	47,786,412
Lasts, patterns, and dies	1
	98,033,704
Less accumulated depreciation	55,419,272
	$42,614,432

PEPSICO, INC.

Property, plant and equipment, at cost:	
Land	$ 8,285,757
Buildings	34,002,635
Machinery and equipment	125,873,115
Bottles and cases	17,146,520
	185,308,027
Less accumulated depreciation and amortization	75,569,873
	$109,738,154

WALWORTH COMPANY

Plant and equipment, at cost:	
Land	$ 518,000
Buildings and leasehold improvements	7,299,000
Machinery, equipment, patterns, tools, fixtures, etc.	23,249,000
	31,066,000
Less, accumulated depreciation and amortization	18,133,000
Total Plant and Equipment, net	$12,933,000

Under Deferred Charges

ARVIN INDUSTRIES, INC.

Deferred Charges:	
Supplies, small tools, dies, deferred expenses, etc.	$3,934,592

THE BENDIX CORPORATION

Deferred Charges:	
Special tools, dies, jigs, and patterns—unamortized balance (Note 5)	$2,259,161
Prepaid expenses	2,826,870
Total Deferred Charges	$5,086,031

Under Other Assets

WAGNER ELECTRIC CORPORATION

Other Assets:	
Special tools and development expense	$1,770,883
Foreign investments, at cost, less valuation reserve of $150,000	779,513
Trade-mark, at cost, less amortization of $1,085,000	115,000
Patterns, patents, and designs, at nominal value	1
	$2,665,397

Notes to Financial Statements

FRUEHAUF CORPORATION

Inventories (Note C)	$89,231,823

Note C: Inventories—Inventory amounts are based upon physical determinations during the year and have been stated at the lower of cost or market prices. Cost prices are determined by the first-in, first-out method, and market prices represent the lower of replacement cost or estimated net realizable amount.

A summary of inventories follows:

New trailers	$13,438,900
Production parts, work in process, and raw materials	55,168,972
Service parts and orders in process	14,207,923
Used trailers—at appraised values, less estimated disposal costs (Note E)	6,416,028
	$89,231,823

ELASTIC STOP NUT CORPORATION OF AMERICA

Inventories (Note 2) $11,715,008

Note 2: *Inventories*—Opening and closing inventories used in the computation of cost of goods sold for the year ended November 30, 1965 were as follows:

Finished goods	$ 4,688,578
Work in process	4,696,342
Raw materials	2,037,355
Small tools and supplies	292,733
	$11,715,008

Finished goods, work in process, and raw materials are stated at the lower of cost or market in respect of materials and at cost in respect of processing, and are not stated in excess of realizable value. Small tools and supplies are stated at cost. Cost is computed substantially on the first-in, first-out method.

REPUBLIC STEEL CORPORATION

Inventories—Note A $240,305,885

Note A: *Inventories*—Inventories are stated at cost (principally last-in, first-out), not in excess of replacement market. A summary of inventories follows:

Ore	$ 37,637,491
Scrap	5,393,815
Fuel	8,400,157
Ferrous metals and alloys	4,694,278
Rolls, molds, and stools	12,607,803
Stores and manufacturing supplies	11,662,868
Miscellaneous materials	4,603,906
Pig iron	8,082,790
Product—semi-finished	35,727,377
Product—finished and in process	111,495,400
Total	$240,305,885

UNCONSOLIDATED SUBSIDIARY AND AFFILIATED COMPANIES

In *Accounting Research Bulletin No. 51*,* issued in 1959, the committee on accounting procedure of the American Institute of Certified Public Accountants discussed the accounting treatment of unconsolidated subsidiaries in consolidated statements. Reference is made to paragraphs 19 through 21 of the bulletin for the opinions of the committee relative to this subject.

INVESTMENTS AND ADVANCES

A large number of the survey companies disclosed investments in, and advances to, unconsolidated subsidiary and affiliated companies in their 1965 reports. Table 21 summarizes the various balance sheet presentations of these investments and advances by the survey companies. For the purpose of this tabulation a company has been classified as a "subsidiary" if it is so described in the annual report or if it is stated therein to be over 50 per cent owned. An "affiliated" company is one so described or one in which there is an ownership of 50 per cent or less.

The consolidation policies of survey companies fully or partially consolidating their subsidiaries are discussed later in this section in relation to "Consolidation of Subsidiary Companies," and are illustrated by pertinent examples.

Basis of Valuation

"Cost" continued to be the most commonly used basis for carrying investments in, and advances to, unconsolidated subsidiaries and affiliated companies. All of the various bases of valuation of such investments and advances, as shown in the survey reports for the years 1965, 1955, and 1951, are set forth in Table 21. As a general rule, the basis of valuation was stated in the balance sheet description of the asset. In a substantial number of cases, however, such information was disclosed only in a footnote to the balance sheet.

Examples—Unconsolidated Subsidiaries and Affiliated Companies

The following examples, selected from the 1965 reports, illustrate the basis of valuation, the method of disclosure thereof, the balance sheet presentation, and various other types of information concerning unconsolidated subsidiaries and affiliated companies.

Cost

ALLIED CHEMICAL CORPORATION

Noncurrent Assets

Investments:	
Marketable Securities, at cost	$12,045,839
Investments and Advances, at cost:	
Subsidiary and 50-percent owned companies	5,862,786
Other	23,801,803
	$41,710,428

PLOUGH, INC.

Other Assets:	
Investment in unconsolidated companies	$ 191,960
Deferred and other assets	53,464
Intangibles	1,576,815
Total Other Assets	$1,822,239

Notes to Financial Statements

Principle of Consolidation: The consolidated financial statements include the accounts of Plough, Inc. (the Company) and its wholly owned subsidiaries, except a Brazilian subsidiary. Material intercompany items and transactions have been eliminated in consolidation.

Included under Other Assets are investments at cost in the Brazilian subsidiary and the 50% owned foreign associated companies.

UNITED AIRCRAFT CORPORATION

Noncurrent Assets

Investments in and advances to affiliated companies, at cost $7,975,432

**Accounting Research Bulletin No. 51* was reissued in 1961 as part of *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

TABLE 21: UNCONSOLIDATED SUBSIDIARY AND AFFILIATED COMPANIES

	I: Unconsolidated Subsidiary			II: Affiliated Companies		
Balance Sheet Presentation	1965	1955	1951	1965	1955	1951
Investment in	124	117	116	136	118	91
Investment in, Advances to	89	82	82	82	39	39
Investment in, Advances to, Receivables due from	9	—	3	8	1	1
Investment in, Receivables due from	22	15	21	16	11	12
Investments in and accounts with	3	—	—	1	—	—
Advances to or due from	—	1	1	—	2	1
Equity in net assets	4	—	—	1	—	—
Securities or stock of	3	2	—	9	1	—
Miscellaneous or other assets	11	3	—	10	1	—
Total	265	220	223	263	173	144
Basis of Valuation*						
A: Cost	96	93	104	143	94	78
B: Cost less reserve	25	25	18	21	20	16
C: Cost or below cost	21	22	15	23	19	14
D: Cost plus accumulated earnings or equity in earnings	27	5	3	13	—	—
E: Cost less dividends	1	1	—	1	2	1
F: Substantially at cost	1	1	2	1	—	—
G: Book value	5	—	—	5	—	—
H: "Not in excess of cost"	1	2	2	1	1	1
I: Lower of cost or estimated value	1	1	1	—	—	—
Assigned, appraisal, or reorganization value	—	—	3	—	—	4
J: Equity in net assets	61	7	9	22	2	—
K: Equity in net worth less reserves	2	2	3	1	—	—
Equity less unremitted profits	—	1	3	—	—	—
Dated equity value	—	2	1	—	—	—
Asset values at acquisition	—	1	1	—	1	—
Reinstated value	—	—	1	—	—	—
L: Assigned value with additions at cost	1	4	2	1	2	—
M: Estimated realizable or recoverable value or less	1	1	3	—	—	—
N: Nominal value	2	5	10	3	3	—
O: At "No Value"	1	1	2	—	—	—
Acquisition value	—	—	1	—	—	—
P: Lower of cost or equity	1	—	—	1	—	1
Less reserve to nominal value	—	—	1	—	—	—
Total	247	174	185	236	144	115
Basis of valuation not set forth	43	63	51	39	37	22
Less reserve—(basis of valuation not set forth)	1	3	8	—	3	9
Total	291	240	244	275	184	146
Number of Companies with Investment Account for:						
Unconsolidated subsidiary companies	265	220	223	—	—	—
Affiliated companies	—	—	—	263	173	144
Account not presented	335	380	377	337	427	456
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—I: Unconsolidated Subsidiaries—A: 12, 16, 18, 26, 32, 33, 40, 55, 59, 61, 64, 68, 69, 76, 77, 80, 86, 100, 111, 112, 121, 125, 134, 139, 153, 159, 180, 182, 187, 195, 197, 200, 207, 211, 212, 220, 227, 237, 243, 247, 248, 253, 257, 262, 264, 277, 278, 279, 293, 306, 309, 314, 321, 325, 332, 353, 354, 357, 370, 416, 418, 421, 422, 428, 432, 435, 444, 445, 446, 453, 464, 474, 478, 479, 483, 492, 493, 494, 497, 498, 511, 513, 516, 525, 534, 544, 547, 553, 555, 573, 574, 579, 588, 589, 592, 598; B: 16, 20, 38, 57, 65, 72, 122, 205, 223, 233, 235, 253, 302, 315, 330, 347, 362, 365, 368, 396, 465, 468, 538, 539, 577; C: 36, 44, 47, 51, 54, 130, 136, 140, 152, 170, 285, 316, 326, 372, 418, 441, 454, 462, 550, 552, 584; D: 15, 16, 18, 63, 70, 75, 88, 124, 129, 131, 157, 211, 219, 233, 253, 280, 315, 342, 344, 351, 460, 467, 479, 489, 535, 543, 565; E: 89; F: 487; G: 106, 303, 368, 422, 482; H: 399; I: 205; J: 6, 37, 58, 67, 71, 77, 101, 116, 122, 123, 126, 135, 138, 139, 178, 184, 186, 190, 206, 224, 225, 232, 235, 245, 246, 252, 254, 266, 275, 284, 295, 308, 324, 336, 343, 352, 355, 363, 382, 390, 391, 408, 424, 429, 434, 439, 441, 450, 459, 469, 477, 480, 497, 508, 512, 528, 572, 587, 591, 594, 595; K: 208, 586; L: 277; M: 277; N: 478, 578; O: 410; P: 101. II: Affiliated Companies—A: 1, 12, 18, 23, 26, 28, 33, 36, 39, 40, 48, 59, 64, 65, 68, 71, 75, 78, 80, 85, 88, 90, 100, 111, 121, 124, 125, 135, 139, 142, 155, 158, 159, 160, 162, 166, 172, 180, 192, 195, 197, 204, 206, 207, 208, 212, 214, 217, 218, 219, 220, 223, 233, 235, 239, 243, 252, 262, 264, 277, 279, 284, 287, 293, 297, 304, 305, 306, 309, 310, 318, 320, 321, 327, 329, 332, 338, 340, 341, 352, 353, 354, 357, 358, 366, 367, 373, 374, 379, 398, 407, 416, 418, 420, 425, 428, 430, 432, 435, 442, 444, 451, 456, 458, 460, 461, 464, 469, 474, 475, 478, 483, 492, 495, 497, 500, 501, 503, 513, 516, 518, 525, 530, 531, 532, 535, 543, 544, 545, 555, 558, 564, 572, 573, 578, 581, 582, 583, 585, 589, 590, 595; B: 25, 57, 122, 233, 251, 253, 272, 325, 330, 365, 368, 396, 466, 468, 505, 538, 553, 557, 569, 580; C: 35, 44, 47, 51, 60, 120, 136, 140, 152, 164, 170, 285, 316, 326, 381, 454, 462, 478, 515, 517, 524, 550, 552; D: 31, 131, 175, 230, 280, 334, 348, 394, 467, 479, 520, 543, 598; E: 89; F: 487; G: 368, 422, 482, 488, 502; H: 399; J: 69, 87, 126, 178, 190, 251, 254, 255, 272, 336, 339, 360, 369, 408, 411, 414, 429, 443, 459, 485, 512, 572; K: 586; L: 277; N: 334, 478, 567; P: 101.

AMERICAN BANK NOTE COMPANY
Other Assets:

Deposits on sales contracts	$150,800
Investment in foreign associated company, at cost	700,000
Prepaid expenses	340,900

Notes to Financial Statements

Basis of Consolidation: The consolidated financial statements include the accounts of American Bank Note Company and its subsidiaries, which are located in Canada and England. Net income of the subsidiaries amounted to $1,488,400 for 1965 and $1,226,700 for 1964, and dividends of $632,200 in 1965 and $570,900 in 1964 were paid to the parent company. Earnings reinvested includes $7,501,500 at December 31, 1965 and $6,645,300 at December 31, 1964 applicable to the two subsidiaries. The investment of $700,000 in a foreign associated company represents the British subsidiary's 50% interest in The South African Bank Note Company (Pty.) Limited. Dividends of $129,900 were received from the company during the year and the equity in its net assets approximated the investment cost at year end.

The balance sheets of the subsidiaries have been translated into U. S. dollars as follows: fixed assets and investment in associated company at the rates of exchange prevailing at dates of acquisition, publicly-held preferred stock of a subsidiary at the rate of exchange prevailing at date of issuance, and other assets and liabilities at year-end exchange rates. The results of operations of the subsidiaries have been translated into U. S. dollars at the year-end exchange rates, except that provision for depreciation was based on the cost of the respective assets translated as indicated above.

THE KROGER CO.
Noncurrent Assets

Investments in unconsolidated companies (Note 2)	$3,550,296

Note 2: All wholly-owned subsidiaries and Market Basket (99.9% owned subsidiary) have been included in consolidation. The company's investment in its unconsolidated subsidiary is stated at cost of $778,459, and its equity in the net assets at January 1, 1966 and earnings for 1965 were $5,849,989 and $1,290,899, respectively. No dividend was received. The investments in and advances to affiliates are stated at cost of $2,771,837.

MEDUSA PORTLAND CEMENT COMPANY
Other Assets:

Investment in and advance to subsidiary not consolidated (railway company — 99% owned) — at cost, which is less than equity in net assets	$ 122,207
Non-current notes receivable, less allowances	597,234
Miscellaneous other assets	362,757
	1,082,198
	$64,653,935

Cost Less Reserve

ARCHER DANIELS MIDLAND COMPANY
Noncurrent Assets

Investments and Other Assets (Note 3)	$11,557,966

Note 3: Investments and Other Assets—

Investments and advances in other corporations at cost:	
Foreign (75% or less owned)	$ 7,838,380
Domestic (50% or less owned)	1,474,271
Other notes and accounts	2,792,031
	$12,104,682
Less allowance for possible loss	546,716
Total	$11,557,966

The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiaries.

AVON PRODUCTS, INC.
Noncurrent Assets

Investment in and advances to unconsolidated subsidiary, at cost less reserve	$301,000

CARRIER CORPORATION
Prepaid Expenses, Segregated Funds, Investments, etc.:

Prepaid expenses and deferred charges	$ 2,122,464
Funds segregated for expansion	4,000,000
Equity in Distribution Credit Corporation	7,266,182
Investments, advances, etc., at cost less reserves:	
Subsidiaries not consolidated	3,153,619
Other	4,480,824
	$21,023,089

THE KENDALL COMPANY
Investments and Other Assets:

Investments in unconsolidated subsidiaries and affiliates, at cost less reserve (Note A)	$2,135,745
Other investments and noncurrent receivables, at cost less reserve	1,550,303
Unamortized pension costs (Note E)	603,554
Deferred charges and other assets	1,351,725
	$5,641,327

Note A: *Basis of Consolidation*—In the accompanying consolidated financial statements the accounts of all domestic subsidiaries and those of the Canadian subsidiary (converted at appropriate rates of exchange), all of which are wholly owned, have been consolidated with those of The Kendall Company. Wholly-owned subsidiaries in countries other than the United States or Canada have not been consolidated. As at December 25, 1965 the parent company's equity in these unconsolidated subsidiaries was approximately $3,100,000. For 1965 the earnings of such unconsolidated subsidiaries exceeded by approximately $350,000 the dividends paid to the parent company and included in the consolidated earnings for the year.

A reserve of $280,000 has been provided against the Company's investment in two unconsolidated foreign affiliates.

REXALL DRUG AND CHEMICAL COMPANY
Properties, Investments and Other Assets:

Properties	$104,166,000
Investment in United States subsidiaries not consolidated, at cost less reserve	2,380,000
Other receivables, deposits and investments, less reserve	6,454,000
Intangibles	10,586,000
Deferred charges	1,033,000
	$124,619,000

R. J. REYNOLDS TOBACCO COMPANY
Other Assets:

Investments in (at cost, less reserves) and advances to unconsolidated foreign affiliates	$ 8,089,417
Cost in excess of net assets of business acquired	35,122,752
Brands, trade-marks and good will	1
Sundry other assets	5,483,526
Total Other Assets	$48,695,696

Notes to Financial Statements

Note A: *Principles of Consolidation*—The consolidated financial statements include the accounts of the Company and its domestic subsidiaries. All intercompany items and transactions have been eliminated in consolidation. Accounts of foreign affiliates are not consolidated, such investments being carried at cost less reserves to reduce them to the equity in the underlying net book assets.

Cost or Below Cost

CORN PRODUCTS COMPANY
Noncurrent Assets

Investments in subsidiaries and affiliates at cost or less, not consolidated	$6,276,005

HERCULES POWDER COMPANY

Noncurrent Assets

Investments (at or below cost):	
Foreign subsidiaries not consolidated	$16,026,358
Associated companies	13,328,304
Other	7,108,007
Total Investments	$36,462,669

Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include the accounts of all domestic and Canadian subsidiaries. Investments in foreign subsidiaries not consolidated and associated companies are stated at cost or less. The company's equity in their net assets exceeded its investment by approximately $6,129,000 and $4,613,000, respectively, at December 31, 1965. The company's share of the net income of foreign subsidiaries not consolidated exceeded dividends received from them by $593,000 in 1965 and $1,456,000 in 1964. The company's share of the net income of associated companies exceeded dividends received from them by approximately $1,124,000 in 1965 and $754,000 in 1964.

JOHNS-MANVILLE CORPORATION

Noncurrent Assets

Investments (principally outside U.S.) and other assets, at cost or less:	
Investments in unconsolidated subsidiaries	$ 7,494,000
Investments in other companies	22,096,000
Prepaid expenses and deferred charges	4,329,000
Other assets	5,996,000
Total	$39,915,000

PARAMOUNT PICTURES CORPORATION

Noncurrent Assets

Investments:	
Canadian and foreign affiliated companies	$11,314,000
Receivable from purchaser of home office building	4,317,000
Other, including receivables due after one year	2,956,000
	$18,587,000

Notes to Financial Statements

Investments: Investments in Canadian and foreign companies which are not consolidated, aggregate $11,314,000 comprising $7,706,000 in Canada, $546,000 in other Western Hemisphere countries, $1,155,000 in England and $1,907,000 in other foreign countries. Investments in Canada are carried at cost to Famous Players Canadian Corporation Limited. Investments in other foreign companies, which are wholly owned, are carried at cost or less, which in the aggregate approximates the combined underlying net assets of such companies.

Other investments include 5% debenture stock (secured) payable in English sterling (U.S. dollar equivalent $1,217,000) which is pledged as security for repayment of the company's 5½% loan.

RADIO CORPORATION OF AMERICA

Noncurrent Assets

Investments:	
Investments, at or below cost	$35,082,000
RCA common stock held in treasury, at cost (Note 2): 1965, 159,017 shares; 1964, 138,524 shares	5,345,000
Total Investments	$40,427,000

Financial Review

Investments were stated at $40,427,000 at the end of 1965, a net reduction of $423,000 during the year as a result of repayments and reductions of investments, partially offset by additional purchases of RCA common stock held as treasury shares. Investments in unconsolidated foreign subsidiaries at year end were carried at $17,662,000, as compared with $38,123,000 total underlying net assets of the subsidiaries. These foreign subsidiaries had earnings of $4,944,000 in 1965 on combined sales of $111,418,000, and paid 1965 dividends of $3,250,000 to RCA. Also included in the investment category was the $5,000,000 cost of $250,000 shares of the Communications Satellite Corporation purchased in 1964.

Cost Plus Accumulated Earnings or Equity in Earnings

ALLIS-CHALMERS MANUFACTURING COMPANY

Noncurrent Assets

Investments and Other Assets:	
Investment in finance subsidiaries	$27,902,496
Investment in other subsidiaries	25,372,431
Intangible assets arising from acquisition	7,389,935
Other investments and assets	7,322,293
	$67,987,155

Notes to Financial Statements

Note 1: *Basis of Consolidation*—All domestic and Canadian subsidiaries, except two finance subsidiaries and a marketing subsidiary, are included in the consolidated financial statements. Investments in the finance subsidiaries are carried at cost plus earnings retained by the subsidiaries. Investments in the unconsolidated foreign and marketing subsidiaries are carried at cost. Net assets of the unconsolidated foreign subsidiaries were $2,700,000 in excess of the Company's investment, and net assets of the unconsolidated marketing subsidiary approximated the Company's investment, less reserve, at year-end.

On October 1, 1965, the Company acquired for $18.6 million the business and assets of Simplicity Manufacturing Company. Results of operations of the successor company are included from date of acquisition. The excess of the purchase price over the value assigned to the assets acquired is presented as a separate item in the balance sheet. It is the Company's intention not to amortize this amount at present due to a suit brought by the Department of Justice contesting the acquisition. Management believes that the asset is not diminishing in value. While it is impossible to predict the ultimate result of these proceedings, the Company is of the opinion that the suit is without merit and will be successfully defended.

AMERICAN HOME PRODUCTS CORPORATION

Noncurrent Assets

Investments (Note 3)	$8,902,252

Note 3: Investments at December 31, 1965 comprise $5,170,774 at cost (at market quotations $16,039,012), and $3,731,478 representing principally interests in foreign enterprises carried at cost plus equity in net earnings since acquisition.

RAYTHEON COMPANY

Noncurrent Assets

Investments in Unconsolidated Foreign Companies (Note A):	
Majority-owned or controlled	$9,402,771
Other	2,128,943

Note A: *Principles of Consolidation*—The consolidated financial statements include the accounts of the parent company and all of its wholly-owned domestic, Canadian and British subsidiaries.

In 1965, acquisitions of net assets of Amana Refrigeration, Inc., Edex Corporation, Dage-Bell Corporation and Macalaster Scientific Corporation, in exchange for 837,992 shares of common stock were treated as "poolings of interests," and the Statement of Income and Earnings Reinvested in the Business includes the operations of these companies for the entire year 1965. The combined operations of these companies for the year 1965 resulted in net sales of $39,440,740 and net income of $701,393. The combined operations of these companies for the year 1964, not reflected in the Statement of Income and Earnings Reinvested in the Business, were not significant.

The investments in unconsolidated foreign companies which are majority-owned or otherwise controlled are stated at cost, increased or decreased by the company's share in their net earnings or losses since acquisition of a majority interest or effective control and decreased by the amortization over a ten-year period of the excess of cost over equity in underlying net tangible assets at the time of acquisition. These increases or decreases are included in the Statement of Income and Earnings Reinvested in the Business under the caption "Other deductions—net." Investments in other unconsolidated foreign companies are stated at cost.

At December 31, 1965, investments in unconsolidated controlled foreign companies exceed the company's share in their net tangible assets by approximately $4,800,000.

The results of operations of both unconsolidated and consolidated foreign companies (other than Canadian) reflected in net income were:

Operating income (loss)	$ 284,409
Less amortization of investments	923,610
	$(639,201)

LEAR SIEGLER, INC.

Noncurrent Assets

Other Assets	$2,716,903

Notes to Financial Statements

Investment: At June 30, 1965 investments in 50% owned companies are stated at cost, $102,500, plus $250,011 equity in undistributed net earnings since acquisition. These investments are included in "Other Assets" in the Consolidated Balance Sheet. The equity in the current year's net earnings, $114,677, is included in "Other deductions (income)—net" in the Statement of Consolidated Earnings.

Due to uncertainties surrounding the future operations of Subscription Television, Inc., the company has made a provision of $1,859,999 against its investment of $1,860,000 in the capital stock of Subscription Television, Inc. (included in "Other Assets").

LILY-TULIP CUP CORPORATION

Other Assets:

Investment in associated company	$2,925,313
Purchase money mortgages	1,278,728
Other, including cash surrender value of insurance on life of officer—1965, $391,415; 1964, $369,892	669,021
	$4,873,062

Notes to Financial Statements

Investment in Associated Company: This investment, in Red River Paper Mill, Inc., consists of one-half of the voting and all of its non-voting capital stocks, representing a 75% equity in the net assets of that company. The amount at which the investment is stated includes, in addition to cost, the Company's share in the undistributed earnings during period of ownership of stock in that company.

REYNOLDS METALS COMPANY

Noncurrent Assets

Investments in and Receivables from Related Companies:	
Capital stocks of unconsolidated subsidiaries—Note A	$ 20,786,846
Capital stocks of associated companies—Note A	78,446,869
Capital stocks of other related companies—at cost	11,323,264
Notes and accounts receivable	9,787,861
	$120,344,840

Note A: *Principles of Consolidation and Carrying Amounts for Unconsolidated Subsidiaries and Associated Companies*—The accounts of the Company and wholly owned subsidiaries (except finance companies) are included in the consolidated financial statements. Intercompany investments, accounts, and significant intercompany transactions, profits, and losses have been eliminated in consolidating the financial statements.

Investments in unconsolidated subsidiaries and associated companies were carried at cost, adjusted for the Company's equity in their undistributed net income. The carrying amount ($99,233,715) of the Company's investments in such companies at December 31, 1965, exceeded its equity in the related net assets by $9,797,350, which represented the excess of investment cost over underlying equity at dates of acquisition. In the opinion of the Company's management, this excess generally does not require amortization. The principal associated company is The British Aluminum Company, Limited, equity in which has been computed on the basis of its fiscal year ended July 31.

Equity in Net Assets

J. I. CASE COMPANY

Investments and Other Assets:

Investment in J. I. Case Credit Corporation, at equity in net assets (see accompanying financial statements) (Note 2)	$30,923,801
Investment in and noncurrent advances to French subsidiaries, less reserves of $9,962,171 and $9,903,115, respectively (Note 2)	3,516,882
Miscellaneous	1,765,332
	$36,206,015

Note 2: *Basis of Consolidation*—The consolidated financial statements include the accounts of all significant subsidiaries except J. I. Case Credit Corporation. Separate financial statements of J. I. Case Credit Corporation are included in this annual report.

See Note 2 to financial statements of J. I. Case Credit Corporation for information on contingent compensation applicable to borrowings of J. I. Case Credit Corporation.

The Company's investments in and advances to nonconsolidated subsidiaries at October 31, 1965 are stated at equity in net assets.

CLARK EQUIPMENT COMPANY

Noncurrent Assets

Investment in Clark Equipment Credit Corporation—at equity in underlying net assets (See accompanying statement)	$17,769,135

NOPCO CHEMICAL COMPANY

Other Assets:

Investment in and advances to foreign subsidiary and 50% owned foreign companies, at equity in underlying net assets (Note 2)	$ 557,771
Other securities and investments (Note 3)	2,077,803
Deferred charges	410,410
Total Other Assets	$3,045,984

Note 2: *Investment in Foreign Subsidiary and 50% Owned Companies*—The Company's investments in its unconsolidated Swiss subsidiary and in 50% owned foreign companies are stated at equity in the underlying net assets after provision for United States income taxes that would be payable if the net assets were distributed to the Company. At December 31, 1964, these investments were stated at cost.

The increase in the equity in the net assets of these companies for the current year of $130,095 has been included in net earnings. The adjustment to these investments applicable to prior years of $145,733 ($92,065 applicable to 1964) has been credited to retained earnings; such amount will be included as a special credit in the statement of consolidated earnings in the Company's annual report to the Securities and Exchange Commission.

PHILIP MORRIS INCORPORATED

Noncurrent Assets

Equity in net assets of unconsolidated foreign subsidiaries	$12,095,618

Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include the accounts of the Company and all subsidiaries whose common stock is wholly owned and the Company's equity in the net earnings and net assets of unconsolidated subsidiaries. Accounts of foreign subsidiaries have been translated at appropriate exchange rates.

WHITE MOTOR CORPORATION

Noncurrent Assets

Investment in the White Motor Credit Corporation:	
Equity in net assets (cost $20,000,000)	$26,692,353

Notes to Financial Statements

Note A: *Principles of Consolidation*—All of the Company's subsidiaries are wholly owned and are included in the consolidated financial statements except for the accounts of The White Motor Credit Corporation and its subsidiary. The investment in the Credit Corporation is carried in the consolidated balance sheet at equity which represents cost and undistributed earnings of the Credit Corporation and its subsidiary, and the consolidated net income of these subsidiaries is included in the statement of consolidated income.

Other

BORG-WARNER CORPORATION

Noncurrent Assets

Investments and advances (principally unconsolidated subsidiaries, Note 1)	$22,264,063

Note 1: The accompanying consolidated financial statements include all divisions and subsidiary companies in Australia, Europe and North America with the exception of B-W Acceptance Corporation. The investment in this subsidiary is carried at net under-

lying asset value and the results of its operations are included in the consolidated statement of earnings. The carrying value of the investment in other unconsolidated subsidiaries is adjusted through earnings to the lower of cost or net underlying asset value.

Included in the amount of retained earnings at January 1, 1964 are retained earnings of foreign subsidiaries not previously consolidated totaling $7,284,234 representing the excess of the company's equity in foreign consolidated subsidiaries over the cost at January 1, 1964.

At December 31, 1965 net assets located outside the United States and Canada approximated 6% of consolidated net assets. Net sales of such operations approximated 8% of consolidated net sales in 1965.

HARNISCHFEGER CORPORATION
Other Assets:

Long-term note receivable	$ 540,000
Investment in and advances to wholly-owned domestic subsidiaries not consolidated, at cost and net realizable value	1,626,429
Investment in and advances to foreign subsidiaries and partly-owned companies, at cost and assigned value	2,396,970
Surrender value of life insurance	1,791,549
	$6,354,948

VEEDER-ROOT INCORPORATED
Noncurrent Assets

Investments in and Advances to Unconsolidated Affiliated Companies—Note 3	$87,610

Note 3: In 1964, because of the continuing deterioration of the Brazilian currency, the Company had reduced to $1 the carrying amount of its investment in and advances to its Brazilian subsidiary by a charge to operations of $66,691. Since its organization in 1959, the operations of this subsidiary have resulted in a nominal profit. However, after giving effect to provision for unrealized exchange losses, this profit becomes an accumulated deficit of $52,672 when expressed in United States currency.

On January 7, 1966, the Company entered into a Joint Venture Agreement under the terms of which it acquired a one-half interest in Infa-Holo-Krome G.m.b.H., a newly formed West German company. The capital costs ($87,609) incurred in connection therewith, prior to December 31, 1965, are included in investments and advances to unconsolidated affiliated companies.

THE BENDIX CORPORATION
Investments and Miscellaneous Assets:

Investments in and advances to non-consolidated subsidiary and associated companies:	
Investments—at cost, less certain dividends credited to the investment account (Note 2)	$14,403,821
Advances	4,222,278
Real estate not used in the business—at depreciated cost (less reserve, $75,000)	728,957
Sundry investments and receivables	3,135,084
Officers' and employees' receivables (principally travel advances)	952,169
Total Investments and Miscellaneous Assets	$23,442,309

Note 2: *Investments in Non-consolidated Subsidiary and Associated Companies*—The Corporation's investment and equity in the net assets of its non-consolidated subsidiary and associated companies based upon latest available financial statements is summarized below:

Location	Carrying Value of Investment	Equity in Net Assets
United States and Canada	$ 3,433,903	$26,086,000
Europe	4,679,579	21,196,000
Latin America	5,400,907	4,562,000
Australia	889,432	1,538,000
Total	$14,403,821	$53,382,000

The Corporation's equity in net assets of foreign companies was determined generally by using approximate rates of exchange prevailing at September 30, 1965.

During the year ended September 30, 1965 the Corporation received dividends in the amount of $2,842,717 from its non-consolidated domestic and foreign subsidiary and associated companies.

ASSOCIATED COMPANIES (50% Jointly Owned)

The 1965 reports of the survey companies disclosed a total of 131 associated or 50 per cent jointly owned companies. This compares with 60 associated companies in 1960, and 28 in 1959.

Companies were not included this year as *jointly owned associated companies* unless it was clear from the annual report that the companies were in fact 50 per cent jointly owned.

Generally the accounts of the associated (50 per cent jointly owned) companies were not consolidated in the statements of either of their parent companies. The study, however, revealed the basis of valuation and extent of disclosure, which is set forth in the following tabulation.

ASSOCIATED COMPANIES

Basis of Valuation*	1965
A: Cost	55
B: Cost or less	10
C: Cost less reserve	7
D: Cost plus equity in accumulated earnings	13
E: Underlying net asset value	19
F: Not disclosed	27
Total	131
Source of Disclosure*	
G: Balance Sheet	3
H: Balance Sheet and Income Statement	3
I: Balance Sheet, Income Statement, and Notes	5
J: Balance Sheet and President's Letter or Financial Review	12
K: Balance Sheet and Notes	6
L: Balance Sheet, Notes, and President's Letter or Financial Review	43
M: Notes to Financial Statements	5
N: President's Letter or Financial Review	46
O: Other Textual Material in Report	4
P: Disclosed in Report of Other Joint Owner	4
Total	131

*Refer to Company Appendix Section—A: 1, 23, 26, 28, 59, 71, 75, 90, 121, 124, 125, 135, 142, 159, 195, 207, 217, 262, 287, 293, 306, 309, 310, 321, 329, 367, 373, 379, 432, 435, 442, 464, 478, 503, 516, 518, 531, 535, 545, 578, 588, 590; B: 35, 47, 60, 285, 368, 399, 524; C: 365, 396, 538, 569; D: 131, 175, 230, 280, 394, 416, 467, 543, 598; E: 69, 87, 178, 255, 272, 330, 336, 339, 369, 416, 441, 459, 469, 482, 502; F: 10, 82, 83, 95, 153, 194, 200, 234, 246, 248, 265, 292, 308, 312, 316, 412, 463, 465, 500, 536, 560, 567, 586; G: 47; H: 230, 255; I: 69, 87, 131, 280, 441; J: 35, 121, 142, 175, 178, 285, 309, 329, 467, 535, 590; K: 23, 75, 412, 463, 482; L: 59, 60, 124, 135, 195, 236, 262, 272, 287, 306, 321, 365, 369, 394, 396, 399, 464, 465, 478, 503, 531, 538, 543, 545, 578, 598; M: 83, 207, 330, 373, 432; N: 10, 26, 28, 59, 71, 82, 95, 125, 153, 217, 246, 248, 265, 292, 293, 308, 310, 312, 336, 339, 367, 368, 379, 416, 435, 442, 469, 500, 502, 516, 518, 536, 560, 567, 569, 586; O: 194, 200, 524, 588; P: 90, 159, 316, 329.

The following examples selected from the 1965 reports are illustrative of the variations of presentation and accounting treatment disclosed.

PRESENTATION

ARMOUR AND COMPANY
Balance Sheet

Investments (Notes 2 and 6)	$62,719,335

Note 2: Investments—The Company's investments consist of the following, carried at cost or less:

Kalium Chemicals Limited (page 2)	$21,630,086
International Packers Limited	13,857,021
Shellstar Limited (Note 7)	9,385,499
Long term receivables	9,803,219
Other	8,043,510
	$62,719,335

Note 7: Commitments and Long Term Leases—As described on page 4, during 1965 the Company acquired a 50% interest in Shellstar Limited, a United Kingdom company that conducts certain agricultural chemical operations. The Company and its 50% partner each have a commitment to advance up to $9,400,000 to Shellstar for the construction of additional production facilities scheduled to be completed by 1970. Also, each company has agreed to guarantee up to $6,000,000 in long term borrowings of Shellstar expected to be incurred in connection with the planned expansion program.

Letter to Stockholders

During the past year Kalium Chemicals Limited, the solution-mining and potash-refining corporation in Saskatchewan, Canada, owned fifty percent by Pittsburgh Plate Glass Company and your Company, has proven the feasibility and economic practicality of its operations and is currently producing at designed capacity and within the limits of predicted costs.

CLUETT, PEABODY & CO., INC.
Noncurrent Assets

Investments in and advances to companies 50% or less owned—at cost	$1,088,052

Other Textual Matter

Clupak, Inc.—50% owned by the Company and 50% owned by West Virginia Pulp and Paper Company—licenses its patents, technical know-how and the trademark CLUPAK to the paper industry worldwide for the production of extensible paper. CLUPAK's patented process is a method of mechanically compacting paper fibers to impart a unique stretchability to the finished paper. This extensibility adds "toughness" to the paper and thereby increases its ability to absorb energy and shock upon impact. CLUPAK extensible paper is uncreped; its smoothness and ease of printing give it the appearance of conventional paper.

REPUBLIC STEEL CORPORATION
Balance Sheet

Investments and Other Assets:	
Investments in and receivables from unconsolidated subsidiaries—Note B	$15,418,651
Investments in and receivables from associated companies—Note C	48,268,551
Miscellaneous investments and receivables	11,832,881
	$75,520,083

Note C: Associated Companies—The Corporation's investments include $27,964,505 representing the carrying amount of capital stock of Reserve Mining Company (representing a 50% interest) and of other funds furnished to Reserve by the Corporation. The other 50% capital stock interest is owned by Armco Steel Corporation. Separate financial statements for Reserve are included in reports filed annually with the Securities and Exchange Commission.

At December 31, 1965, Reserve had $103,085,000 Series A and $82,560,000 Series B Bonds outstanding. Until Reserve's First Mortgage Bonds Series A and Series B are paid in full, its shareholders are obligated according to their proportionate interests to take the entire production of Reserve and to pay its costs pursuant to the provisions of certain agreements. To the extent that may be required, the stockholders of Reserve have agreed to furnish Reserve amounts needed to pay fixed sinking fund installments on such bonds and any remaining principal amounts at their respective maturities; also for certain other purposes, funds would be obtained from its stockholders pursuant to subscription agreements.

In the event certain companies supplying raw materials to the Corporation, and in which it holds stock investments, are unable to make the necessary payments on their long-term indebtedness (in connection with financing the construction of facilities) the Corporation has agreed to pay its proportionate share ($12,803,682 at December 31, 1965) thereof up to a maximum amount of $13,953,682.

REVERE COPPER AND BRASS INCORPORATED
Balance Sheet

Investments and Advances, at cost:	
Ormet Corporation and, in 1965, Olin-Revere Realty Company (Note D)	$18,665,298
Wholly-owned foreign subsidiary, not consolidated	667,000
Other	2,394,291
	$21,726,589

Note D: Ormet Corporation and Olin-Revere Realty Company Investments and Commitments—The Company and Olin Mathieson Chemical Corporation own 50%, respectively, of the stock of Ormet Corporation, a corporation engaged in the production of primary aluminum, and have invested additional sums in notes of Ormet, which are subordinated to the first mortgage bonds of Ormet. The three companies have entered into an agreement which, in addition to other terms, provides that (1) Revere and Olin will purchase 34% and 66%, respectively, of all aluminum produced by Ormet and will pay as the price of such aluminum 34% and 66%, respectively, of Ormet's annual costs. The annual costs, which are to include depreciation and amortization in amounts not less than Ormet's bond maturities, are payable even if no aluminum is produced. Such debt maturities to be included in costs billed to Revere aggregate $2,040,000 per year from 1966 through 1973, and $2,720,000 per year from 1974 through 1978. (2) Revere and Olin will advance to Ormet 34% and 66%, respectively, of any amounts required for capital replacements and maintenance of working capital position at a prescribed level. (3) As long as any of Ormet's bonds are outstanding, Olin has the option to purchase 32% of Revere's interest in Ormet at a price equal to Revere's cost.

During 1965, Revere advanced $804,525 to Olin-Revere Realty Company, a partnership, for construction of plant facilities for lease to Ormet Corporation.

SUN OIL COMPANY
Balance Sheet

Long Term Receivables and Investments:	
Notes receivable from sale of properties	$22,037,000
Securities of affiliated companies, at cost	45,199,000
Other investments, at cost or less	9,747,000
	$76,983,000

Notes to Financial Statements

Principles of Consolidation: Sun owns a proprietary half-interest in four affiliated companies whose accounts are not included in the consolidated statements: Avisun Corporation, SunOlin Chemical Company, Standard Naphthalene Products Company, Inc., and Mid-Valley Pipeline Company. Sun's financial interest in these four companies at December 31, 1965 was $45,194,000. The accumulated, combined profits of these companies through the end of 1965 amounted to $14,926,000 from which Sun has received dividends of $12,053,000.

UNITED STATES STEEL CORPORATION
Letter to Stockholders

U. S. Steel and National Distillers and Chemical Corporation are equal owners of Reactive Metals, Inc., a company formed in 1962 and reorganized in 1964 for producing titanium and other metals and for fabricating finished mill products. During 1965, Reactive Metals initiated the first phase of a three-year program of improvement and expansion aimed at keeping its potential output ahead of the rapidly expanding titanium market. Titanium sponge capacity was increased more than 50 per cent near the end of 1965, and facility changes to increase the output of billet products are in process. The program includes improved equipment for producing flat rolled products.

WESTINGHOUSE AIR BRAKE COMPANY
Letter to Stockholders

49% of the new freight cars built in 1965 were equipped with COBRA brake shoes (a product manufactured by Railroad Friction Products, which is owned jointly with Johns-Manville Corporation). Sales of COBRA brake shoes, including replacements, increased 42.3% in 1965.

Treatment of Income

ATLAS CHEMICAL INDUSTRIES, INC.
Income Statement

Earnings from consolidated operations	$4,143,000
Equity in earnings of 50%—owned companies (Note 1)	1,447,000
Net Earnings	$5,590,000

Notes to Financial Statements

Note 1: *Principles of Statement Presentation*—The consolidated financial statements include the accounts of Atlas Chemical Industries, Inc., and all domestic and fully-operative foreign subsidiaries, after elimination of intercompany accounts and transactions. Accounts expressed in foreign currencies have been translated into U. S. dollars at appropriate exchange rates, generally at the free rate prevailing at year-end.

The Company's investment in nonconsolidated approximately 50%-owned companies, principally Solar Nitrogen Chemicals, Inc., is carried in the balance sheet at underlying net asset value. The Atlas share of net earnings of such companies (less income taxes which would have been payable thereon if received as dividends) has been included in consolidated earnings for the year and in consolidated retained earnings as follows:

Amount included in consolidated retained earnings at beginning of year	$2,767,000
Amount included in consolidated earnings for year	1,447,000
Less dividends paid to Atlas by 50%-owned companies	(93,000)
Amount included in consolidated retained earnings at end of year	$4,121,000

OWENS-ILLINOIS, INC.
Financial Review

The Company's investment in National Petro Chemicals Corporation, which is 50% owned, is now included in the balance sheet at cost adjusted for equity in accumulated results of operations, whereas this investment was carried at cost in previous years. Our equity in that company's losses in 1963 and 1964, its first two years of operation, was charged to retained earnings in 1965, and our equity in its 1965 earnings is included in other income in the consolidated statement of earnings. Neither amount was significant. The investment and a related long-term advance amounted to $3,558,587 at December 31, 1965.

Owens, Libbey-Owens Gas Department, which is jointly owned by Owens-Illinois and Libbey-Owens-Ford Glass Company, operates natural gas properties in West Virginia servicing plants of both companies in that area. Our investment, which is carried at equity in net assets, amounted to $1,925,904 at December 31, 1965.

PITTSBURGH PLATE GLASS COMPANY
Balance Sheet

Investments:	
Investments in jointly-owned companies—at equity (1964 at cost)	$42,039,000
Investments in subsidiaries not consolidated—at cost or less	5,310,000
Other—at cost or less	4,934,000
Total Investments	$52,283,000

Income Statement

Earnings for the Year:	
Net Sales	$897,461,000
Equity in Net Earnings of Jointly-Owned Companies (1964, dividends only)	907,000
Other Earnings	9,807,000
Total	$908,175,000
Earnings Retained for Use in the Business:	
Balance at January 1	$362,469,000
Net Earnings	58,144,000
Equity at January 1 in Undistributed Earnings of Jointly-Owned Companies	8,372,000
Total	$428,985,000

Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include all majority-owned domestic Canadian and European subsidiaries. Beginning in 1965, the Company's equity in the undistributed earnings of jointly-owned companies located in the aforementioned geographical areas are included in the financial statements. The effect of this change in policy was to increase 1965 earnings by $268,000. Items in foreign currencies have been converted into United States dollars generally at the current rate of exchange as to current assets and current liabilities and at the average rate of exchange for the year as to profit and loss accounts. Property, investments, long-term liabilities, and capital accounts have been converted on the basis of rates of exchange at the date acquired or incurred.

SCOTT PAPER COMPANY
Income Statement

	(Thousands of Dollars)
Net income from operations	$44,302
Share of the earnings of foreign affiliates	2,954
Net Income	$47,256

Notes to Financial Statements

Note 1: The consolidated statements include all wholly owned domestic and Canadian subsidiaries and the Company's share of the earnings of affiliates (companies which are at least fifty per cent owned). The Company's share of the earnings of its foreign affiliates (all engaged in the production and sale of products to customers other than Scott) is shown separately. Its share of the earnings of the domestic affiliates (all engaged in supplying Scott with pulp and timber, principally Brunswick Pulp & Paper Company) is not shown separately. Taxes which may become payable if the undistributed earnings of the affiliates are received as dividends have not been provided because of the continuing reinvestment of such earnings in the expansion programs of these companies.

Other Textual Matter

Scott Operations World-wide:

Brunswick, Georgia—Brunswick Pulp & Paper Company (owned 50-50 by Scott and The Mead Corporation)

Australia—Bowater-Scott Australia Limited (Scott 50%—The Bowater Corporation of Australia Limited 50%)

Belgium—Scott Continental, S.A. (Scott 50%—Papeteries de Belgique, S.A. 50%)

Denmark—Bowater-Scott Skan A/S (Bowater-Scott Corporation Ltd. 50%—C. Schous Fabriker, A/S 50%)

England—Bowater-Scott Corporation Limited (Scott 50%—The Bowater Paper Corporation, Ltd. 50%)

Italy—Burgo Scott S.p.A. (Scott 50%—Cartiere-Burgo, S.p.A. 50%)

Japan—Sanyo Scott Company Limited (Scott 50%—Sanyo Pulp Company, Ltd. 50%)

TIME INCORPORATED
Balance Sheet

Investments—at cost:	
Companies 50% owned	$24,404,000
Other	19,950,000
	$44,354,000

Notes to Financial Statements

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all subsidiaries. Effective December 31, 1965, the Company's subsidiary, Silver Burdett Company, sold 50% of its capital stock to General Electric Company for $18,750,000. At December 31, 1965 the Company's 50% investment in Silver Burdett is carried on the balance sheet at cost plus undistributed earnings to the date of sale. The operating results of Silver Burdett are included in the statement of income for the years 1965 and 1964.

St. Francisville Paper Company: The equity of the Company in the net assets of St. Francisville Paper Company, owned 50% by the Company and 50% by Crown Zellerbach Corporation, exceeded its investment therein by $1,695,000 at December 31, 1965. The Company's equity in net income during 1965 amounted to $252,000. No dividends were paid during the year.

PREPAID EXPENSES AND DEFERRED CHARGES

The committee on accounting procedure of the American Institute of Certified Public Accountants in *Accounting Research and Terminology Bulletins, Final Edition,* 1961 (Chapter 3, Section A), states among other things that:

> 4. For accounting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. Thus the term comprehends in general such resources as . . . (g) prepaid expenses such as insurance, interest, rents, taxes, unused royalties, current paid advertising service not yet received, and operating supplies. . . .
> 6. This concept of the nature of current assets contemplates the exclusion from that classification of such resources as . . . (g) long-term prepayments which are fairly chargeable to the operations of several years, or deferred charges such as unamortized debt discount and expense, bonus payments under a long-term lease, costs of rearrangement of factory layout or removal to a new location, and certain types of research and development costs.

Of the 600 survey companies, 575 presented prepaid expenses or deferred charges in their 1965 balance sheets. Of the 575 companies displaying such items, 240 companies presented them under "current assets," 159 companies presented them under both "current and noncurrent assets," and the remaining 176 companies included them among "noncurrent assets."

The terminology used by the survey companies presenting prepaid expenses or deferred charges in their balance sheets for the years 1965, 1964, 1960, 1955, and 1950 is summarized and classified in Table 22.

Table 22 also indicates that the descriptive word *prepaid* was generally used in the current asset section of the balance sheet, whereas the term *deferred* was most frequently employed in the noncurrent asset section. The bottom half of Table 22 classifies prepaid and deferred expenses by type. Included in the item, "Various other terms," are the descriptive titles, "Advance processing and refining costs," "Deferred circulation expense," "Deferred location costs," "Deferred shaft sinking development and exploration charges," "Development, systems application and acquisition costs related to leases," "Expenditures on account of unfinished voyages," and "Prepaid and deferred items chargeable to future operations."

Examples illustrating the various types of prepaid expenses and deferred charges and their presentation in the balance sheets of the respective companies are as follows:

Current Asset Section

KELSEY-HAYES COMPANY

Current Assets:

Prepaid taxes, insurance, and other expenses	$1,855,649

MONTGOMERY WARD & CO., INCORPORATED

Current Assets:

Prepaid catalog costs, supplies, etc.	$43,601,445

PEOPLES DRUG STORES, INCORPORATED

Current Assets:

Prepaid expenses and supplies	$544,038

SEABOARD ALLIED MILLING CORPORATION

Current Assets:

Prepaid insurance, taxes, etc.	$161,668

WALGREEN CO.

Current Assets:

Prepaid rent, insurance, taxes, etc.	$1,577,479

WARNER-LAMBERT PHARMACEUTICAL COMPANY

Current Assets:

Operating supplies, prepaid advertising and other expenses	$6,636,037

Current and Noncurrent Asset Sections

EMERSON ELECTRIC CO.

Current Assets:	
Prepaid insurance, taxes, etc.	$887,288
Noncurrent Assets:	
Unamortized Debt Expense, Tooling Costs, and Other Assets	$1,673,595

NATIONAL COMPANY, INC.

Current Assets:	
Product development charges	$148,523
Prepaid insurance and expenses	34,924
Noncurrent Assets:	
Deferred Charges and Expenses:	
Product development charges	$440,288
Deferred financing expenses	3,334

OTIS ELEVATOR COMPANY

Current Assets:	
Prepayments	$3,074,000
Noncurrent Assets:	
Deferred Charges:	
Future income tax reduction applicable to deferred compensation	$5,967,000
Other	820,000
Total Deferred Charges	$6,787,000

STRUTHERS WELLS CORPORATION

Current Assets:	
Prepaid expenses	$273,436
Noncurrent Assets:	
Deferred Charges at Cost, less applicable amortization:	
Research and development expenses of a subsidiary	$138,015
Advance royalties	97,500
Pre-operating and start-up expenses of a subsidiary	162,250
Other	125,339
	$523,104

TABLE 22: PREPAID EXPENSES AND DEFERRED CHARGES

Terminology Used In	1965	1964	1960	1955	1950
Current Asset Section:					
Prepaid	380	371	330	246	175
Prepaid and deferred	5	6	12	10	4
Paid in advance	5	6	—	—	—
Deferred	1	1	11	5	3
Unexpired	4	4	7	8	6
Costs applicable to future periods	7	7	6	13	7
Various other terms	1	—	3	3	3
Total	403	395	369	285	198
Noncurrent Asset Section:					
Deferred	188	193	184	169	143
Deferred and prepaid	59	65	71	93	94
Deferred with certain items listed thereunder described "prepaid"	19	21	26	59	104
Prepaid	41	43	50	67	65
Costs applicable to future periods	6	6	9	12	17
Unamortized	29	37	42	32	13
Unexpired	1	1	1	6	4
Various other terms	2	—	12	1	10
Total	345	366	395	439	450
Number of Companies presenting:					
Prepaid Expenses or Deferred Charges in:					
Current asset section	240	222	203	198	128
Current and noncurrent asset sections	159	170	161	138	76
Noncurrent asset section	176	188	223	251	386
No prepaid expense or deferred charge items	25	20	13	13	10
Total	600	600	600	600	600

	Balance Sheet Presentation			
	1965		1955	
Classification as to Type*	Current Assets	Noncurrent Assets	Current Assets	Noncurrent Assets
A: Advertising	5	2	6	12
B: Debt discount	—	20	1	23
C: Debt expense	—	36	1	52
D: Employee welfare	—	7	2	18
Expense advances	—	—	—	2
E: Financing expense	—	3	—	6
F: Insurance	62	20	122	122
G: Interest	1	2	1	2
H: Mine stripping and expense	—	3	—	4
Oil exploration	—	—	—	1
Organization expense	—	—	—	2
I: Pre-occupation and plant costs	1	5	1	3
J: Rent	4	4	8	22
K: Research and development	1	5	1	8
L: Seasonal expenses	1	—	—	—
Selling, delivery, freight, commissions	—	—	2	5
M: Start-up costs of new production facilities	—	1	—	—
N: Supplies	20	9	17	29
O: Taxes	29	16	59	63
P: Tooling and factory expense	1	7	1	3
Q: Unused royalties	1	4	—	2
R: Various other terms	1	6	5	8
S: "Prepaid or Deferred"	274	176	184	276
T: "Prepaid or Deferred"**	117	117	41	41
Total	518	443	452	704

*Refer to Company Appendix Section—A: 31, 247, 382, 448, 487, 493, 585; B: 41, 124, 176, 224, 226, 244, 254, 302, 348, 351, 371, 399, 436, 483, 487, 524, 541, 552, 586, 599; C: 9, 12, 38, 41, 65, 124, 138, 147, 176, 212, 216, 224, 226, 257, 259, 266, 302, 315, 348, 351, 360, 371, 380, 388, 399, 411, 436, 440, 477, 483, 487, 534, 541, 586, 590, 599; D: 69, 148, 325, 415, 426, 432, 533; E: 327, 392, 405; F: 14, 99, 125, 188, 227, 266, 310, 361, 447, 493, 537, 592; G: 96, 234, 573; H: 18, 561, 568; I: 112, 359, 527, 530, 561, 562; J: 96, 99, 166, 259, 265, 266, 581, 597; K: 194, 287, 392, 527, 542; L: 291; M: 8; N: 67, 96, 138, 225, 284, 360, 421, 448, 493, 589; O: 8, 37, 112, 156, 209, 248, 310, 380, 414, 448, 540, 558; P: 129, 194, 212, 324, 342, 415, 421, 597; Q: 159, 367, 463, 527, 599; R: 19, 166, 234, 350, 373, 478, 558; S: 14, 96, 135, 188, 243, 265, 330, 399, 421, 478, 524, 599; T: 5, 98, 116, 160, 202, 260, 312, 353, 424, 444, 520, 577.

**In both the current and noncurrent asset sections.

PHELPS DODGE CORPORATION

Current Assets:	
Prepaid expenses	$2,313,641
Noncurrent Assets:	
Deferred Charges:	
Unamortized portion of payments to trust fund under retirement plan for salaried employees	$2,903,781
Other	1,272,000

THATCHER GLASS MANUFACTURING COMPANY, INC.

Current Assets:	
Prepaid insurance, taxes, and mold costs	$1,371,978
Noncurrent Assets:	
Deferred Mold Cost, Research and Development Expense, etc.	$ 696,701

Noncurrent Asset Section

AIR REDUCTION COMPANY, INCORPORATED

Noncurrent Assets:	
Deferred Charges (including pre-operating and start-up expenses—1965, $1,669,659; 1964, $2,570,565)	$5,402,995

BELDING HEMINWAY COMPANY, INC.

Noncurrent Assets:	
Deferred Charges:	
Insurance, taxes and miscellaneous	$232,700
Manufacturing and sundry supplies	651,271
	$883,971

BOND STORES, INCORPORATED

Noncurrent Assets:	
Deferred Charges:	
Prepaid rent and advances to landlords on improvements to leased properties	$ 729,096
Unexpired insurance and other prepaid expenses	1,049,548
	$1,778,644

P. LORILLARD COMPANY

Noncurrent Assets:	
Other Assets:	
Prepaid expenses and deferred charges	$2,672,306
Unamortized debenture discount and expense	1,073,598
Trade-marks and goodwill	2,157,422
Total Other Assets	$5,903,326

REPUBLIC STEEL CORPORATION

Noncurrent Assets:	
Deferred:	
Prepaid royalties and other deferred charges	$21,720,107

ST. JOSEPH LEAD COMPANY

Noncurrent Assets:	
Deferred Charges:	
Deferred shaft sinking, development and exploration charges (Note 4)	$6,290,119
Other deferred charges	1,819,561
	$8,109,680

INTANGIBLE ASSETS

The committee on accounting procedure of the American Institute of Certified Public Accountants in *Accounting Research and Terminology Bulletins, Final Edition,* 1961 (Chapter 5), classifies intangibles as either: "(a) Those having a term of existence limited by law, regulation, or agreement, or by their nature . . ., or (b) Those having no such limited term of existence and as to which there is, at the time of acquisition, no indication of limited life. . . ."

Intangibles should be valued at cost. The *Bulletin* states:

> The initial amount assigned to all types of intangibles should be cost, in accordance with the generally accepted accounting principles that assets should be stated at cost when they are acquired. In the case of non-cash acquisitions, as, for example, where intangibles are acquired in exchange for securities, cost may be considered as being either the fair value of the consideration given or the fair value of the property or right acquired, whichever is the more clearly evident.
>
> A problem arises in cases where a group of intangibles or a mixed aggregate of tangible and intangible property is acquired for a lump-sum consideration, or when the consideration given for a stock investment in a subsidiary is greater than the net assets of such subsidiary applicable thereto, as carried on its books at the date of acquisition.

In the latter case, *Accounting Research Bulletin No. 51,* issued in 1959† by the committee on accounting procedure, states:

> To the extent that the difference is considered to be attributable to tangible assets and specific intangible assets, such as patents, it should be allocated to them. Any difference which cannot be so applied should be shown among the assets in the consolidated balance sheet under one or more appropriately descriptive captions. When the difference is allocated to depreciable or amortizable assets, depreciation and amortization policies should be such as to absorb the excess over the remaining life of related assets.

The balance sheets of 346 of the 600 survey companies disclosed intangible assets in their 1965 annual reports. Table 23, which summarizes and classifies the various types of intangible assets and their balance sheet presentation and valuation, provides the following information:

1. *Type.* The most common types of intangible assets were patents, "goodwill," trademarks and brand names, leasehold improvements, and leases and leaseholds.

†Reissued in 1961 as part of *Accounting Research and Terminology Bulletins, Final Edition.*

2. *Presentation.* Intangible assets shown separately in the noncurrent asset section of the balance sheet was the most frequent method of presentation though it was not uncommon to find such items grouped with "other assets." However, certain types of intangible assets, such as leasehold improvements, leases and leaseholds, water rights, and mining and timber rights were generally shown under properties.
3. *Valuation.* Intangible assets were most frequently shown in the balance sheet at an amortized value. A nominal-value (usually $1) presentation was also favored as a method of valuation. Intangible assets such as patents, "goodwill," and trademarks and brand names were in the majority of cases set forth at a nominal value; whereas leasehold improvements, leases and leaseholds were generally shown at an amortized value.

In Table 23 the companies classified as valuing intangible assets at "Amortized value, charge not shown," include only those which specifically indicate that the assets are being amortized, such as: "Goodwill, net of amortization," "Goodwill, unamortized balance," etc. Companies classified as valuing intangibles at "Unamortized value" include those which show no change in carrying value from the previous year and no specific indication that the asset is being amortized. Included in "Not determinable" are those which show only the title of the intangible in the balance sheet caption with values other than nominal value which indicate a change in valuation from the previous year without any information regarding such change.

The various balance sheet presentations found in the 1965 reports are illustrated below. Illustrations are considered to be presented in the notes when reference to the notes is necessary to find the information.

Shown in Current Asset Section Under Inventories

MCA INC.

Inventories (Note 2)	$109,306,274

Note 2: Inventories and Amortization—Inventories, stated at lower of cost or estimated realizable values, comprised:

Feature films:	
Released (including pre-1948 Paramount films) less amortization	$ 27,677,237
Completed but not released	13,024,707
In process and stories and scenarios	23,537,517
Television films less amortization	41,531,972
Phonograph records, prints, trailers and supplies	3,534,841
	$109,306,274

Shown Separately in Noncurrent Asset Section

BEAUNIT CORPORATION

Patents and formulas, less amortization	$238,575

THE FLINTKOTE COMPANY

Good will, patents and other rights, at cost	$7,744,425

PARKE, DAVIS & COMPANY

Formulae, processes, patents, and copyrights	$ 1

PET MILK COMPANY

Excess of purchase price of companies acquired over net assets at dates of acquisition	$10,609,342

UNIVERSAL MATCH CORPORATION

Intangible Assets, at cost less amortization:	
Patents and trademarks	$1,935,379
Goodwill	710,512
	$2,645,891

WILSON & CO., INC.

Intangible Assets (Principally goodwill)	$5,250,283

Shown Under Fixed Assets

ACME MARKETS, INC.

Plant and Equipment:	
Land	$ 12,209,266
Buildings	47,372,890
Machinery, equipment and fixtures	88,679,234
Leasehold costs and improvements	16,574,078
Total plant and equipment, at cost	164,835,468
Less accumulated depreciation and amortization	66,954,197
	$ 97,881,271

ALUMINUM COMPANY OF AMERICA

Properties, Plants and Equipment, at cost:	
Land and land rights, including mines	$ 70,736,344
Structures, machinery and equipment	1,930,718,380
	2,001,454,724
Less, accumulated allowances for amortization, depletion and depreciation	1,068,993,075
	932,461,649
Construction work in progress	67,322,452
Patents and other intangible assets, less amortization	1,381,978
Total Properties, Plants and Equipment	$1,001,166,079

BAYUK CIGARS INCORPORATED

Plant Facilities:	
Buildings, machinery and equipment at cost, less portion allocated to operations — $10,889,645 (1965); $10,276,517 (1964)	$4,796,829
Land, at cost	345,513
Unamortized cost of cigar machine licenses and leasehold improvements	1,497,484
	$6,639,826

CROWN ZELLERBACH CORPORATION

Properties, at cost:	
Buildings, machinery, and equipment (Note 2)	$736,493,000
Less allowances for depreciation	298,655,000
	437,838,000
Timberlands, pulp leases, land, and logging facilities, net of depletion and amortization	80,178,000
Intangibles, principally water power leases and licenses, net of amortization	1,959,000
	$519,975,000

TABLE 23: INTANGIBLE ASSETS

Type of Intangible Asset*	Current Asset Section Under Inventories	Balance Sheet Presentation — Noncurrent Asset Section: Separately Set Forth	Under Fixed Assets	Under Other Assets	Under Deferred Charges	Notes to Financial Statements	1965 Total
A: Patents, patent rights and applications	—	89	2	33	8	2	134
B: Trademarks, brand names	—	46	—	18	3	1	68
C: Copyrights	—	4	—	1	—	—	5
D: Goodwill	—	82	—	21	—	—	103
E: Goodwill re subsidiary	—	50	2	32	5	5	94
F: Leasehold improvements	—	1	78	6	—	3	88
G: Leaseholds, leases, leased equipment	—	3	21	1	—	6	31
H: Exploration and development—mining, oil	—	—	2	3	2	3	10
I: Formulae, processes, designs	—	10	—	7	—	—	17
J: Research and experimental	—	4	—	2	—	—	6
K: Licenses, franchises, memberships	—	12	5	5	2	—	24
L: Rights—water, water-power, land	—	1	10	—	—	2	13
M: Rights—mining, timber, cutting, fishing, and "other rights"	—	1	11	—	—	5	17
N: Contracts	—	3	—	2	—	—	5
O: Name lists, catalogs, trade routes	—	2	—	—	—	—	2
P: Scripts, scenarios, story and film rights	7	1	—	—	—	1	9
Q: Described as "intangible assets"	—	22	4	8	—	—	34
R: Various other	—	2	1	1	—	1	5
Total	7	333	136	140	20	29	665

Type of Intangible Asset	Balance Sheet Valuation and Amortization — Amortized Value After Charges to: Income	Charge Not Shown	Total	Unamortized Value	Nominal Value	Not Determinable	1965 Total
Patents, patent rights and applications	33	30	63	9	44	18	134
Trademarks, brand names	8	8	16	9	30	13	68
Copyrights	—	—	—	1	3	1	5
Goodwill	9	6	15	21	46	21	103
Goodwill re subsidiary	17	18	35	43	—	16	94
Leasehold improvements	64	18	82	2	—	4	88
Leaseholds, leases, leased equipment	20	3	23	1	—	7	31
Exploration and development—mining, oil	4	3	7	—	—	3	10
Formulae, processes, designs	3	3	6	4	6	1	17
Research and experimental	1	2	3	—	2	1	6
Licenses, franchises, memberships	9	5	14	2	2	6	24
Rights—water, water-power, land	2	4	6	1	—	6	13
Rights—mining, timber, cutting, fishing, and "other rights"	3	4	7	1	—	9	17
Contracts	1	3	4	—	1	—	5
Name lists, catalogs, trade routes	1	—	1	1	—	—	2
Scripts, scenarios, story and film rights	—	1	1	3	—	5	9
Described as "intangible assets"	4	14	18	7	1	8	34
Various other	—	2	2	1	1	1	5
Total	179	124	303	106	136	120	665

Number of Companies presenting:	1965
Intangible Assets	346
No Intangible Assets	254
Total	600

*Refer to Company Appendix Section—A: 48, 166, 174, 249, 250, 377, 388, 421, 483, 576; B: 60, 85, 102, 119, 155, 292, 340, 356, 468, 480; C: 134, 363, 366, 405, 419; D: 26, 70, 101, 104, 180, 215, 345, 394, 456, 592; E: 16, 123, 131, 218, 232, 305, 415, 430, 542, 545; F: 3, 91, 116, 222, 332, 389, 401, 451, 507, 594; G: 39, 99, 137, 197, 225, 264, 304, 360, 383, 494; H: 20, 44, 47, 51, 118, 309, 495, 515, 568, 553; I: 13, 83, 115, 143, 346, 367, 429, 444, 460, 529; J: 33, 122, 152, 270, 402, 580; K: 58, 81, 93, 125, 207, 244, 338, 465, 543, 578; L: 18, 148, 229, 234, 329, 347, 369, 432, 519, 575; M: 160, 189, 217, 255, 272, 310, 426, 479, 561, 566; N: 65, 89, 151, 550, 565; O: 157, 366; P: 25, 151, 193, 363, 366, 374, 418, 550, 584; Q: 24, 82, 106, 206, 282, 330, 396, 473, 489, 501; R: 78, 283, 417, 518, 600.

BELL INTERCONTINENTAL CORPORATION

Property, Plant and Equipment, at cost:	
Land	$ 380,058
Buildings and improvements	7,595,510
Machinery and equipment, etc.	15,216,660
Leasehold improvements, net	1,130,423
	24,322,651
Less—Reserves for depreciation	10,776,388
	$13,546,263

KIMBERLY-CLARK CORPORATION

Property and Equipment—At cost:	
Depreciable property and equipment	$537,290,000
Less accumulated depreciation, depletion, and amortization	241,502,000
Net	295,788,000
Property under construction	14,678,000
Land and water-power rights	11,158,000
Property and Equipment—net	$321,624,000

Shown Under Other Assets

BATES MANUFACTURING COMPANY, INCORPORATED

Other Assets:	
Formulae, organization and other at cost, less amortization	$700,990
Notes receivable	131,718
	$832,708

INDIAN HEAD MILLS, INC.

Other Assets:	
Patents and trademarks, at cost less accumulated amortization of $1,198,091 in 1965 and $932,977 in 1964	$2,751,162
Unamortized debt discount and expenses	3,201,425
Investments in unconsolidated foreign subsidiaries, at cost less allowance of $110,000 (Note B)	1,483,978
Other assets	1,800,351
Total Other Assets	$9,236,916

THE PROCTER & GAMBLE COMPANY

Other Assets:	
Sundry investments, loans, and receivables	$ 22,782,560
Goodwill, patents, and licenses	25,620,023
Prepaid expenses and deferred charges	17,520,349
Total other assets	65,922,932
Total	$1,337,194,920

SHOE CORPORATION OF AMERICA

Other Assets:	
Miscellaneous accounts receivable, deposits and deferred charges	$1,014,417
Surrender value of life insurance policies	629,483
Excess of cost of investments in businesses over net assets acquired	2,130,132
Goodwill	1
Total Other Assets	$3,774,033

SPRAGUE ELECTRIC COMPANY

Other Assets:	
Goodwill	$ 491,811
Patents, trademarks and leasehold improvements—at cost less amortization	574,488
Foreign security investments—at cost	344,219
Deferred charges	1,582,680
Other assets	246,347
Total Other Assets	$3,239,545

U. S. INDUSTRIES, INC.

Investments and Other Assets:	
Investments in and accounts with unconsolidated subsidiaries—Note A	$2,168,002
Royalty contracts and patents—at cost less amortization	1,020,004
Property held for sale—at cost, not in excess of estimated realizable value	161,647
Miscellaneous receivables and accounts	892,042
	$4,241,695

Shown Under Deferred Charges

HARRIS-INTERTYPE CORPORATION

Deferred Charges:	
Cost of investment in subsidiaries over equity (unamortized portion)	$1,195,586
Other	1,509,113
	$2,704,699

THE HARSHAW CHEMICAL COMPANY

Deferred Charges:	
Excess of cost of investment in subsidiaries over equity in net assets, less amortization	$1,022,858
Other deferred charges	243,922
Prepaid insurance and taxes	400,813
Total Deferred Charges	$1,667,593

THE PARKER PEN COMPANY

Prepaid Expenses, Other Assets, etc.:	
Supplies	$1,000,838
Patents and trade-marks, at amortized cost	14,983
Tooling	203,440
Other assets	1,349,880
Total Prepaid Expenses, etc.	$2,569,141

VARIAN ASSOCIATES

Deferred Charges:	
Patents, patent applications, rights, etc., at cost (less reserves, 1965 $197,000; 1964 $138,000)	$ 645,000
Other	366,000
	$1,011,000

Shown in Notes to Financial Statements or Letter to Stockholders

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

Noncurrent Assets

Property, Plant and Equipment, at cost less accumulated depreciation and depletion (Note 3)	$184,275,425

Note 3: *Property, Plant and Equipment*—Property, plant and equipment at June 30, 1965 consisted of the following:

Land	$ 1,454,451
Mineral properties, including leases, permits and development costs	43,487,014
Buildings, leasehold improvements, machinery and equipment	204,736,744
Construction in progress	22,189,379
	271,867,588
Less:	
Accumulated depreciation	76,907,064
Accumulated depletion	10,685,099
	87,592,163
	$184,275,425

McKESSON & ROBBINS, INCORPORATED
Noncurrent Assets

Fixed Assets—Note 3	$21,617,014

Note 3: *Fixed Assets*—Fixed assets are stated at cost, except for certain items (approximately $2,084,000 as at March 31, 1965) included at October 31, 1934 appraisal amounts, and consist of the following:

Land	$ 2,669,826
Buildings, machinery and equipment	30,126,942
Improvements to leased properties	2,606,423
	35,403,191
Less: Accumulated depreciation and amortization	13,786,177
	$21,617,014

RAYONIER INCORPORATED
Letter to Stockholders

During 1965, the Rayonier manufacturing divisions consumed pulpwood, sawlogs and sawmill chips equivalent to 1,127,000,000 board feet. With raw material requirements of such dimensions, mill operations must be backed by very large timber reserves. Over the years, the company has acquired ownership or control of 681,669 acres of forest land in Florida and Georgia and 387,685 acres in Washington. These lands contain over 12 billion board feet of standing timber. In British Columbia, Rayonier Canada holds cutting rights on extensive acreage which contains approximately 18 billion board feet of standing timber. The current total inventory of 30 billion board feet is adequate to support the present level of mill operations plus some increased production in the future.

UNITED STATES SMELTING REFINING AND MINING COMPANY
Noncurrent Assets

Deferred Charges and Other Assets (Note 3)	$10,767,264

Note 3: Deferred Charges and Other Assets consist chiefly of the cost of stripping, thawing and other work ahead of the dredges in Alaska, and development and ore breaking in the lode mines. The write-off of these deferred expenditures is being determined on a liquidating basis for the Alaska operations (see page 12), and on the basis of ores extracted for the lode mines. The Reserve for Development has been appropriated to offset any loss from such part of the foregoing deferred charges as may not eventually be recovered through operations.

AMORTIZATION OF INTANGIBLE ASSETS

According to the committee on accounting procedure of the American Institute of Certified Public Accountants in the *Accounting Research and Terminology Bulletins, Final Edition,* 1961 (Chapter 5), the cost of intangibles under its (a) classification, "should be amortized by systematic charges in the income statement over the period benefited, as in the case of other assets having a limited period of usefulness." The cost of intangibles under its (b) classification should be amortized in a similar manner if and when "it becomes reasonably evident that the term of existence . . . has become limited," or when the intangible will not have value during the entire life of the enterprise "despite the fact that there are no present indications of limited existence or loss of value . . ., and despite the fact that expenditures are being made to maintain its value." The committee further points out that the cost of intangibles classified under (b) above "should be written off," in a manner which will not give rise to misleading inferences in the income statement, "when it becomes reasonably evident that they have become worthless."

Lump-sum write-offs of intangibles should not be made to earned surplus immediately after acquisition, nor should intangibles be charged against capital surplus. If not amortized systematically, intangibles should be carried at cost until an event has taken place which indicates a loss or a limitation on the useful life of the intangibles.

The information contained in the annual reports for 1965 with regard to the amortization of intangible assets is summarized in Table 23. There were 303 instances of intangible assets shown in the balance sheets at an amortized value. In 179 of these cases the amortization was charged to the income account; in the remaining 124 cases there was no indication in the report as to the account charged. In addition there were 120 items concerning which the amortization procedure was not determinable.

ACCOUNTS PAYABLE—Current Liabilities

Paragraphs 7 and 8 of Chapter 3, Section A, of *Accounting Research and Terminology Bulletins, Final Edition,* 1961, are reproduced here as pertinent background material in relation to the results of the study of the 600 survey companies in regard to current liabilities.

7. The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a balance-sheet category, the classification is intended to include obligations for items which have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in the production of goods or in providing services to be offered for sale; collections received in advance of the delivery of goods or performance of services;[2] and debts which arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, royalties, and income and other taxes. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually twelve months, are also intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within one year under sinking fund provisions, and

[2] Examples of such current liabilities are obligations resulting from advance collections on ticket sales, which will normally be liquidated in the ordinary course of business by the delivery of services. On the contrary, obligations representing long-term deferments of the delivery of goods or services would not be shown as current liabilities. Examples of the latter are the issuance of a long-term warranty or the advance receipt by a lessor of rental for the final period of a ten-year lease as a condition to execution of the lease agreement.

agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons.[3]

8. This concept of current liabilities would include estimated or accrued amounts which are expected to be required to cover expenditures within the year for known obligations (a) the amount of which can be determined only approximately (as in the case of provisions for accruing bonus payments) or (b) where the specific person or persons to whom payment will be made cannot as yet be designated (as in the case of estimated costs to be incurred in connection with guaranteed servicing or repair of products already sold). The current liability classification, however, is not intended to include a contractual obligation falling due at an early date which is expected to be refunded,[4] or debts to be liquidated by funds which have been accumulated in accounts of a type not properly classified as current assets, or long-term obligations incurred to provide increased amounts of working capital for long periods. When the amounts of the periodic payments of an obligation are, by contract, measured by current transactions, as for example by rents or revenues received in the case of equipment trust certificates or by the depletion of natural resources in the case of property obligations, the portion of the total obligation to be included as a current liability should be that representing the amount accrued at the balance-sheet date.

All 600 of the survey companies presented in their balance sheets accounts payable to trade creditors. These items, listed among the current liabilities, were generally described as "accounts payable" and were usually set forth separately, but in a substantial number of instances they were combined with other current liability items. In addition to the above items payable to trade creditors, 45 of the survey companies showed current liabilities to trade customers for such items as advance payments received from customers, deposits on containers, and for other trade purposes, and credit balances in accounts receivable.

Table 24 classifies and summarizes the various kinds of accounts payable items included among current liabilities in the 1965 balance sheets of the survey companies.

TABLE 24: ACCOUNTS PAYABLE

	Presentation			
Current Liability Description*	Separately	With Other Items	1965 Total	1960 Total
Re: Trade Creditors—				
A: Accounts payable	358	244	602	600
B: "Accrued expenses" — not identified	155	328	483	450
C: Notes payable	2	5	7	25
D: Royalties payable	2	4	6	10
E: Trade acceptances or drafts payable	2	4	6	7
Total	519	585	1104	1092
Re: Trade Customers—				
F: Advance payments received from customers	20	7	27	24
G: Progress billings on non-government contracts	4	2	6	4
H: Additional costs on completed contracts	1	—	1	2
I: Deposits for various trade purposes	2	8	10	16
J: Deposits for merchandise containers	4	—	4	7
K: Credit balances	1	2	3	10
Total	32	19	51	63

Number of Companies showing:	1965	1960	1955
Accounts payable trade creditors	600	600	600
Accounts payable trade customers	45	57	70

*Refer to Company Appendix Section—A: 12, 84, 111, 199, 252, 309, 444, 494, 523, 600; B: 1, 40, 149, 243, 290, 351, 410, 470, 530, 566; C: 96, 153, 210, 236, 310, 377, 505; D: 10, 89, 171, 234, 366, 584; E: 54, 149, 170, 297, 301, 583; F: 89, 152, 221, 278, 330, 367, 447, 472, 527, 584; G: 61, 246, 303, 343, 375, 406; H: 73; I: 84, 99, 116, 157, 245, 337, 391, 438, 504, 584; J: 66, 243, 429, 440; K: 11, 99, 560.

Twelve of the survey companies included among their *noncurrent liabilities* various items such as accounts payable (long-term), customers' deposits on returnable containers, and customers' advance payments (*44, 119, 178, 193, 222, 264, 289, 368, 379, 439, 443, 496).

The following examples, selected from the balance sheets of the 1965 annual reports, illustrate various types of accounts payable and their statement presentation. They also contain examples of liabilities with regard to employees, short-term borrowings, and current maturities of long-term indebtedness, which are discussed under headings later in this section, as well as examples of miscellaneous other current liability items.

*Refer to Company Appendix Section.

[3] Loans accompanied by pledge of life insurance policies would be classified as current liabilities when, by their terms or by intent, they are to be repaid within twelve months. The pledging of life insurance policies does not affect the classification of the asset any more than does the pledging of receivables, inventories, real estate, or other assets as collateral for a short-term loan. However, when a loan on a life insurance policy is obtained from the insurance company with the intent that it will not be paid but will be liquidated by deduction from the proceeds of the policy upon maturity or cancellation, the obligation should be excluded from current liabilities.

[4] There should, however, be full disclosure that such obligation has been omitted from the current liabilities and a statement of the reason for such omission should be given. Cf. Note 1.

BLUE BELL, INC.

Current Liabilities:	
Notes Payable—Banks and Others (Note 4)	$ 9,475,160
Accounts Payable	4,063,126
Employees' Funds Withheld for Taxes, etc.	412,226
Dividends Payable	395,946
Federal, Foreign, and State Income Taxes	2,968,863
Accrued Liabilities:	
Salaries, Wages, and Commissions	2,358,245
Officers' Bonuses	317,590
Taxes—Other Than Income	440,084
Contribution to Employees' Pension Trust Fund	235,353
Other—Interest, etc.	362,883
Total Current Liabilities	$21,029,476

THE COLORADO MILLING & ELEVATOR COMPANY

Current Liabilities:	
Notes payable	$ 750,000
Drafts payable (for grain purchases)	341,936
Accounts payable	3,299,173
Accrued liabilities	1,854,412
Dividend payable June 1—see contra	165,745
Total Current Liabilities	$6,411,266

GAR WOOD INDUSTRIES, INC.

Current Liabilities:	
Note payable to bank (Note A)	$ 5,000,000
Notes payable to others, inventories of $422,741 pledged as collateral	256,815
Current maturities of long-term liabilities	366,403
Trade accounts payable	3,414,399
Dividends payable on Preferred Stock	34,208
Accrued payrolls, taxes, and other expenses	1,649,500
Total Current Liabilities	$10,721,325

GENERAL DYNAMICS CORPORATION

Current Liabilities:	
Current installments on long-term debt (Note 2)	$ 6,208,952
Accounts payable and accrued expenses	180,354,747
Accrued salaries and wages	34,680,757
United States and Canadian income taxes	18,889,842
Customers' deposits and advances in excess of costs	5,636,097
Total Current Liabilities	$245,770,395

SIGNODE CORPORATION

Current Liabilities:	
Bank loans	$ 3,754,212
Current portion of long-term debt (Note 2)	46,250
Accounts payable	4,474,325
Accrued wages, commissions, etc.	2,472,982
Reserve for Federal, state and local taxes	4,949,520
Accrued profit sharing contributions	2,340,212
Total Current Liabilities	$18,037,501
Customers' Deposits on Strapping Tools and Machines in Service:	
Applicable to future operations	$ 5,086,349

WARNER BROS. PICTURES, INC.

Current Liabilities:	
Notes payable to bank	$ 4,000,000
Accounts payable and accrued liabilities	7,698,082
Contractual obligations	4,361,956
Participations and royalties payable	6,560,415
Federal income taxes	4,108,999
Advance payments for film, deposits, etc.	3,045,406
Total Current Liabilities	$29,774,858

INGERSOLL-RAND COMPANY

Current Liabilities:	
Accounts payable and accruals	$ 44,423,722
Loans payable	21,285,456
Customers' advance payments on orders	13,732,412
U.S. and foreign income taxes	25,262,276
	$104,703,866

LINK-BELT COMPANY

Current Liabilities:	
Accounts payable and accrued liabilities	$16,746,725
Progress billings on uncompleted contracts	2,656,059
Common stock dividends payable	1,861,737
Provision for United States and foreign income taxes	5,373,918
Provision for general taxes	1,727,426
Total Current Liabilities	$28,365,865

THE PITTSTON COMPANY

Current Liabilities:	
Notes payable—banks	$13,738,860
Current instalments of First Mortgage Sinking Fund Notes and Subordinated Notes (Note 3)	1,547,000
Accounts, other notes and dividends payable	22,711,855
Accrued liabilities (including income taxes, 1965, $4,136,454; 1964, $3,107,092—Note 2)	10,392,632
Total Current Liabilities	$48,390,347
Long Term Debt, less current maturities (Note 3)	$67,462,902
Amounts Payable to Banks under Special Agreements and Liability for Change Funds Advanced by Customers—contra	1,877,900
Estimated Claims Payable due subsequent to one year	637,960

LIABILITIES RE EMPLOYEES AND STOCKHOLDERS

There were 318 survey companies that evidenced the many types of liabilities to employees and stockholders as current liabilities in their 1965 balance sheets. The type most frequently occurring was "salaries and wages payable." Others frequently occurring were "dividends payable," "payroll taxes withheld," "commissions payable," and "contributions to employee benefit plans." Table 25 summarizes the various types of liabilities regarding employees and stockholders which appeared in the current liability section of the balance sheets of the 1965 reports.

Fifty-eight survey companies presented liabilities to employees in the noncurrent liability section of the balance sheet. The items included were contributions to employee benefit plans, incentive compensation, bonus plan payments, profit sharing plans, and various other (*37, 67, 111, 135, 284, 317, 378, 415, 419, 521).

*Refer to Company Appendix Section.

Examples—Liabilities re Employees and Stockholders

Examples from the 1965 annual reports which illustrate various liabilities with regard to employees and stockholders, together with their balance sheet presentation, are given below.

TABLE 25: LIABILITIES RE EMPLOYEES AND STOCKHOLDERS

	Presentation			
Current Liability Description*	Separately	With Other Items	1965 Total	1960 Total
A: Salaries or wages payable	42	181	223	257
B: Dividends or declarations payable	111	2	113	130
C: Payroll taxes withheld	5	56	61	87
D: Commissions payable	—	32	32	25
Payroll deductions for U.S. bond purchases	—	—	—	5
E: Deposits — various employee purposes	2	1	3	4
F: Deposits — salesmen's guarantees	—	2	2	4
G: Employee balances or accounts payable	—	1	1	4
H: Additional or other compensation	4	20	24	10
I: Bonus plan payments	2	4	6	11
J: Employee benefit plan contributions	13	21	34	35
K: Employee profit-sharing plans	3	5	8	6
L: Employee savings or thrift plans	2	1	3	6
M: Vacation pay	3	11	14	21
Total	187	337	524	605

Number of Companies showing:	1965	1960
Liabilities in current liability section only	284	341
Liabilities in noncurrent liability section only	24	13
Liabilities in both current and noncurrent liability sections	34	24
Liabilities in Stockholders' Equity	2	—
Liabilities in current liability and Stockholders' Equity	3	—
No liabilities—employees, stockholders, etc.	253	222
Total	600	600

*Refer to Company Appendix Section—A: 17, 82, 159, 245, 322, 377, 420, 469, 537, 594; B: 31, 96, 145, 202, 268, 340, 419, 443, 536, 579; C: 6, 64, 158, 215, 294, 338, 383, 466, 525, 600; D: 5, 92, 165, 216, 289, 351, 456, 473, 527, 578; E: 127, 404, 493; F: 157, 504; G: 246; H: 12, 89, 177, 252, 296, 316, 375, 456, 568, 577; I: 96, 127, 200, 266, 367, 462; J: 64, 148, 178, 274, 301, 345, 423, 469, 507, 542; K: 32, 284, 385, 473, 496, 540, 598, 600; L: 1, 205, 248; M: 10, 18, 169, 196, 252, 383, 406, 476, 557, 590.

In Current Liability Section Only

ALLEGHENY LUDLUM STEEL CORPORATION

Current Liabilities:		
Current portion of long-term debt		$ 2,235,000
Accounts payable—trade		14,397,860
Accrued liabilities:		
Payrolls, royalties and other expenses	5,425,272	
Vacation allowances	6,238,467	
Taxes, other than Federal taxes on income	2,965,597	
		14,629,336
Provision for Federal income taxes		7,891,941
Total Current Liabilities		$39,154,137

ALLEN INDUSTRIES, INC.

Current Liabilities:	
Trade accounts payable	$ 4,990,096
Payrolls and accrued expenses	1,934,675
Customers' credits and claims	659,059
Dividend payable	236,842
Federal income taxes	2,053,538
Current maturities of long-term debt	150,000
Total Current Liabilities	$10,024,210

ANCHOR HOCKING GLASS CORPORATION

Current Liabilities:	
Notes payable to banks	$ 1,500,000
Accounts payable	8,086,708
Wages, commissions and other expenses	6,810,408
United States and Canadian income taxes	7,153,073
Total Current Liabilities	$23,550,189

EATON YALE & TOWNE INC.

Current Liabilities:	
Due to banks	$ 30,863,519
Accounts payable	50,621,847
Payrolls and additional compensation	12,242,636
Taxes other than income taxes	6,403,192
Federal, state, and foreign income taxes	31,930,642
Current portion of long-term liabilities	308,063
Total Current Liabilities	$132,369,899

GENERAL MILLS, INC.

Current Liabilities:	
Accounts payable and accrued expenses	$39,800,703
Accrued taxes	17,815,568
Thrift accounts of officers and employees	3,583,916
Total Current Liabilities	$61,200,187

GRANITE CITY STEEL COMPANY

Current Liabilities:	
Current maturities of long-term debt	$ 1,732,582
Accounts payable	12,313,230
Accrued wages and employee benefits	5,687,333
Taxes, other than federal income taxes	3,182,271
Estimated federal income taxes	4,413,701
Other current liabilities	2,296,962
	$29,626,079

A. G. SPALDING & BROS. INC.

Current Liabilities:	
Notes payable to banks	$ 717,069
Accounts payable	3,991,918
Salaries, wages and commissions	500,824
Provision for pensions—unfunded plan	123,334
Taxes other than taxes on income	524,483
United States and foreign taxes on income	1,418,670
Payment due within one year on long-term debt	466,000
Total Current Liabilities	$7,742,298

THE McKAY MACHINE COMPANY
Current Liabilities:

Notes payable—Bank (Note 4)	$ 878,469
Accounts payable	1,490,337
Advances from customers	1,567,450
Accrued wages, salaries and bonuses	396,713
Accrued taxes and expenses, other than Federal income taxes	602,485
Estimated Federal income taxes	827,810
Total Current Liabilities	$5,763,264

UNITED ELASTIC CORPORATION
Current Liabilities:

Notes payable, current portion (Note D)	$ 500,000
Accounts payable	2,093,822
Social security and withholding taxes	312,773
Wages, donations and other expenses	920,699
United States and Canadian income taxes	876,885
State taxes	117,060
Total Current Liabilities	$4,821,239

ZENITH RADIO CORPORATION
Current Liabilities:

Accounts payable and accrued liabilities	$39,149,346
Salaries, wages and taxes	10,570,811
Contribution to Zenith Profit-Sharing Retirement Plan	12,107,345
Provision for Federal income taxes, less U.S. Government securities of $24,700,000 in 1965 and $19,300,000 in 1964	54,432
Total Current Liabilities	$61,881,934

In Noncurrent Liability Section Only

AMERICAN BROADCASTING COMPANIES, INC.
Other Liabilities:

Deferred income	$ 5,191,000
Deferred incentive plan compensation (see Note E)	546,000
Miscellaneous	5,311,000
Total Liabilities	$133,105,000

Note E: *Deferred Incentive Plan Compensation*—Under the Plan, the amount (based on earnings) to be credited to the reserve, the employees who are to participate and the amount of incentive compensation awards are recommended by the Key Employees Incentive Plan Committee and determined by a majority of the members of the Board of Directors who are not eligible to receive awards. In May, 1965, the stockholders approved an amendment to the Plan to provide that all or part of the amount contingently credited to an employee could be credited in shares of Common Stock of the Corporation and that the Company may accumulate treasury stock for this purpose. The balance at January 1, 1966 represents the deferred amounts credited to the participants and the unallocated reserve, less estimated applicable reduction in future Federal income taxes.

BUCYRUS-ERIE COMPANY
Deferred Liabilities:

Pension costs and other compensation — Note D	$2,822,380
Taxes on income — Note E	1,003,000
	$3,825,380

Note D: *Pension and Retirement Plans*—At December 31, 1965, unprovided past-service benefits under the Company's pension plans amounted to $3,030,000 based, as a minimum, on the period of present agreements, one of which expires February 28, 1968. Of the 1965 provision of $1,248,487 for all pension and retirement plans, the Company is funding currently $1,009,693 and the payment of the balance of $238,794 has been deferred.

INTERCHEMICAL CORPORATION
Reserves:

Assets in foreign countries (Page 23)	$1,022,000
Deferred income taxes (Page 25)	3,669,000
Other (Page 25)	498,000
	$5,189,000

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Other Reserves: Interchem has deferred compensation contracts with certain key employees which provide for payments after termination of employment if the conditions of the contracts are met. A reserve of $222,000 has been provided for the net cost of these contracts to the company after giving effect to Federal income taxes.

The amount provided under the contract with Mr. H. B. Woodman, President, may, at the discretion of the Salary Committee of the Board of Directors, be used to acquire common shares of Interchemical. A total of 994 such shares are held in the company's treasury.

The remaining $276,000 in Other Reserves consists principally of a reserve of $256,000 for employee severance payments required under foreign social laws.

JOHNSON & JOHNSON
Noncurrent Liabilities

Certificates of Extra Compensation	$6,252,361

PITTSBURGH PLATE GLASS COMPANY
Accumulated Provisions:

Maintenance and repairs	$ 8,449,000
Insurance and unfunded and uninsured pensions	4,069,000
Foreign operations	543,000
Total Accumulated Provisions	$13,061,000

STANDARD SCREW COMPANY
Noncurrent Liabilities

Deferred compensation (less estimated reduction in future income taxes)	$365,902
Deferred federal taxes on income	400,000
Total Noncurrent Liabilities	$765,902

UNITED FRUIT COMPANY
Noncurrent Liabilities

Provision for Severance and Other Social Benefits (net after taxes)	$13,309,000

In Both Current and Noncurrent Liability Sections

BELL & HOWELL COMPANY
Current Liabilities:

	(000 Omitted)
Notes payable to bank	$ 7,150
Accounts payable	11,145
Salaries, wages, and other expenses	10,137
Taxes on income—Note D	2,883
Payments on long-term debt due within one year	179
Total Current Liabilities	$31,494
Deferred Items—Note F:	
Taxes on income	$ 1,109
Investment tax credits	499
Incentive compensation	214
	$ 1,822

BIGELOW-SANFORD, INC.
Current Liabilities:

Current Maturities on Long-Term Notes	$ 500,000
Accounts Payable	4,819,817
Accrued Liabilities	2,752,823
Accrued Federal Taxes on Income	2,319,385
Total Current Liabilities	$10,392,025
Accrued Pension Benefits (Exclusive of Amounts Payable Within One Year)	$ 550,000

JONES & LAUGHLIN STEEL CORPORATION

Current Liabilities:	
Trade accounts	$ 43,181,000
Wages and salaries	28,062,000
Accrued taxes	42,407,000
Long-term debt payable within one year	8,623,000
Production payments, less estimated federal income taxes (Note C)	13,260,000
Other current liabilities	9,926,000
Total Current Liabilities	$145,459,000
Noncurrent Liabilities	
Accrued employee benefits	$ 13,348,000

ROHM AND HAAS COMPANY

Current Liabilities:	
Due to banks by subsidiaries	$ 4,269,380
Accounts payable	18,449,539
Accrued salaries and wages	2,376,556
Other accrued liabilities	4,114,035
Provision for income taxes	13,257,826
Total Current Liabilities	$42,467,336
Unawarded Bonus Fund, net of income taxes	$ 1,214,233

WARNER-LAMBERT PHARMACEUTICAL COMPANY

Current Liabilities:	
Accounts payable, trade	$18,513,577
Other payables and accrued expenses	23,544,163
Current portion of incentive compensation reserve	1,209,150
United States and foreign income taxes	29,513,212
Total Current Liabilities	$72,780,102
Noncurrent Liabilities	
Incentive Compensation Reserve — deferred contingent allotments	$ 380,000

In Current Liability and Stockholders' Equity Sections

W. T. GRANT COMPANY

Current Liabilities:	
Accounts payable:	
Trade and sundry	$37,850,620
Managers bonuses	5,175,267
Executives, buyers, and supervisors bonuses	3,119,785
Payroll taxes and taxes withheld from employees compensation	5,819,151
	51,964,823
Accrued expenses:	
Taxes other than federal taxes on income	2,542,177
Rent, salaries and wages, etc.	7,333,983
	9,876,160
Federal taxes on income—Note C	12,171,915
Total Current Liabilities	$74,012,898
Capital—Notes A, B, D, and E:	
Capital Stock:	
Cumulative Preferred—$100 par value:	
Authorized 250,000 shares	
Issued 150,000 shares of 3¾% series	$ 15,000,000
Common—$2.50 par value:	
Authorized 8,500,000 shares	
Issued 6,014,681 and 5,941,081 shares, respectively	15,036,703
Capital paid-in in excess of par value of shares issued	21,751,283
Amounts paid by officers and employees under purchase contracts for 466,105 and 432,895 shares, respectively, of unissued Common Stock	698,469

INCOME TAX LIABILITY

Table 26 presents the various classifications of income tax liability shown in the current liability section of the balance sheets of the 600 survey companies.

There were 31 survey companies which did not disclose a liability for federal income taxes in their 1965 balance sheets. Ten of these companies (*93, 177, 179, 180, 192, 199, 210, 300, 346, 561) indicated "loss from operations," and seventeen companies (*41, 62, 66, 75, 123, 148, 215, 236, 242, 250, 270, 290, 485, 528, 565, 582, 583) referred to operating loss "carry-forward" or "carry-back." Three companies (*54, 149, 586) gave no explanation for showing no income tax liability while one company (*194) reported that differences between its income for tax and accounting purposes eliminated the liability for 1965.

The following examples, selected from the 1965 reports, are representative of the balance sheet presentations of the liability for income taxes. (For further examples, see those following the text on "U.S. Government Securities Used to Offset Federal Income Tax Liability"—this section, Table 28.)

AMSTED INDUSTRIES INCORPORATED

Current Liabilities:	
Accounts payable	$ 9,572,397
Accruals:	
Payrolls	5,296,081
Federal taxes on income	5,156,405
Other taxes	2,349,599
Total Current Liabilities	$22,374,482

THE BRISTOL BRASS CORPORATION

Current Liabilities:	
Federal and state income and franchise taxes	$313,132

CHAMPION PAPERS INC.

Current Liabilities:	
Federal and other income taxes	$2,501,731

COLLINS RADIO COMPANY

Current Liabilities:	
Federal and foreign income taxes and price revision refunds	$3,052,454

GRUMMAN AIRCRAFT ENGINEERING CORPORATION

Current Liabilities:	
Federal income and other taxes, and renegotiation (Note 3)	$19,274,896

HERCULES POWDER COMPANY

Current Liabilities:	
U.S., foreign and state taxes on income	$25,529,648

MASONITE CORPORATION

Current Liabilities:	
Federal and State income taxes	$4,400,289

MERCK & CO., INC.

Current Liabilities:	
U.S. taxes on income (estimated)	$28,323,073

*Refer to Company Appendix Section.

TABLE 26: INCOME TAX LIABILITY

Balance Sheet—Current Liability Presentation and Classification	1965	1960	1955
"Federal Income Tax"	180	232	273
Above combined with:			
Other taxes	2	5	9
Other income taxes	7	7	6
Canadian and other taxes	—	9	1
Renegotiation	2	1	9
Redetermination	—	—	1
Nontax items	—	—	3
Total	191	254	302
"Federal and State Income Taxes"	43	51	56
Above combined with:			
Foreign taxes	23	10	15
Foreign and municipal taxes	1	1	1
Municipal taxes	—	1	2
Other taxes	5	5	5
Renegotiation	—	—	3
Total	72	68	82
"Federal and Foreign Income Taxes"	61	45	84
Above combined with:			
Other taxes	1	—	1
Other taxes and renegotiation	—	1	3
Renegotiation	1	4	6
Total	63	50	94
Classification set forth as:			
"Income taxes"	100	66	55
"Foreign income taxes"	—	—	1
"Income and other taxes"	15	9	4
"Income tax, domestic and foreign"	1	1	1
"Income tax, renegotiation, etc."	1	—	3
Total	117	76	64
"Taxes"	43	37	35
"Federal, state and other taxes"	4	3	3
"Federal and state taxes"	4	3	1
"Federal, state, municipal taxes"	5	6	5
"Federal and general taxes"	1	—	2
"Domestic and foreign taxes"	2	1	1
"Taxes and nontax items"	—	1	2
"Taxes and renegotiation"	—	—	1
"U.S. and local and/or foreign"	1	57	N/A
"U.S. taxes on income"	6	N/C	N/C
"U.S. and foreign taxes on income"	60	N/C	N/C
Total	126	108	50
Number of Companies presenting:			
Current liability for income tax or taxes	569	556	592
Not presenting such liability	31	44	8
Total	600	600	600

N/A—Not available.
N/C—Not compiled.

NATIONAL COMPANY, INC.
Current Liabilities:
Provision for federal and state taxes $162,795

THE NATIONAL SUGAR REFINING COMPANY
Current Liabilities:
Federal and Canadian taxes on income $179,646

THE NEW YORK AIR BRAKE COMPANY
Current Liabilities:
Federal income taxes $1,861,338

THE L. S. STARRETT COMPANY
Current Liabilities:
Accrued Federal, State, Foreign and Local Taxes $1,604,186

TERMINOLOGY FOR "INCOME TAX LIABILITY"

The balance sheets of the 600 survey companies disclosed varying terminology in the presentation of income tax liability. There were 196 companies that used descriptive terms such as *estimated, provision, reserve,* or *accrued* in conjunction with other words to describe their tax liability. The remaining 373 companies, disclosing an income tax liability, simply indicated the nature of the tax, or used the word *taxes* only, without further descriptive terminology.

Table 27 indicates an over-all downward trend in the use of primary descriptive terms, from 409 in 1950 to 196 in 1965, with the use of the term *reserve* dropping from 48 in 1950 to 12 in 1965.

Examples

The balance sheet terminology for federal and other income or tax liability, as shown in the annual financial reports of the 600 companies, is set forth below.

TABLE 27: INCOME TAX LIABILITY

Primary Descriptive Term:	*1965	1960	1955	1950
Estimated, etc.	49	112	131	109
Provision, etc.	38	63	93	130
Reserve, etc.	12	19	22	48
Accrued, etc.	97	86	101	122
	196	280	347	409
None Used with—				
Federal or U. S. income taxes	290	234	214	180
Income taxes	71	27	19	
Taxes	12	15	12	
Total	569	556	592	589
No income tax liability reported	31	44	8	11
Total	600	600	600	600

*1965 Descriptive Term Used with:	Estimated	Provision	Reserve	Accrued	Used Alone	1965 Total
Federal income tax	12	9	7	18	145	191
Federal and state income taxes	9	9	1	4	49	72
Federal and foreign income taxes	5	3	2	9	44	63
Income taxes	18	9	—	19	71	117
Taxes	—	5	1	41	12	59
U. S. and other	5	3	1	6	52	67
Total	49	38	12	97	373	569

Estimated—(49 Companies):
Estimated federal and foreign income taxes (*258)
Estimated federal and state income taxes, less United States Government securities of $xxx (*55)
Estimated federal income taxes (*47, 193, 265, 312, 336, 367)
Estimated federal taxes on income (*338)
Estimated federal taxes on income, less U. S. Government securities—$xxx (*200)
Estimated income and other taxes (*289)
Estimated income taxes (*116, 376, 498, 538, 580)
Estimated liability for federal and foreign income taxes (*284)
Estimated taxes on income (*81, 425, 472, 482, 536, 577)
Estimated taxes on income, less tax anticipation certificates of $xxx (*211)
Estimated United States and foreign income taxes (*465)
Estimated United States and foreign taxes on income (*323)
Estimated U. S. federal and foreign income taxes (*133)
Federal and foreign income taxes—estimated (*444)
Federal and foreign taxes on income, estimated (*117)
Federal and state income taxes, estimated (*269, 388, 405, 575)
Federal and state income taxes, estimated, less United States Treasury securities, $xxx (*3)
Federal and state taxes on income—estimated (*13, 216)
Federal income tax(es), estimated (*201, 370, 469)
Federal, state and Canadian taxes on income, estimated, less U. S. Government securities held for payment of taxes $xxx (*254)
Federal taxes on income—estimated (*140)
Income taxes, estimated (*84, 167, 260)
Taxes on income—estimated (*432)
Taxes on income (estimated), less United States Government securities that may be applied to payment thereof: $xxx (*467)
United States and Canadian taxes on income—estimated (*418)
U. S. federal and foreign income taxes—estimated (*307)
U. S. taxes on income (estimated) (*372)

Provision—(38 Companies):
Provision for federal and foreign taxes on income (*28, 287, 393)
Provision for federal and other taxes on income (*220)
Provision for federal and state income taxes (*378)
Provision for federal and state income taxes, less United States Government securities, at cost, including interest—$xxx (*105)
Provision for federal and state taxes (*392)
Provision for federal and state taxes on income (*527)
Provision for federal, foreign and state income taxes (*251, 279)
Provision for federal income taxes (*10, 64, 389)
Provision for federal income taxes, less U. S. Government securities of $xxx (*600)
Provision for federal, state and foreign taxes (less U. S. Government and other marketable obligations of $xxx) (*415)

*Refer to Company Appendix Section.

Provision for federal, state and foreign taxes on income (*447)
Provision for federal, state and other taxes on income (*155)
Provision for federal taxes (*332)
Provision for federal taxes on earnings (*29)
Provision for federal taxes on income (*283, 424, 446)
Provision for income taxes (*27, 171, 208, 234, 421, 453, 474)
Provision(s) for taxes (*396, 445, 563)
Provision for taxes, including taxes on income (*18)
Provision for United States and foreign income taxes (*101, 174, 343)
Provisions for estimated federal and state income and other taxes (*406)
Provisions for social security, property and sundry taxes including income taxes (*457)

Reserve—(12 Companies):
Reserve for federal and foreign taxes on income (*560)
Reserve for federal income tax (less U. S. Government short-term securities, $xxx) (*286)
Reserve for federal income taxes (*86, 99, 102, 298, 480)
Reserve for federal, state and foreign income taxes (*6)
Reserve for federal, state and local taxes (*496)
Reserve for federal taxes on income (*88)
Reserve for U. S. and foreign income taxes and renegotiation (*548)
Reserves for U. S. federal and Canadian income taxes (*573)

Accrued—(97 Companies):
Accrued accounts: federal income taxes, less U. S. Government securities, $xxx (*551)
Accrued accounts: federal, state, and local taxes (*131)
Accrued accounts: federal taxes on earnings (*479)
Accrued accounts: United States and foreign income taxes (*267)
Accrued domestic and foreign taxes (*374, 550)
Accrued federal and Canadian income taxes (*408)
Accrued federal and foreign income taxes (*7, 70, 153, 508)
Accrued federal and foreign taxes on income (*31, 518, 529)
Accrued federal and state income taxes (*440, 579)
Accrued federal and state taxes (*169)
Accrued federal income tax(es) (*42, 113, 161, 243, 274, 322, 356, 510, 549, 567, 592, 599)
Accrued federal, state, foreign and local taxes (*523)
Accrued federal, state, and local taxes (*373)
Accrued federal, state, and other taxes (*229)
Accrued federal, state, local and foreign taxes (*497)
Accrued federal taxes on income (*91, 431)
Accrued income and other taxes (*107, 552)
Accrued income taxes (*160, 183, 349, 350, 589)
Accrued income taxes, including deferred taxes (*377)
Accrued income taxes—U. S. federal and state $xxx, less: securities issued or guaranteed by U. S. or state governments (*310)
Accrued liabilities: federal, state and foreign taxes (*473)
Accrued liabilities: United States and foreign income taxes (*74)

Accrued taxes (*2, 20, 46, 51, 59, 90, 100, 142, 166, 186, 189, 248, 308, 318, 329, 348, 366, 391, 398, 402, 435, 534, 591)
Accrued taxes: federal income (*17)
Accrued taxes, including income taxes (*164, 443, 500)
Accrued taxes, including taxes on income (*354)
Accrued taxes—including taxes on income $xxx, less U. S. Government securities for payment of income taxes (*143)
Accrued taxes, less United States Government securities of $xxx (*569)
Accrued taxes payable (*532)
Accrued taxes on income (*24, 168, 275, 459, 502)
Accrued taxes on income $xxx, less—U. S. Government securities to be applied in payment thereof (*486)
Accrued taxes: U. S. and foreign taxes on income (*44)
Accrued United States and foreign income taxes (*144, 272)
Accrued United States income taxes $xxx, less United States Government securities (*175)
Federal income taxes accrued (*487)
Tax accruals (*162)
Taxes accrued (*12, 246, 326, 521)
Taxes payable and accrued (*118, 268, 340)
Taxes payable and accrued: federal and foreign income taxes (*321)

Federal or U. S. Income Taxes—(290 Companies):
Federal and Canadian income tax(es) (*38, 132, 315, 494, 499, 533, 537)
Federal and Canadian taxes on income (*400, 564)
Federal and Canadian taxes on income, less United States tax anticipation bills ($xxx) (*458)
Federal and foreign income taxes (*23, 35, 85, 108, 115, 119, 136, 151, 262, 302, 311, 328, 355, 363, 384, 450, 456, 460, 501, 545, 576, 587)
Federal and foreign income taxes and price revision refunds (*146)
Federal and foreign income taxes $xxx, less U. S. Government securities (*420)
Federal and foreign taxes on income (*8, 125, 141, 230, 334, 344, 390, 394, 483)
Federal and other income taxes (*130, 434, 525)
Federal and other taxes based on income (*515)
Federal and other taxes on income (*26, 526)
Federal and Pennsylvania income taxes (*9)
Federal and state income and franchise taxes (*104)
Federal and state income and other taxes payable (*120)
Federal and state income taxes (*19, 30, 109, 126, 127, 182, 231, 281, 347, 358, 361, 379, 413, 427, 442, 484, 581)
Federal and state income taxes payable (*337)
Federal and state taxes on income (*4, 53, 111, 122, 147, 184, 362, 471, 490)
Federal and state taxes on income (less U. S. Treasury obligations held for payment of taxes: $xxx) (*198)
Federal, Canadian and other income taxes (*477)
Federal, Canadian, and state income taxes (*570)
Federal, foreign, and state income taxes (*96, 276)
Federal, foreign and state taxes based on income (*114)
Federal, foreign and state taxes on income (*466, 294)
Federal income and other taxes (*157)
Federal income and other taxes, and renegotiation (*271)
Federal income and other taxes, less U. S. Government securities of $xxx (*524)
Federal income taxes (*11, 15, 16, 32, 43, 45, 48, 58, 60, 61, 67, 76, 80, 98, 103, 121, 129, 134, 138, 154, 158, 163, 173, 178, 181, 185, 188, 203, 212, 213, 221, 223, 224, 227, 238, 239, 240, 244, 259, 261, 264, 273, 282, 288, 297, 299, 322, 327, 330, 335, 352, 359, 360, 364, 368, 371, 375, 380, 383, 387, 397, 401, 403, 407, 411, 423, 428, 433, 438, 475, 476, 478, 488, 506, 512, 519, 541, 542, 554, 562, 571, 572, 574, 584, 593, 595)
Federal income tax and renegotiation refunds (*345)
Federal income taxes—after deducting United States Government securities in the amounts of $xxx (*228)
Federal income taxes (amounts are after deducting $xxx of U. S. Treasury bills held for tax payments) (*547)
Federal income taxes, current and deferred, less U. S. Treasury bills of $xxx (*225)
Federal income taxes (including deferred taxes applicable to installment obligations: $xxx) (*33)
Federal income taxes, less United States Treasury obligations of $xxx (*385)
Federal income taxes, less U. S. Government securities (*463)
Federal income taxes (less U. S. Government securities of $xxx) (*128)
Federal income taxes, less U. S. Treasury obligations (*399)
Federal income taxes (less U. S. Treasury obligations held for payment—$xxx) (*63)
Federal income taxes payable (*95, 190, 333)
Federal, state and Canadian income taxes (*470)
Federal, state and Canadian taxes on income (*325)
Federal, state and Canadian taxes on income, less U. S. Government securities: $xxx (*395)
Federal, state, and foreign income taxes (*36, 197, 206, 277, 495, 520, 597)
Federal, state and foreign income taxes, less United States Government securities of $xxx (*152)
Federal, state and other income taxes (*426)
Federal taxes on earnings (*313)
Federal tax(es) on income (*14, 22, 25, 39, 50, 78, 79, 83, 89, 94, 137, 156, 165, 202, 218, 252, 266, 295, 317, 319, 324, 382, 404, 449, 454, 462, 491, 513, 522, 555, 559, 588, 590)
Federal taxes on income, less U. S. Government securities and accrued interest $xxx (*304)
Federal taxes on income (less U. S. tax anticipation bills: $xxx) (*97)
Income taxes—U. S. and foreign (*5)
Liability for federal taxes on income (*34)
Liability for U. S. & Canadian income taxes and renegotiation of Canadian government contracts (*509)
Taxes on income, payable to United States and Canada (*511)
Taxes on income, United States and other countries (*419)
United States and Canadian income taxes (*52, 187, 209, 245, 316, 448, 556)
United States and Canadian taxes on income (*69, 191, 235, 296, 353, 417, 481, 558)
United States and foreign income taxes (*232, 280, 301, 305, 409, 429, 585)
United States and foreign income taxes $xxx, less United States and foreign government securities (*249)

*Refer to Company Appendix Section.

United States and foreign taxes based on income (*124, 412, 507, 514)
United States and foreign taxes on income (*195, 207, 278)
United States and foreign taxes on income less United States Government securities—at cost, plus accrued interest $xxx (*342)
United States income taxes (*214)
United States taxes less U. S. Treasury securities: $xxx (*263)
United States taxes on income, less U. S. Treasury securities $xxx (*226)
U. S. and Canadian income taxes (*71, 253, 331, 351)
U. S. and Canadian taxes on income (*106)
U. S. and foreign income taxes (*73, 303, 306, 416)
U. S. and foreign taxes on income (*172, 237, 341)
U. S. foreign and state taxes on income (*285)
U. S. taxes on income, less U. S. Government securities $xxx at respective dates (*82)

Income Taxes—(71 Companies):
Domestic and foreign taxes on income (*441)
Income and other taxes (*170, 430)
Income and other taxes $xxx, less United States Government securities (*72)
Income, excise, state gasoline, and other taxes payable (*505)
Income, operating and consumer taxes (*492)
Income taxes (*21, 49, 77, 110, 112, 196, 204, 219, 222, 241, 247, 255, 257, 292, 309, 314, 320, 339, 365, 381, 386, 410, 414, 422, 455, 503, 504, 530, 531, 535, 543, 544, 594, 598)
Income taxes and other taxes payable (*596)
Income taxes, less government securities of $xxx (*546)
Income taxes payable (*439, 452, 517)
Income taxes, redeterminations and renegotiation (*540)
Liability for income and other taxes (*568)
Taxes (federal excise, income, property, etc.) (*291)
Taxes—income and other (less $xxx U. S. Government securities) (*205)
Taxes on income (*1, 37, 40, 56, 57, 65, 87, 92, 135, 139, 145, 217, 256, 357, 369, 437, 451, 461, 493, 578)
Taxes on income, less United States Treasury obligations $xxx (*159)
Taxes on income—United States and other countries (*419)
Taxes payable (including income taxes) (*516)

Taxes—(12 Companies):
Federal and state taxes (*436, 468)
Federal state and local taxes (*464)
Federal, state and other taxes (*293)
Local, state, provincial and federal taxes, less United States securities of $xxx (*557)
Taxes (*150, 176, 233, 489)
Taxes payable (*68, 539)
Taxes payable on sales, properties, operations, and earnings (*553)

*Refer to Company Appendix Section.

U. S. GOVERNMENT SECURITIES USED TO OFFSET INCOME TAX LIABILITY

The committee on accounting procedure of the American Institute of Certified Public Accountants in *Accounting Research and Terminology Bulletins, Final Edition,* 1961 (Chapter 3, Section B), made the following statement regarding the "Application of United States Government Securities against Liabilities for Federal Taxes on Income":

1. It is a general principle of accounting that the offsetting of assets and liabilities in the balance sheet is improper except where a right of set-off exists. An example of such exception was the showing of United States Treasury Tax Notes, Tax Series A-1943 and B-1943, as a deduction from the liability for federal taxes on income, which the committee approved in 1942.
2. In view of the special nature of the terms of the 1943 tax notes, the intention of the purchaser to use them to pay federal income taxes could be assumed, since he received no interest or other advantage unless they were so used. Some purchasers doubtless viewed their purchase of the notes as being, to all intents and purposes, an advance payment of the taxes.
3. In the absence of evidence of a contrary intent, it was considered acceptable, and in accordance with good accounting practice to show the notes in the current liability section of the balance sheet as a deduction from federal taxes on income in an amount not to exceed the accrued liability for such taxes. The full amount of the accrued liability was to be shown with a deduction for the tax payment value of the notes at the date of the balance sheet.
4. It also was recognized as clearly proper to show the notes in the current asset section of the balance sheet as any other temporary investments are shown. If at the balance-sheet date or at the date of the independent auditor's report there was evidence that the original intent was changed, the notes were to be shown in the current asset section of the balance sheet.
5. Government securities having restrictive terms similar to those contained in the 1943 tax series notes are no longer issued, although certain other types of government securities have since been issued which are acceptable in payment of liabilities for federal taxes on income. However, because of the effect on the current position of large tax accruals and the related accumulations of liquid assets to meet such liabilities, many companies have adopted the practice of acquiring and holding government securities of various issues in amounts related to the estimated tax liability. In their financial statements these companies have often expressed this relationship by showing such securities as a deduction from the tax liability, even though the

particular securities were not by their terms acceptable in payment of taxes. If the government securities involved may, by their terms, be surrendered in payment of taxes, the above practice clearly falls within the principle of the permissive exception described in paragraph 1. The committee further believes that the extension of the practice to include the offset of other types of United States government securities, although a deviation from the general rule against offsets, is not so significant a deviation as to call for an exception in an accountant's report on the financial statements.

6. Suggestions have been received that similar considerations may be advanced in favor of the offset of cash or other assets against the income and excess profits tax liability or against other amounts owing to the federal government. In the opinion of the committee, however, any such extension or application of the exception, recognized as to United States government securities and liabilities for federal taxes on income, is not to be regarded as acceptable practice.

United States Government securities were disclosed in the balance sheets of 145 survey companies in 1965, as compared with 359 in 1955, either as current assets or as deductions from the federal income tax liability in the current liability section. One company (*561) included among its current assets U. S. Government securities but did not disclose a federal income tax liability. Two companies (*249, 415) used securities other than those of the United States government as an offset to taxes payable.

Table 28 discloses the various types of U. S. Government securities held by the survey companies, as described in their reports, and indicates their balance sheet presentation.

All Government Securities Presented as an Offset to the Federal Income Tax Liability

AVON PRODUCTS, INC.
Current Liabilities:

Income and other taxes	$33,242,000
Less United States Government securities	15,764,000
	$17,478,000

BEATRICE FOODS CO.
Current Liabilities:

U.S. taxes on income, less U.S. Government securities $10,528,824.48	$46,101.43

CROWN ZELLERBACH CORPORATION
Current Liabilities:

Accrued United States income taxes ($9,050,000 in 1965, $16,687,000 in 1964), less United States Government securities	$6,880,000

*Refer to Company Appendix Section.

TABLE 28: U. S. GOVERNMENT SECURITIES USED TO OFFSET FEDERAL INCOME TAX LIABILITY

Number of Companies with U. S. Government Securities presenting—	1965	1960	1955
*All Government securities as an offset to the Federal income tax liability with such securities identified as:**			
A: U. S. Government securities (or similar terms)	22	24	28
Treasury notes	—	—	10
Treasury notes, and bills or certificates	—	3	4
Treasury tax notes or certificates	—	1	4
B: Treasury tax anticipation notes, certificates, or bills	2	—	8
C: Treasury bills	2	3	4
D: U. S. Treasury obligations	3	N/C	N/C
Total	29	31	58
*Certain Government securities as an offset to the Federal income tax liability with such securities identified as:**			
E: U. S. Government securities (or similar terms)	16	47	78
Treasury notes	—	4	7
Treasury notes, and bills or certificates	—	2	3
Treasury tax notes or certificates	—	—	9
F: Treasury tax anticipation notes, certificates, or bills	2	6	9
Treasury bills	—	2	5
G: U. S. Treasury obligations	1	N/C	N/C
Total	19	61	111
*All Government securities as Current Assets with securities identified as:**			
H: U. S. Government securities (or similar terms)	83	130	169
I: Treasury notes	1	1	4
J: Treasury bills	11	17	13
K: U. S. Treasury obligations	2	N/C	N/C
U. S. Government or treasury bonds	—	2	4
Total	97	150	190
Number of Companies with no U. S. Government Securities presenting:			
Federal income tax liability	424	322	233
No Federal income tax liability	31	36	8
Total	455	358	241
Total	600	600	600

N/C—Not compiled.

*Refer to Company Appendix Section—A: 3, 55, 72, 82, 128, 140, 152, 175, 200, 226, 254, 286, 304, 310, 317, 342, 417, 420, 463, 467, 557, 569; B: 97, 211; C: 225, 547; D: 63, 198, 385; E: 61, 105, 143, 205, 228, 249, 263, 338, 395, 415, 462, 486, 524, 546, 551, 600; F: 446, 458; G: 159; H: 1, 2, 9, 12, 20, 23, 25, 27, 30, 31, 50, 52, 85, 90, 100, 109, 121, 153, 154, 158, 164, 230, 234, 239, 252, 265, 267, 273, 274, 278, 281, 283, 285, 293, 308, 323, 326, 329, 341, 347, 353, 354, 360, 362, 389, 393, 396, 400, 403, 408, 410, 412, 416, 422, 428, 432, 441, 449, 452, 466, 470, 471, 473, 474, 479, 491, 497, 498, 500, 516, 518, 523, 532, 538, 539, 545, 552, 558, 561, 564, 578, 596, 599; I: 357; J: 95, 137, 163, 241, 322, 378, 453, 476, 493, 573, 577; K: 203, 489.

HERSHEY CHOCOLATE CORPORATION

Current Liabilities:

Reserve for Federal income tax (less, in 1965, U.S. Government short-term securities, $7,390,722)	$1,705,097

LILY-TULIP CUP CORPORATION

Current Liabilities:

United States and foreign taxes on income, less United States Government securities—at cost, plus accrued interest—1965, $1,010,355; 1964, $1,487,699	$1,587,628

Certain Government Securities Presented as an Offset to the Federal Income Tax Liability

THE COCA-COLA COMPANY

Current Assets:	
U. S. Government and other marketable securities—at cost (market price—1965, $68,604,802; 1964, $61,531,282)	$68,690,301
Current Liabilities:	
Accrued taxes—including taxes on income	$64,020,318
Less U. S. Government securities for payment of income taxes	25,849,910
	$38,170,408

CONSOLIDATION COAL COMPANY

Current Assets:	
Marketable securities—at cost (approximately market):	
United States Government obligations	$16,744,541
Other securities	5,604,510
	$22,349,051
Current Liabilities:	
Taxes on income, less United States Treasury obligations — 1965, $1,695,000; 1964, $6,183,933	$ 2,261,355

GENERAL MOTORS CORPORATION

Current Assets:	
United States and foreign government and other marketable securities — short term — at cost	$1,017,048,260
Current Liabilities:	
United States and foreign income taxes	$1,281,472,749
Less United States and foreign government securities	1,107,623,744
Net Liability	$ 173,849,005

NATIONAL GYPSUM COMPANY

Current Assets:	
U. S. Government securities—at cost and accrued interest (approximate market)	$2,071,675
Current Liabilities:	
Federal, state and Canadian taxes on income, less U. S. Government securities: 1965, $6,285,162; 1964, $11,892,524	$ 673,724

OUTBOARD MARINE CORPORATION

Current Assets:	
U. S. Government and other marketable obligations, at cost, including accrued interest	$5,520,308
Current Liabilities:	
Provision for Federal, state and foreign income taxes (less U. S. Government and other marketable obligations of $4,055,000 in 1965 and $4,580,000 in 1964)	$1,647,249

J. P. STEVENS & CO., INC.

Current Assets:	
U. S. Government securities, at cost which approximates market	$9,990,279
Current Liabilities:	
Federal income and other taxes, less U. S. Government securities of $15,806,349	$7,978,121

UNION BAG-CAMP PAPER CORPORATION

Current Assets:	
U. S. Government and other securities (at cost)	$5,040,439
Current Liabilities:	
Current installments of long-term obligations	$ 1,752,229
Accounts payable	11,143,482
Accrued accounts:	
Federal income taxes, less U.S. Government securities, 1965—$10,771,246; 1964—$10,860,439	—
Other taxes	2,252,193
Payrolls	3,138,104
Interest and other	2,251,347
Total Current Liabilities	$20,537,355

All Government Securities Presented as Current Assets

GENERAL SIGNAL CORPORATION

Current Assets:	
U.S., Canadian and Municipal government securities, at cost	$ 998,370
Current Liabilities:	
Federal taxes on income	$2,027,718

MIRRO ALUMINUM COMPANY

Current Assets:	
U.S. Treasury bills, at cost	$ 990,833
Current Liabilities:	
Provision for Federal and state income taxes	$1,255,676

SERVEL, INC.

Current Assets:	
U.S. Treasury obligations, at cost	$ 298,357
Current Liabilities:	
Accounts payable, taxes and accrued expenses	$2,451,953
5.65% note payable, current portion (Note 3)	500,000
Total Current Liabilities	$2,951,953

SHORT-TERM BORROWING AND LONG-TERM INDEBTEDNESS

The various types of short-term borrowing and long-term indebtedness presented in the 1965 balance sheets of the 600 companies included in the survey are summarized in Table 29.

The annual reports of these companies disclose that 57 had neither short-term borrowing nor long-term indebtedness at the close of the accounting period. Of the remaining 543 companies, 32 presented short-term borrowing only; 247 disclosed only long-term indebtedness, and 264 presented both short-term borrowing and long-term indebtedness in their balance sheets.

Notes payable continues to be the most prevalent type of both short-term borrowing and long-term indebtedness disclosed in the 600 reports surveyed.

A total of 80 survey companies (not included in the above table) disclosed in their annual reports that they had established credit agreements either during the year or in some prior year. The types of agreement disclosed were: V-loan (one company), revolving credit (49 companies), or simple credit agreements (31 companies).

Five companies disclosed that they had entered into credit agreements subsequent to the end of the accounting period and one company reported that borrowings under credit agreements were repaid during the year.

TABLE 29: SHORT-TERM BORROWING AND LONG-TERM INDEBTEDNESS—1965

Balance Sheet Description*	Current Liability Short-term**	Noncurrent Liability Long-term
A: Notes payable	230	409
B: Loans payable	39	49
C: Bonds payable	2	29
D: Accounts payable (nontrade)	—	1
E: Debentures	—	79
F: Sinking fund debentures	—	171
G: Equipment contracts	—	12
H: Purchase money obligations	—	19
I: Real estate obligations	—	20
J: Mortgages payable	1	87
K: Contracts payable	5	13
L: Other long-term liabilities	7	84
M: Owed by — subsidiaries	45	129
N: Owed to — unconsolidated subsidiaries or affiliates	7	6
Total	336	1108

Number of Companies presenting:	
Short-term borrowing only	32
Short-term borrowing and long-term indebtedness	264
Long-term indebtedness only	247
Neither short-term borrowing nor long-term indebtedness	57
Total	600

*Refer to Company Appendix Section—A: 6, 70, 102, 189, 217, 288, 300, 339, 400, 450, 560, 597; B: 21, 40, 160, 199, 209, 255, 317, 383, 410, 435, 514, 586; C: 60, 90, 146, 177, 216, 329, 336, 399, 435, 490, 531, 599; D: 532; E: 8, 71, 130, 179, 207, 250, 328, 381, 468, 482, 536, 576; F: 46, 64, 116, 174, 249, 278, 345, 377, 436, 461, 515, 592; G: 2, 158, 166, 223, 238, 250, 337, 405, 494, 518, 522, 592; H: 22, 47, 177, 194, 216, 301, 384, 433, 442, 463, 532, 569; I: 51, 64, 127, 167, 236, 299, 321, 379, 465, 475, 533, 553; J: 88, 98, 112, 182, 252, 279, 300, 385, 417, 460, 508, 574; K: 1, 5, 85, 200, 233, 280, 309, 380, 414, 476, 538, 584; L: 12, 62, 123, 172, 236, 297, 326, 387, 451, 485, 520, 566; M: 7, 74, 100, 150, 222, 259, 331, 393, 418, 474, 523, 567; N: 123, 139, 179, 235, 315, 467, 485, 492, 513, 546, 591.

**Excluding items set forth in the current liability section which represent the portion of long-term indebtedness payable within one year.

Examples from the 1965 reports illustrating the presentation of short-term borrowing in the current liability section, and of long-term indebtedness in the noncurrent liability section of the balance sheet, including indebtedness secured by collateral, are shown below.

Other examples of the presentation of credit agreements are included in Section 4—"Cash Dividend Restrictions."

SHORT-TERM BORROWING

Notes Payable

AMERICAN MOTORS CORPORATION
Current Liabilities:
Notes Payable $52,040,472

BATH IRON WORKS CORPORATION
Current Liabilities:
Notes payable to bank $500,000

CANNON MILLS COMPANY
Current Liabilities:
Notes payable—Banks $12,000,000

NORTH AMERICAN AVIATION, INC.
Current Liabilities:
Notes payable to banks—unsecured $40,000,000

ROHM AND HAAS COMPANY
Current Liabilities:
Due to banks by subsidiaries $4,269,380

Loans Payable

THE DUPLAN CORPORATION
Current Liabilities:
Bank loan $1,250,000

KELLOGG COMPANY
Current Liabilities:
Loans Payable—Foreign $7,036,728

H. H. ROBERTSON COMPANY
Current Liabilities:
Bank Loans $5,936,436

Notes Payable Secured by Collateral

ELGIN NATIONAL WATCH COMPANY
Current Liabilities:

7¾% notes payable to finance company and bank (Note 1)	$6,415,129
6% notes payable to banks and insurance company (Note 1)	6,276,576
Notes payable to others	118,806

Note 1: Notes Payable—In June, 1964, the Company arranged with a finance company and a bank to refinance a portion of its indebtedness. The initial loans under the financing agreement totaled $10,250,000 and were evidenced by 7¾% notes payable. The notes are payable on demand and are secured by substantially all accounts receivable, contract rights and equipment. The shareholders will be asked to approve, in June, 1965, the pledging of all or substantially all assets under this or any other loan agreement. Of the initial payment, $9,176,187 was used to pay a portion of the 6% notes payable to banks and an insurance company; the balance was used for working capital. The financing agreement provides, among other things, that the Company: (a) after June 30, 1965, will maintain accounts receivable, contract rights and

equipment of not less than 143% of the unpaid balance of the loan; (b) will not pay any dividends on or acquire any of its capital stock; and (c) will not pledge, assign, mortgage, sell or lease any substantial portion of its assets, whether by sale, merger, consolidation or otherwise, except assets attributable to the defense products operations. On May 1, 1965, the interest rate was reduced to 7½%.

Owed by Subsidiaries

THE HOBART MANUFACTURING COMPANY
Current Liability:

Notes payable of foreign subsidiaries	$2,274,208

ELI LILLY AND COMPANY
Current Liability:

Loans payable by subsidiaries to banks ...	$6,104,810

Owed by Consolidated Subsidiary, Certain Assets Pledged or Assigned as Collateral

UNIVERSAL LEAF TOBACCO CO., INC.
Current Liabilities:

Notes Payable—Banks (Note 4)	$7,982,750

Note 4: The Bank Loans of the Canadian Companies ($7,982,750 U. S.) are, under provision of the Canadian Bank Act, secured by all accounts receivable and inventories of those companies, which at June 30, 1965, amount to $16,525,881 U. S.

LONG-TERM INDEBTEDNESS

Noncurrent Liabilities

ARVIN INDUSTRIES, INC.

Long-Term Liabilities:	
5.1% Sinking Fund Debentures, due 1990 —Note B	$18,000,000
Obligations under lease agreements—net of current portion—Note F	3,165,000
	21,165,000
Total Liabilities	$32,499,848

Note B: *Debentures and Notes Payable*—At June 1, 1965, the Company terminated its 1963 agreement with three banks whereby it had the option of converting interim loans of amounts up to $10,200,000 to term loans payable over a six-year period.

As of September 1, 1965, the Company issued $18,000,000 of 5.1% Sinking Fund Debentures, due September 1, 1990. The Debentures are fully registered and are not secured. They are redeemable at the option of the Company on not less than 30 days' notice, at stated premiums in excess of their principal amount, except that none of the Debentures may be redeemed prior to September 1, 1970, if such redemption is for the purpose of refunding such Debentures with funds borrowed at a rate of less than 5.1%.

The Indenture provides for a sinking fund under which Debentures in the aggregate principal amount of $750,000 will be required to be redeemed on September 1 in each of the years 1972 through 1989, with optional additional redemption of amounts up to $750,000 in each year. Among other provisions, the Indenture restricts borrowings, liens, sales and leasebacks, and cash dividends. Cash dividends are limited to the sum of: net income since January 3, 1965, proceeds from sale of capital stock since January 3, 1965, and $3,000,000. At January 2, 1966, retained earnings of $6,891,756 were unrestricted for cash dividend purposes.

Note F: *Buildings Occupied Under Lease*—The Company has entered into certain long-term leases for production facilities that are essentially equivalent to installment purchases of property. The practice was adopted, beginning in 1965, of capitalizing the buildings involved and reflecting the related long-term lease obligations. The statement of financial condition at January 3, 1965, has been restated in conformance with current practice. This change had no significant effect on the net operating results of either 1964 or 1965.

ELASTIC STOP NUT CORPORATION OF AMERICA

Long-term obligations (Note 5)	$2,766,375

Note 5: *Long-Term Obligations*—Long-term obligations consisted of the following:

Registered debentures:	
4⅞% due March 31, 1973, payable $150,000 annually	$1,200,000
5% due March 31, 1983, payable $150,000 annually beginning March 31, 1974	1,500,000
5¾% note secured by mortgage due December 15, 1972, payable in monthly instalments	231,182
Other	37,500
	2,968,682
Less current instalments	202,307
	$2,766,375

Under the terms of the Indenture applicable to the registered debentures, the Company has agreed, among other things, not to pay dividends, other than stock dividends, except to the extent of 70% of consolidated net earnings after November 30, 1962 plus $1,000,000. At November 30, 1965, the amount of unappropriated retained earnings available for payment of dividends approximated $2,796,000.

HUNT FOODS AND INDUSTRIES, INC.

Long-Term Debt	$156,298,000

Notes to Financial Statements

Long-Term Debt: At June 30, 1965 the portions of long-term debt due after one year were as follows:

Notes and purchase contracts:	
4¾% unsecured notes—due in instalments of $3,000,000 in each of the fiscal years 1969 through 1973, $4,000,000 in 1974 through 1978, $5,000,000 in 1979 through 1983, with final maturity in 1984	$ 81,000,000
5% unsecured notes (callable at face value; convertible into 4% preferred stock at option of the Company or the holders)—due November 1, 1971	547,000
4%, 4½%, 4⅞%, and 5% purchase contracts (on land, warehouses, and machinery)—due in each of the fiscal years through 1998 in annual amounts ranging from $61,000 to $440,000	5,993,000
Total	87,540,000
4¾% sinking fund debentures due May 1, 1990	30,000,000
4⅜% subordinated debentures due July 1, 1986	38,758,000
Total	$156,298,000

The indenture relating to the 4¾% sinking fund debentures due May 1, 1990, provides that the Company shall pay into a sinking fund on May 1, in each of the years 1970 through 1989 an amount sufficient to redeem $1,175,000 principal amount of debentures. The Company, at its option, may also pay into the sinking fund in each such year an additional $1,175,000, or any portion thereof. The debentures are subject to redemption through operation of the sinking fund on any May 1 from 1970 to 1989 at 100% of principal amount, or at any time at the option of the Company at prices ranging from 103¾% of principal amount in 1965 to 100% of principal amount in 1987 and thereafter. The debentures are also subject to redemption at their principal amount out of the proceeds of sale and lease-back of a major manufacturing facility.

The 4⅜% subordinated debentures due July 1, 1986 are convertible into common stock at a conversion price equivalent to $44.44 a share prior to July 1, 1966, and thereafter and prior to July 1, 1971 at a conversion price equivalent to $47.62 a share. The indenture relating to the debentures provides that the Company shall pay into a sinking fund before July 1 of each of the years 1972 to 1985, inclusive, an amount sufficient to redeem on July 1 of each such year not less than 5% and not more than 10% of the aggregate principal amount of debentures outstanding on July 1, 1971. The debentures are subject to redemption through operation of the sinking fund on any June 30, from 1972 to 1985 at 100% of principal amount, or at any time at the option of the Company at prices ranging from 103⅜% of principal amount in 1965 to 100% of principal amount in 1981 and thereafter.

Provisions of certain agreements relating to long-term debt require the Company to maintain consolidated working capital of not less than $115,000,000 and also impose restrictions on additional borrowings and the payment of dividends and other distributions on capital stock of the Company. Under the most restrictive of these provisions, approximately $14,800,000 of consolidated earned surplus at June 30, 1965 was available for payment of cash dividends. Commencing January 1, 1967, the payment of dividends is generally restricted to the amount that 70% of consolidated earnings after June 30, 1962 exceeds total dividends (other than stock dividends) paid or declared subsequent to that date.

ALLIED STORES CORPORATION

Long-Term Debt—Note H	$97,158,525

Note H: Long-Term Debt—

4¾% sinking fund debentures, due November 1, 1976 (payment of $730,000 in 1965; annual payments of $750,000 in 1966-1975; and $3,750,000 due at maturity)	$11,980,000
4½% convertible subordinated debentures, due October 1, 1981 (annual sinking fund payments of $1,600,000 in 1971-1980; and $10,993,600 due at maturity)	26,993,600
4½%—4¾% notes, due February 1, 1984 (annual payments of $2,500,000 in 1969-1983; and $12,500,000 due at maturity)	50,000,000
5½% mortgage notes, due 1981 and 1982 ($222,978 payable in 1965)	7,770,746
3%—7% notes and debentures, due 1965-1976 ($171,700 payable in 1965)	1,538,857
	98,283,203
Less amount due within one year	1,124,678
	$97,158,525

As of January 31, 1965, 385,622 shares of Common Stock of the Corporation were reserved for conversion of the 4½% convertible subordinated debentures at the rate of one share of Common Stock for each $70 principal amount of debentures. Debentures so converted may be applied against sinking fund requirements. During the year ended January 31, 1965, convertible debentures in the amount of $11,900 were converted into 161 shares of Common Stock.

GEORGIA-PACIFIC CORPORATION

Long-Term Debt, excluding current portion:	
4¾% to 5½% term loans payable $33,900,000 in 1967; $35,900,000 in 1968 and 1969; $37,200,000 in 1970; and in declining amounts thereafter through 1980	$320,600,000
Other miscellaneous loans	33,600,000
	$354,200,000
Subordinated Obligations:	
5% subordinated debentures due 1976	$ 15,300,000

HOUDAILLE INDUSTRIES, INC.

Other Liabilities: (Current portion included in current liabilities)	
Long-term debt (Note B)	$20,619,681

Note B: Long-Term Debt—On June 28, 1965, an agreement was entered into with an insurance company whereby the Corporation would borrow a total of $30,000,000 prior to July 1, 1967 at 5⅛% interest. $20,000,000 of the total was taken on June 30, 1965 and $13,750,000 was used to retire the then existing 5⅝% notes due in 1974. The Corporation is committed to take the balance of $10,000,000 prior to July 1, 1967. The total loan of $30,000,000 is payable in annual installments of $1,200,000 commencing July 1, 1971 to July 1, 1978 and annual installments of $1,900,000 from July 1, 1979 to July 1, 1986; the final payment of $5,200.000 is due July 1, 1987.

At December 31, 1965 long-term debt consisted of the following:

	Long Term	Current Portion
Notes Payable—Insurance company	$20,000,000	—
Other notes and mortgages payable (generally 5½% to 6¼%) (Approximately $757,000 of property, plant, and equipment is pledged as collateral to the notes and mortgages payable.)	619,681	$74,023
Total	$20,619,681	$74,023

The loan agreement relating to the 5⅛% notes maturing in 1987 contains various restrictions including provisions relating to the maintenance of consolidated working capital, restrictions on the payment of dividends and the purchase of shares of Houdaille Industries, Inc. stock. At December 31, 1965, the amount available for the payment of dividends on common stock and for acquisition of the Corporation's capital stock of any class was approximately $9,034,000. An additional amount of approximately $5,314,000 was also available for the acquisition of such capital stock.

FANSTEEL METALLURGICAL CORPORATION

Long-term Debt, less current instalments:	
4¾% promissory notes, due 1967-1969	$ 388,898
4¾% subordinated debentures, due 1967-1976, convertible into common stock to October 1, 1966 at rate of $28.76 per share, less $92,000 held in treasury	2,600,000
Contract Payments (Note 3)	1,002,456
	$3,991,354

Note 3: On December 27, 1963, the Company purchased certain equipment under an agreement which required a minimum purchase price, and supplemental payments aggregating a maximum of $1,500,000 related to future use. Based upon its experience to date, the Company expects that supplemental payments will be required, and has recorded additional amounts in order to reflect the present value of its expected remaining liability. Minimum annual payments of $110,000 without interest are due through 1968, together with supplemental annual payments which are not presently determinable.

F. W. WOOLWORTH CO.

Long-term Debt, payable after one year (Note E)	$148,738,723

Note E: Long-Term Debt—Long-term debt payable after one year, mainly by the parent Company, is summarized below:

4.5% serial notes payable 1967-1969	$ 3,000,000
4.5% notes payable 1967-1974	27,000,000
3.5% notes payable 1967-1973	20,125,000
3.1% note payable 1967-1975	26,000,000
5.0% notes payable 1968-1982	35,000,000
5.75% bonds payable 1967-1990	4,168,236
5.0% bonds payable 1967-1991	5,563,270
3.0% to 6.0% mortgage and note obligations relating to real estate acquisitions, payable 1967-2001	27,520,576
Other	361,641
	$148,738,723

Payments due on long-term debt during each of the next five years are: 1966, $5,795,258 (included in current liabilities); 1967, $7,667,449; 1968, $8,281,830; 1969, $8,707,265; and 1970, $7,460,876.

BOTH SHORT-TERM BORROWING AND LONG-TERM INDEBTEDNESS

HALLIBURTON COMPANY

Current Liabilities:	
Accounts payable and accruals	$52,521,179
Accrued Federal income taxes	19,588,995
Contributions payable to employees' benefit funds	4,810,350
Current notes payable	4,391,951
Total Current Liabilities	$81,312,475
Long-Term Notes (Note 1), less current portion	$26,690,461

Note 1: At December 31, 1965 the Company was indebted for long-term loans aggregating $27,932,941 of which $1,242,480 is payable in 1966 (included in current liabilities). The balance of $26,690,461 consists of: (a) $18,000,000 note bearing interest of 4.45%, payable in annual installments of $1,000,000 commencing August 1, 1968, with the balance payable on August 1, 1983; (b) $3,750,000 note bearing interest of 4½%, payable in 15 quarterly installments of $250,000 from January 1, 1967; (c) $1,282,320 note bearing interest of 6½%, payable in 9 semiannual installments of $142,480 commencing June 30, 1967; (d) $900,000 notes bearing interest of 4% payable in annual installments of $100,000 commencing February 10, 1967; (e) $200,000 noninterest bearing note, payable November 14, 1978; and (f) $2,558,141 note representing interim financing (replaced February 21, 1966 by a long-term note bearing interest of 6½%).

On January 10, 1966 long-term bank loans of $15,000,000 were obtained. These notes bear interest of 4¾% on $7,000,000 and 5% on $8,000,000. The principal is to be repaid in 14 semiannual installments of $500,000 commencing August 1, 1966, with the balance payable on February 1, 1973.

The terms of the loan agreements provide, among other things, that no dividends or other distributions to stockholders may be made if such distributions would cause the net worth of the parent company to fall below $80,000,000; and that a minimum working capital of $40,000,000 must be maintained.

CLEVITE CORPORATION

Current Liabilities:

Notes payable	$ 916,853
Payable to suppliers and others	9,235,929
Federal and foreign taxes on income	5,279,288
	$15,432,070
Long-term Debt, less $832,500 current portion	$ 4,708,359

Notes to Financial Statements

Long-Term Debt: Long-term debt includes $4,177,500 of 3¼% notes payable to an insurance company. The notes, originally in the principal amount of $15,000,000, are due in installments of $832,500 per year from March 1, 1966 to March 1, 1970 and $847,500 on March 1, 1971.

As of December 31, 1965 the note agreement permitted the Corporation to pay dividends out of retained earnings up to but not exceeding an amount of $27,753,201.

McCORMICK & COMPANY, INCORPORATED

Current Liabilities:

Notes payable	$ 5,782,260
Accounts payable and accrued expenses	8,168,959
Income taxes	1,844,197
Debentures, payment due within one year	87,500
Dividend payable	235,620
Total Current Liabilities	16,118,536
Debentures:	
3.3% Maturing February 1, 1967	$ 1,837,500

Notes to Financial Statements

Note E: The indenture under which the Company's 3.3% Debentures were issued provides, among other things, that so long as any of these debentures are outstanding the Company will (a) maintain consolidated net current assets in excess of $3,500,000, and (b) not pay a cash dividend that would reduce consolidated retained earnings below $1,000,000.

TEXTRON INC.

Current Liabilities:

Notes payable	$ 4,750,000
Accounts payable	47,563,327
Accrued expenses and other current liabilities	54,385,870
Federal income taxes	24,436,554
Current maturities of long term notes	8,807,804
Total Current Liabilities	139,943,555
Long Term Notes	$ 45,589,664

Notes to Financial Statements

Long Term Notes: Exclusive of amounts due in 1966, the debt consists of the following:

Notes payable to banks (5%) due serially to 1969	$20,000,000
5% Subordinated Debentures due May 1, 1984	24,597,000
Other notes	992,664
	$45,589,664

The amount payable in 1967 is $8,767,000; in 1968—$8,524,000; in 1969—$4,523,000; in 1970—$523,000. In January 1966 Textron arranged additional borrowings of $30,000,000 from a group of banks to be payable over the period from December 1968 to December 1971.

INDEBTEDNESS SECURED BY COLLATERAL

BRUNSWICK CORPORATION

Current Liabilities:

Notes payable—	
Banks and other—principally secured	$ 1,171,000
Bank, insurance companies, etc. (Canadian subsidiary)—secured (Note 7)	18,850,000
C.I.T. Corporation—secured	22,600,000
Current maturities of long-term notes	40,229,000
Accounts payable	25,462,000
Accrued expenses	22,899,000
Income taxes (Note 3)—	
Current	17,940,000
Deferred	28,330,000
Total Current Liabilities	$177,481,000

Long-Term Liabilities:

Notes payable—	
Unsecured (Note 8)	$153,680,000
Secured (Note 9)	17,976,000
4½% convertible subordinated debentures, due 1981 (Note 10)	25,623,000
5¾% collateral trust debentures, due 1978 (Note 10)	5,000,000

Note 7: Notes Payable—Bank, Insurance Companies, Etc. (Canadian Subsidiary)—Secured—In March, 1966, a Canadian subsidiary entered into an amended loan agreement to reduce its bank and insurance company notes payable from $18,850,000 to $11,000,000 by applying a related collateral cash deposit. Under the amended agreement the notes payable are secured by a pledge of all Canadian installment notes receivable (with principal balances of $32,338,000 at December 31, 1965), and the collections thereon, after certain expenses as defined, are restricted to the payment of interest and principal on the notes payable. The amended agreement provides for minimum principal payments of $2,000,000 annually through 1969 and $1,000,000 thereafter through 1972. The notes payable have been guaranteed by the parent company.

Note 9: Long-Term Notes Payable—Secured—Certain plant and equipment additions have been financed by mortgage notes on the property acquired, and certain installment notes receivable and property of foreign subsidiaries have been financed by secured notes. Interest rates on these notes range from 4½% to 8½% (the latter rate being applicable to certain foreign notes), and annual principal payments through 1988 range from $137,000 to $1,770,000.

Note 10: Debentures—The Company has outstanding $25,623,000 of 4½% convertible subordinated debentures, with annual sinking fund requirements of $1,500,000 beginning in 1971. A subsidiary has issued $5,000,000 of 5¾% collateral trust debentures, with annual sinking fund requirements of $500,000 beginning in 1969; substantially all the assets of this subsidiary have been pledged to secure these debentures.

CONSOLIDATED PACKAGING CORPORATION

Current Liabilities:

Loans payable (Note 1)	$6,225,000
Current portion of notes and contracts payable (Note 2)	677,243
Long-Term Liabilities:	
Notes and contracts payable, less current portion (Note 2)	$3,187,853

Note 1: Loans Payable—On January 24, 1966, the Company refinanced its existing bank loans under a two-year financing agreement with a commercial financing company, in which four banks participated. In addition to the initial loan of $5,125,000 (the banks have a 50 percent participation), the Company may obtain additional loans up to $500,000. All trade receivables and inventories, certain property, plant and equipment (having an aggregate depreciated cost of about $3,600,000) and an investment in corporate securities (see Note 3) are pledged as collateral. The financing agreement restricts the payment of dividends and certain other transactions.

One of the banks has loaned the Company an additional $1,100,000 payable on demand. An officer and principal shareholder of the Company has guaranteed this loan. The shares of two subsidiaries and a secondary lien on certain properties and the investment pledged as collateral on the loan under the two-year financing agreement constitute additional security.

Note 2: Notes and Contracts Payable—Notes and contracts payable consist of the following:

	Current	Long term	Total
Equipment obligations (at interest of 3½ to 8%), maturities to 1979	$354,144	$1,455,297	$1,809,441
Mortgage notes (at interest of 5½ and 6%), maturities to 1984	152,678	829,765	982,443
Debt incurred to acquire businesses (at interest of 4½ and 5%), maturities to 1977	122,921	716,749	839,670
Other loan (at 5% interest), maturity to 1970	47,500	186,042	233,542
	$677,243	$3,187,853	$3,865,096

The debt is due in the following years:

1966	$ 677,000
1967	375,000
1968	419,000
1969	380,000
1970	485,000
1971-1984 An aggregate of	1,529,000

The equipment obligations and mortgage notes are secured by plant and equipment which cost approximately $4,500,000.

THE CUDAHY PACKING COMPANY

Current Liabilities:	
Notes payable to banks (Note 2)	$13,000,000
First Mortgage Sinking Fund Bonds, 2⅝%, due May 1, 1967 (Note 2)	4,899,000
Current maturities of long-term liabilities	291,416
Lease obligations due within one year (Note 5)	168,744
Long-Term Liabilities:	
Purchase agreements payable, 4¾%, due in annual installments to October, 1968, less current maturities	$ 582,684
Lease obligations, excluding amounts due within one year (Note 5)	$ 884,995

Note 2: Agreements with Banks, First Mortgage Bonds—The Company has entered into a credit agreement with several banks covering an $18,000,000 short-term line of credit. As collateral for the bank loans, the Company has (a) assigned and granted a security interest in substantially all accounts receivable from customers and designated product inventories; (b) pledged a $6,000,000 note receivable from a subsidiary which owns a portion of the Omaha plant and holds a first mortgage lien on the Seattle plant; (c) mortgaged and pledged, by a junior mortgage subordinate to the First Mortgage Sinking Fund Bonds, substantially all of the Company's other properties and investments in subsidiaries.

GRUEN INDUSTRIES, INC.

Current Liabilities:	
Notes payable to bank	$ 107,000
Noncurrent Liabilities:	
Long-term debt (Note 2)	$6,047,000

Note 2: Long-Term Debt—

	Amount	Maturity
5% notes payable to bank	$3,170,000	$350,000 April 1, 1966 through 1968, balance April 1, 1969 with prepayments required based upon net income
4½% note payable (including accrued interest) subordinated to 5% notes	377,000	Demand
6% subordinated convertible notes	2,500,000	$375,000 annually beginning 1970, balance 1974
	$6,047,000	

The 5% note agreement provides for:
(a) Assets pledged:

5% note receivable from a subsidiary	$480,000
Outstanding shares of subsidiaries, which had net assets of	659,402

PHOENIX STEEL CORPORATION

		Pro forma
Current Liabilities:		
Notes payable (Note 2)	$ 5,644,752	$ 1,207,250
Trade accounts payable	1,955,196	1,955,196
Prior years' federal and state taxes (Note 4)	5,473,448	69,002
Dividend payable (Note 3)	42,042	42,042
Current instalments of long-term debt	2,162,709	303,709
Accrued expenses and other liabilities	3,690,992	3,690,992
Total Current Liabilities	18,969,139	7,268,191
Long-Term Debt:		
Mortgage notes payable (Note 2)	1,060,000	—
5½% convertible subordinated debentures due in 1969 (Note 2)	4,539,000	—
Industrial revenue bonds 5¾%, due 1991 (Note 5)	—	35,000,000
Five-year revolving bank loan 6% (Note 5)	—	6,000,000
Miscellaneous	338,857	338,857
	5,937,857	41,338,857
Less current portion shown above	2,162,709	303,709
	$ 3,775,148	$41,035,148

Note 2: Current and Long-Term Debt—The demand notes, subject to a revolving loan agreement, are secured by the inventories and trade accounts receivable. Other current notes payable represent trade acceptances issued for raw material purchases. The mortgage notes payable, secured by a mortgage on all the real estate, plant and equipment, are repayable in monthly instalments of $100,000 through January 11, 1967.

The debentures are convertible, at the holder's option, into shares of common stock of the company at a price of $15-5/12 ($16-2/3 on and prior to December 10, 1965, the record date of the 10% stock dividend) per share, subject to certain adjustments provided in the Indenture. The Indenture also restricts the payments of cash dividends on common stock to 66-2/3% of the excess of consolidated net earnings after December 31, 1956 over $2,250,000. Such dividends may not be paid, however, if working capital is reduced thereby below $10,000,000. By reason of these restrictions, none of the retained earnings at December 31, 1965 are available for cash dividends. The annual sinking fund requirement is $1,215,000. As of December 31, 1965, $316,000 had been acquired by purchase or conversion towards the 1966 payment.

STOKELY-VAN CAMP, INC.

Current Liabilities:	
Notes payable and current portion of long-term indebtedness	$ 4,591,831
Accounts payable and accrued expenses	15,944,500
Dividends payable July 1, 1965 and 1964	723,166
Federal and other taxes on income	2,736,197
Total Current Liabilities	23,995,694
Long-Term Indebtedness (Note 2)	$19,640,642

Note 2: Long-term indebtedness at May 31, 1965, exclusive of amounts due within one year included in current liabilities, consists of the following:

Indebtedness of parent company:	
4¼% Convertible Subordinated Debentures, due March 1, 1982*	$15,000,000
3½% Serial Notes, $900,000 due annually through June 1, 1969	3,600,000
5% Note, $71,000 due semiannually through July 1, 1967, and $77,000 on January 1, 1968	290,000
5% and 5½% First Mortgage Notes, due 1971-1984	131,000
Indebtedness of subsidiaries:	
4½% First Mortgage Notes, due semiannually in increasing amounts ranging from $106,270 on November 1, 1966 to final installment of $113,606 on May 1, 1968	439,642
5¾% First Mortgage Notes, $20,000 due annually through December 31, 1974	180,000
	$19,640,642

Land, buildings and equipment in the net book amount of $2,535,000 at May 31, 1965, are pledged as collateral for mortgage indebtedness.

*Commencing in 1971, sinking fund payments (either in cash, reacquired debentures, or debentures converted) are required annually for the retirement of $1,000,000 principal amount of debentures on each September 1, 1971 through 1981. At the option of the Company, additional retirements may be made through the sinking fund not to exceed $1,000,000 principal amount in any one year 1971 through 1981. For purposes of such required and optional retirements, the debentures are callable at principal amount; otherwise, the debentures are callable at decreasing rates ranging from 103¾% of the principal amount in 1965 to 100% in 1980. At the option of the holder the debentures are convertible into common stock of the Company at the rate of 1 share of common stock for each $27.03 principal amount of debentures through March 1, 1967, $29.64 thereafter through March 1, 1972, and $34.88 thereafter through March 1, 1982. The conversion rates are subject to adjustment under certain stock anti-dilution provisions of the Indenture. The debentures are subordinate to all other borrowings of the Company now outstanding or, generally that may be incurred in the future.

HEWLETT-PACKARD COMPANY

Current Liabilities:

Short-term notes payable (Note 5)	$ 4,047,273
Accounts payable and accruals	15,773,342
Provision for federal and foreign taxes on income	9,538,808
Total Current Liabilities	29,359,423
Long-Term Debt	$ 468,813

Note 5: Short-Term Notes Payable—Pursuant to the borrowing arrangements between foreign banks and Hewlett-Packard Benelux, S.A., accounts receivable amounting to $149,000 are pledged as security for bank loans of $149,000 at October 31, 1965. These borrowing arrangements also provide that no distribution of dividends will be made by Hewlett-Packard Benelux, S.A. out of accumulated earnings, that amounted to $347,000 at October 31, 1965, without prior approval of its bankers.

WARD FOODS, INC.

Current Liabilities:

Notes, drafts and acceptances payable to banks	$ 2,531,295
Accounts payable	8,124,733
Current portion of long-term debt	1,380,191
Accrued expenses and sundry liabilities	4,267,765
Total current liabilities	16,303,984
Deferred Federal Income Taxes	380,000
Long-Term Debt (excluding current portion)	5,177,327

Notes to Financial Statements

Pledged Assets as of December 25, 1965, which were repledged in January 1966 (see "Subsequent Events"), included the following:

Investments (at cost)	$1,933,172
Capital stock of certain consolidated subsidiaries in which the company's share of net assets at December 25, 1965 was	3,200,545

Other assets pledged as of December 25, 1965 were as follows:

Inventory and/or receivables and/or cash pledged as security for drafts and acceptances payable to banks which were originally collateralized by documents and trust receipts	$2,236,295
Property and plant pledged as security for long-term debt (at depreciated value)	2,093,796

Long-Term Debt as of December 25, 1965 consisted of the following:

	Due in 1966	Due in Later Years	Total
5-6% notes, payable through May 28, 1969	$ 750,000	$3,400,000	$4,150,000
5% conditional sales notes, payable through May 1, 1968	62,181	87,066	149,247
5½% subordinated debentures, payable through December, 1979. Annual prepayment $50,000	44,400	871,600	916,000
Other notes, mortgages, etc., payable periodically in varying amounts to 1977	523,610	818,661	1,342,271
	$1,380,191	$5,177,327	$6,557,518

The 5-6% notes and the 5% conditional sales notes were prepaid in January, 1966 from the proceeds of 6½% notes issued aggregating $28,000,000 (see "Subsequent Events") which are payable over a period of eight years, including $2,333,334 due in 1966, of which $1,100,000 has since been paid.

The 5½% subordinated debentures are redeemable without premium at the option of the company. The company has retired debentures in sufficient amount to meet in part the annual prepayment requirement for 1966.

V-LOAN

STANDARD KOLLSMAN INDUSTRIES INC.

Current Liabilities:

Bank loans (Note 3)	$5,780,595

Long-Term Debt:

Bank loans under revolving credit agreement expiring May 31, 1967	$3,900,000
Other, less installments due within one year	257,104
	$4,157,104

Note 3: Bank Loans and Dividend Restriction—Bank loans in the amount of $5,780,595 at December 31, 1965 are secured by cash and accounts receivable of $6,068 and $3,355,424, respectively. Included in the above bank loans is a Regulation V loan for $5,000,000 which provides for the assignment to the lenders of amounts to become due under all major U. S. government prime contracts.

Among the covenants of the various loan agreements is a requirement that consolidated working capital be maintained at not less than $20,000,000. Under the most restrictive covenant of the loan agreements, $12,788,982 of retained earnings at December 31, 1965 is not available for the payment of cash dividends.

REVOLVING CREDIT AGREEMENT

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION

Current Liabilities:

Notes payable to banks—unsecured (Note 2)	$ 4,000,000
Current instalment of unsecured term loan payable (Note 2)	1,250,000
Current instalments of mortgages payable	107,506
Accounts payable and accrued liabilities	19,017,301
Provision for Federal and other taxes on income (Note 3)	8,513,978
Total Current Liabilities	$32,888,785

Long-Term Debt:

Note payable to insurance company (Note 2)	$23,750,000
Unsecured term loan, less current instalment (Note 2)	3,750,000
4¾% and 5% mortgages payable, less current instalments	788,077
	$28,288,077

Note 2: Long-Term Debt—The note payable to an insurance company bears interest at 5½% per annum and requires annual principal payments of $1,250,000 each from 1970 to 1972, inclusive; $1,750,000 each from 1973 to 1979, inclusive; and $7,750,000 on June 1, 1980.

A 1964 credit and term loan agreement provides for (a) revolving credit borrowings up to a maximum amount of $10,000,000 to June 1, 1966, of which $4,000,000 was outstanding on December 31, 1965, and (b) a term loan which is payable in equal annual instalments of $1,250,000. The interest rate on borrowings under the revolving credit, which is fixed at ¼ of 1% above the prime rate (but not less than 4¼%, nor more than 5¼%) was 5¼% at year end. A commitment fee of ½ of 1% per annum on the average daily unused but available portion of the credit is also payable. The interest rate on the term loan is 5% per annum.

The company is required to maintain consolidated working capital of not less than $37,500,000, and is also restricted as to the payment of cash dividends and the purchase of stock (other than purchases from the proceeds of sale of stock) to $1,500,000 plus 50% of consolidated net earnings (or less 100% of consolidated net losses) from January 1, 1964. Unrestricted consolidated retained earnings at December 31, 1965 amounted to approximately $4,125,000.

GENERAL PLYWOOD CORPORATION

Current Liabilities:

Loans payable:	
Commercial lending institution (Note 2)	$1,711,458
Current portion of long-term obligations	64,694
Long-term obligations, less current portion (Note 3)	258,012

Note 2: The loans payable to the commercial lending institution at October 31, 1965, include $1,461,458 under a revolving credit arrangement expiring in 1967, but which is terminable under certain conditions (without penalty) at the Corporation's option. During the term of the credit arrangement, (1) the Corporation is committed to borrow sums based on the amount of its trade receivables available as acceptable collateral, and (2) the Corporation is permitted to borrow sums based on the amount of its inventories available as acceptable collateral. The loan agreement prohibits reacquisitions of outstanding capital stock or other distributions to shareholders. Substantially all of the receivables, inventories, and property, plant and equipment shown in the balance sheet at October 31, 1965, are assigned as collateral for the loans payable.

Note 3: The long-term obligations consist of the following:

	Current	Due after one year
5% subordinated debentures	$16,300	$146,700
Contracts payable	48,394	111,312
	$64,694	$258,012

The 5% subordinated debentures, issued in connection with the retirement of preferred stock of the subsidiary Paine Lumber Company, Ltd., are due in amounts of $16,300 each April 1, 1966 through 1975. The contracts payable arise primarily from equipment leases which have been treated as purchases. Payments, excluding normal financing charges, are due in each of the five years subsequent to October 31, 1966, in the approximate amounts of $42,000, $23,000, $21,000, $10,000 and $3,000, and $12,000 is due after five years.

DEFERRED INCOME

The terms *deferred income* or *deferred credits* have been used to identify accounts or groups of accounts whose credit balances will normally be transferred to revenue accounts as the amounts are subsequently realized or earned, notwithstanding the fact that such amounts may be largely offset by costs still to be incurred in connection therewith. However, some items which are termed "deferred credits" may be either real liabilities or offsets to assets.

Accounting Research Bulletin No. 51,† *Consolidated Financial Statements,* issued by the committee on accounting procedure of the American Institute of Certified Public Accountants, discussing the Elimination of Intercompany Investments states:

> Where the cost to the parent (of the investment in a purchased subsidiary) is less than its equity in the net assets of the purchased subsidiary, as shown by the books of the subsidiary at the date of acquisition, the amount at which such net assets are carried in the consolidated statements should not exceed the parent's cost. Accordingly, to the extent that the difference... is considered to be attributable to specific assets, it should be allocated to them, with corresponding adjustments of the depreciation or amortization. In unusual circumstances there may be a remaining difference which it would be acceptable to show in a credit account, which ordinarily would be taken into income in future periods on a reasonable and systematic basis. A procedure sometimes followed in the past was to credit capital surplus with the amount of the excess; such a procedure is not now considered acceptable.

In recent years there has been a considerable increase in the number of companies disclosing deferred income or deferred credits in their annual financial reports, as may be observed from Table 30. There has also been a similar increase in the number of items presented. Figures for the year 1965 indicate that 171 companies disclosed 207 items. The first table on the subject published by *Accounting Trends and Techniques* covered the year 1952. For that year the statistics show that 70 companies presented an aggregate of 78 items. Since then the increase has been over 100 per cent in each category. The various items which account for such increases may be observed from the table. However, in respect to "Advances or payments on uncompleted contracts" and "Billings on uncompleted contracts," reference is made to *Accounting Research Bulletin No. 45*† for a discussion of the accounting problems in relation to *Long-term Construction-type Contracts.*

Some of the varying descriptions given by the companies in referring to these accounts, as detailed in Table 30, are given in the examples which follow.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

With Related Current Assets

AMERICAN MACHINE & FOUNDRY COMPANY

Current Assets:

Cash	$ 16,330,818
Marketable securities, at cost (approximates market)	18,000,000
Notes and accounts receivable (Note 2)	172,887,421

Note 2: *Receivables*—Notes and accounts receivable at December 31 include the following:

Customer obligations due within one year	$112,448,095
Customer installment obligations due beyond one year	92,279,922
Non-consolidated foreign subsidiaries and 50% owned companies	4,101,296
	208,829,313
Less: Unearned interest on installment obligations	19,938,149
Allowance for possible losses	16,003,743
	$172,887,421

DEERE & COMPANY

Current Assets:

Cash	$ 21,231,287
Notes and accounts receivable from John Deere Credit Company	9,387,209
Trade Receivables:	
Accounts and notes—Dealers, farmers, and other, less unearned interest of $6,332,731 in 1965 and $4,138,336 in 1964	409,266,182
Less reserves for returns and allowances and doubtful receivables	18,854,232
Trade Receivables—net	$390,411,950

FEDERATED DEPARTMENT STORES, INC.

Current Assets:

Cash	$ 33,919,244
Accounts receivable	252,590,220

Accounts Receivable (Schedule):

Due from customers:	
Thirty-day charge accounts	$ 78,749,838
Deferred payment accounts	185,118,074
	$263,867,912
Less provision for possible future losses and deferred service charges	9,345,885
	$254,522,027
Less accounts sold without recourse	12,534,760
	$241,987,267
Other accounts receivable	7,703,555
Due from purchasers of accounts sold	2,899,398
	$252,590,220

TABLE 30: DEFERRED INCOME—DEFERRED CREDITS

	Balance Sheet Presentation*	1965	1960	1955
	With Related Asset:			
A:	Unearned finance charge	13	10	8
B:	Unearned interest	5	4	1
C:	Advances or payments on uncompleted contracts	46	4	—
D:	Profit on sales or installment contracts	3	—	—
	In Current Liability Section:			
E:	Advances or billings on uncompleted contracts	7	3	1
F:	Metal treatment charge	1	1	2
G:	Rent on leased equipment, films, or meters, etc.	4	1	1
H:	Customer service prepayment	7	5	7
	"Deferred credit"	—	1	1
	"Deferred income"	—	2	1
I:	Unearned deposits or royalties	4	1	—
J:	Production payments	7	N/C	N/C
	Above Stockholders' Equity Section:			
K:	Customer service prepayment	3	2	—
	Discount on reacquired securities	—	—	1
L:	Government contract income	1	1	1
M:	Magazine subscription income	4	5	5
	Premium on debentures issued	—	1	1
N:	Profit on sales or installment contracts	10	8	9
O:	Profit on fixed assets sold	3	9	4
P:	Rentals on leased equipment, films, or meters, or rent	7	6	7
Q:	Deferred or unearned royalties, deposits, or contract prepayments	7	4	3
R:	Unearned finance charges	1	2	3
S:	Unearned interest	1	2	3
T:	Unfinished voyage revenue	1	1	1
U:	Unrealized profit on sale of leasehold or sale and leaseback of assets	7	N/C	N/C
V:	"Deferred credits"	23	20	20
W:	"Deferred income"	15	10	12
X:	Equity in net assets of subsidiary over cost	15	10	—
Y:	Production payments	7	—	—
Z:	Various other	5	4	3
	Total	207	117	95

Number of Companies presenting Deferred Income items in:	1965	1960	1955
Current asset section	52	16	8
Current asset section and *above* stockholders' equity section	7	2	1
Current asset section and current liability section	4	N/C	N/C
Noncurrent asset section	2	1	—
Noncurrent asset section and *above* stockholders' equity section	1	N/C	N/C
Current liability section	22	13	12
Current liability section and *above* stockholders' equity section	1	N/C	N/C
Above stockholders' equity section	82	69	63
	171	101	84
Not presenting deferred income items	429	499	516
Total	600	600	600

N/C—Not compiled.

*Refer to Company Appendix Section—A: 84, 190, 209, 225, 235, 261, 315, 360, 382, 450, 501, 504, 536; B: 33, 186, 278, 308, 597; C: 6, 7, 16, 71, 73, 84, 88, 94, 97, 122, 129, 146, 152, 163, 166, 182, 194, 196, 197, 220, 230, 236, 245, 271, 283, 290, 292, 344, 345, 357, 359, 375, 392, 409, 411, 414, 454, 460, 476, 509, 514, 540, 541, 555, 557, 587; D: 211, 472, 516; E: 61, 64, 181, 194, 343, 375, 406; F: 35; G: 5, 363, 550, 561; H: 5, 191, 366, 367, 391, 481, 584; I: 84, 245, 429, 584; J: 17, 90, 229, 318, 335, 370, 442; K: 289, 344, 560; L: 345; M: 180, 364, 373, 545; N: 68, 135, 136, 190, 336, 374, 397, 474, 553, 560; O: 25, 221, 342; P: 98, 116, 139, 193, 219, 439, 560; Q: 29, 98, 193, 231, 386, 496, 534; R: 139; S: 560; T: 558; U: 99, 254, 337, 352, 364, 544, 565; V: 6, 18, 44, 51, 114, 138, 164, 184, 233, 326, 328, 354, 381, 435, 441, 480, 500, 505, 517, 524, 531, 573, 598; W: 7, 70, 118, 189, 190, 252, 366, 374, 394, 418, 447, 502, 534, 544, 545; X: 60, 201, 211, 214, 219, 254, 289, 296, 301, 405, 476, 503, 541, 568, 583; Y: 47, 68, 234, 443, 495, 544, 553; Z: 164, 344, 467, 533, 539.

INTERNATIONAL HARVESTER COMPANY

Current Assets:

Cash	$ 65,651,985
Marketable securities, at lower of cost or market:	
United States Government	17,863,590
Other securities	84,923,422
Notes and accounts receivable (page 24) (less allowance for losses and unearned interest: 1965 — $8,231,296; 1964 — $7,666,396)	303,663,929

THE SINGER COMPANY

Current Assets:

Accounts receivable—net	$342,694,000

Financial Review

Cash and marketable securities decreased by $4.7 million in 1965. Net accounts receivable increased $30.8 million mainly reflecting an increase in instalment sales. The amounts shown on the balance sheets are after deducting unearned carrying charges and allowances for doubtful accounts. These deductions totaled $66.3 million in 1965 and $56.1 million in 1964.

In Noncurrent Asset Section

FRUEHAUF CORPORATION

Investments and Other Assets:

Investments in and amounts due from affiliated companies not consolidated (Notes A and D)	$ 56,203,702
Equipment leased to customers—at lower of cost or appraised value, less accumulated depreciation of $9,854,535 at December 31, 1965 (Note E)	20,229,580
Transport Investment Division loans—secured, less deferred finance charges of $2,564,252 at December 31, 1965 (excluding $1,520,872 included in current assets)	7,468,537
Miscellaneous accounts and investments	5,830,953
	$89,732,772

STANDARD OIL COMPANY (INDIANA)

Investments and Sundry Assets:

Listed securities—at cost (comprising at December 31, 1965, 1,439,923 shares of Standard Oil Company (New Jersey) and other securities, the total having a quoted market value of $117,813,000)	$ 14,865,000
Investments held for operating purposes —at cost	90,154,000
Long-term receivables and sundry assets (including at December 31, 1965, installment notes receivable of $102,901,-000 from sale, in 1960, of certain gas and oil properties less deferred income of $93,164,000)	62,427,000
	$167,446,000

In Current Liability Section

ARMSTRONG CORK COMPANY

Current Liabilities:

	(000)
Accounts payable	$10,295
Accrued expenses, withholding and other taxes	12,070
Billings on uncompleted contracts in excess of related costs	2,389
Federal income tax	17,340
Less U.S. Treasury securities	17,340
	—
Total Current Liabilities	$24,754

LEHIGH PORTLAND CEMENT COMPANY

Current Liabilities:

Notes payable to banks	$ 2,906,157
Current maturities of long-term debt	1,892,461
Accounts payable and accrued expenses	6,894,122
Production payments sold, net of income taxes (Note 5)	2,920,000
Federal income tax	2,480,238
Total Current Liabilities	$17,092,978

Note 5: Sale of Production Payments—In December 1965, four production payments, constituting a portion of the Company's interest in future production from certain calcium carbonate (limestone) deposits, were sold for $4,450,000. Income resulting from the sale of production payments, less Federal income taxes of $1,530,000, has been deferred and will be reported as income (less an amount equivalent to interest at 5½% per annum on the undischarged primary sum of the production payments) as cement, manufactured from such future production, is sold.

MCA INC.

Current Liabilities:

Notes payable	$12,396,000
Accounts payable and accrued expenses	32,457,232
Federal and foreign income taxes	9,249,750
Advance billings for television film rentals	6,092,523
	$60,195,505

THE NATIONAL CASH REGISTER COMPANY

Current Liabilities:

Payables and accruals	$ 45,001,473
Accrued taxes	25,332,380
Current installments on long term debt	13,264,000
Dividend payable	2,636,839
Customers' deposits	3,476,027
Customers' service prepayments	26,984,917
	$116,695,636

SCM CORPORATION

Current Liabilities:

Loans payable to banks	$ 2,100,000
Accounts payable and accrued liabilities	12,015,275
United States and foreign income taxes	986,369
Customer prepayments for uncompleted maintenance agreements	4,185,611
Long-term debt payments due within one year	1,407,083
Total Current Liabilities	$20,694,338

Above Stockholders' Equity Section

THE AMERICAN DISTILLING COMPANY

Deferred Credit:

Deposit on sale of real estate—Note 2	$77,500

Note 2: Property, Plant and Equipment—In July 1965, the Company entered into a contract to sell its plant site in Sausalito, California, and received a deposit of $77,500 from the purchaser. By the terms of the contract the sale is to be completed subsequent to September 30, 1965, and in the event of default by the purchaser the Company is entitled to keep the deposit. In August 1965 the Company purchased a replacement plant site at a cost of approximately $480,000 under a 4¾% mortgage of $400,000; due $20,000 each August 1st from 1966 through 1979, with the remainder due August 1, 1980.

BOND STORES, INCORPORATED

Reserve for Unrealized Profit on Sale of Leasehold	$750,000

CHRYSLER CORPORATION

Unrealized profits on sales to unconsolidated subsidiaries	$15,778,262

DAN RIVER MILLS, INCORPORATED

Deferred credit	$1,375,042

DURA CORPORATION

Unamortized excess of equity in net assets (at book value) of subsidiary at date of acquisition over cost of the investment	$132,554

McCALL CORPORATION

Deferred subscription revenue and related deferred federal income taxes	$26,380,000

PITNEY-BOWES, INC.

Advance billings, less prepaid Federal income taxes	$11,611,041

Other

DIANA STORES CORPORATION

Current Assets:	
Cash	$ 2,662,151
Trade accounts receivable, less allowance of $149,877 for doubtful accounts and deferred service charges ($151,039 in 1964)	3,814,681
Balances due on layaway merchandise sales	535,698
Other accounts receivable	1,181,573
Merchandise inventories, at lower of cost or market	19,534,714
Unexpired insurance premiums and other prepayments	302,275
Total Current Assets	$28,031,092
Above Stockholders' Equity	
Unrealized Profit in Balances Due on Layaways and Other Deferred Income	$ 270,411

ELTRA CORPORATION

Other Receivables, Investments and Advances (Note 3):	
Receivables on equipment leasing contracts, less unearned income of $2,341,207 in 1965 and $1,985,642 in 1964 (Note 4)	$14,280,582
Above Stockholders' Equity	
Deferred Credit (Note 2)	$ 6,225,225

Note 2: Acquisition and Merger (of 1963)—During 1957-1960 the Corporation acquired approximately 35% interest in The Electric Autolite Company by a series of cash acquisitions which for accounting purposes have been treated as purchases.

The remaining Electric Autolite common stock interest has been combined with the Corporation through exchanges in 1962 of Common Stock and 5% convertible Subordinated Debentures, and in 1963 of convertible Preferred Stock issued pursuant to Agreement of Merger. The interest so combined has been accounted for as a pooling of interests.

With respect to the purchased interest, the excess of equity in net assets over cost of investment is carried as a deferred credit being transferred to income ratably over a period of fifteen years.

GENERAL DYNAMICS CORPORATION

Current Assets:	
Inventories, at the lower of cost or market, less advance and progress payments	$155,460,411
Current Liabilities:	
Customers' deposits and advances in excess of costs	$ 5,636,097

McGRAW-HILL, INC.

Current Liabilities:	
Unearned service contracts	$2,164,679
Deferred Liabilities and Credits:	
Deferred income	$ 827,511
Stockholders' Equity:	
Retained income—	
Appropriated	
For pensions	$2,000,000
For unexpired subscriptions—net of related Federal income taxes (Note 4)	5,766,340

MINORITY INTERESTS

Table 31 discloses the balance sheet and income statement presentation of the minority stockholders' interest in subsidiaries not wholly owned, as shown in the 1965 survey reports. Only 140 of the 555 survey companies presenting consolidated financial statements disclosed the existence of minority interests in the consolidated subsidiary companies.

Examples—Minority Interests

The balance sheet and income statement presentations of the minority interests in consolidated subsidiary companies are illustrated in the following examples selected from the 1965 annual reports of various companies. For additional examples relating to minority interests refer to those shown elsewhere in this section under "Consolidation of Subsidiaries."

Above Stockholders' Equity Section

AMERICAN HOME PRODUCTS CORPORATION

Consolidated Balance Sheets	
Minority interests in subsidiaries	$8,005,913
Income Statement Presentation	
Income before federal and foreign taxes on income	$153,694,211
Provision for federal and foreign taxes on income	74,967,552
Net income before minority interests	78,726,659
Minority interests in net income of consolidated subsidiaries	2,231,916
Net Income for Year	$ 76,494,743

GULF OIL CORPORATION

Consolidated Statement of Financial Position	
Minority interests in Subsidiaries Consolidated	$ 193,926,088
Income Statement Presentation	
Deductions:	
Purchased crude oil, products and merchandise	$1,070,418,682
Operating, selling, and administrative expenses	1,251,557,756
Taxes on income and general taxes	1,149,846,045
Depreciation, depletion, amortization, and retirements	306,090,823
Interest on long-term debt	14,695,137
Income applicable to minority interests in subsidiaries consolidated	13,225,378
	$3,805,833,821

H. J. HEINZ COMPANY

Consolidated Balance Sheets	
Minority interests	$15,075,411
Income Statement Presentation	
Provision for Federal and foreign taxes on income	$12,195,104
	17,818,880
Deduct Income applicable to minority interests	1,121,901
Net Income for the Year	$16,696,979

TABLE 31: MINORITY INTERESTS

Balance Sheet Presentation*		1965	1960	1955
	Above Stockholders' Equity section and shown as:			
A:	Minority stockholders' interest	128	94	60
B:	Minority interest in capital stock and surplus	2	6	11
C:	Minority interest in capital stock	3	7	5
	Within Stockholders' Equity section and shown as:			
D:	Minority stockholders' interest	2	3	3
	Total	135	110	79
Income Statement Presentation*				
	In separate last section:			
E:	After current tax estimate	40	30	30
F:	Before current tax estimate	2	2	2
	With current tax estimate	—	2	1
G:	*Listed among operating items*	41	35	20
	Within Earned Surplus section of Combined Income and Earned Surplus statements	—	—	2
	Total	83	69	55
Consolidated Financial Statements with Minority Interest set forth in:				
	Balance sheet only	55	46	27
	Balance sheet and income statement	80	64	52
	Income statement only	3	3	3
H:	Accompanying footnotes only	2	2	1
		140	115	83
	Not referred to in report	415	401	376
		555	516	459
Nonconsolidated Financial Statements with:				
	Subsidiary companies	12	20	42
	No subsidiary companies	33	64	99
	Total	600	600	600

*Refer to Company Appendix Section—A: 6, 7, 21, 28, 31, 37, 39, 40, 51, 54, 62, 69, 70, 73, 74, 88, 101, 102, 114, 117, 125, 131, 135, 136, 138, 141, 142, 150, 152, 153, 156, 160, 163, 164, 166, 170, 171, 172, 174, 181, 186, 195, 196, 206, 211, 213, 226, 230, 232, 235, 237, 245, 252, 254, 262, 263, 271, 272, 279, 281, 284, 287, 289, 293, 294, 305, 308, 311, 315, 327, 329, 334, 339, 355, 359, 363, 374, 377, 381, 388, 393, 394, 398, 414, 416, 418, 419, 431, 433, 437, 441, 455, 456, 459, 473, 476, 480, 483, 485, 494, 495, 500, 503, 505, 508, 510, 515, 516, 517, 526, 527, 531, 536, 538, 543, 545, 552, 553, 563, 566, 567, 571, 583, 584, 585, 586, 589, 590; B: 253, 573; C: 23, 98, 477; D: 175, 276; E: 31, 39, 62, 69, 73, 88, 96, 98, 114, 135, 153, 156, 163, 170, 174, 196, 211, 232, 246, 254, 279, 284, 287, 294, 311, 315, 327, 388, 391, 414, 433, 441, 456, 476, 508, 510, 526, 552, 567, 571; F: 334, 527; G: 23, 37, 70, 74, 117, 125, 136, 138, 142, 164, 181, 195, 206, 253, 262, 263, 272, 276, 305, 329, 339, 355, 363, 377, 416, 418, 419, 473, 480, 500, 515, 516, 517, 531, 538, 553, 563, 566, 573, 583, 584; H: 249, 465.

UNION CARBIDE CORPORATION

Consolidated Balance Sheet

Minority interest in Consolidated Subsidiaries	$ 23,352,000
Income Statement Presentation	
Net Income Before Minority Interest	$229,621,000
Minority interest	2,704,000
Net Income	$226,917,000

UNION OIL COMPANY OF CALIFORNIA

Consolidated Financial Position

Minority interests in subsidiaries consolidated	$ 11,471,000
Earnings Statement Presentation	
Deductions:	
Raw materials, products, services, and supplies purchased	$ 756,206,000
Taxes on sales, properties, operations, and earnings	321,433,000
Salaries, wages, and employee benefits	153,527,000
Depletion, depreciation, and amortization	90,238,000
Dry hole and lands relinquished losses	48,753,000
Interest expense	18,468,000
Earnings applicable to minority interests in subsidiaries consolidated	463,000
Total Deductions	$1,389,088,000

Within Stockholders' Equity Section

HARBISON-WALKER REFRACTORIES COMPANY

Consolidated Financial Position

Shareholders' Equity at December 31, 1965:	
Minority Shareholders' Interest in subsidiaries	$ 10,744,385
Company Shareholders' Equity:	
Preferred shares, 6% cumulative, noncallable, $100 par value; authorized and issued—30,000 shares	3,000,000
Common shares, $7.50 par value; authorized 4,000,000 shares; including shares in Treasury deducted below (Note 2):	
Issued 3,150,445	23,628,338
Issued 3,148,844	—
Capital in excess of par value; the increase represents net excess of proceeds over par value of unissued shares and cost of treasury shares sold (Note 2)	10,743,463
Income retained in the business (Note 1)	69,560,681
	103,932,482
Less 100,416 common shares in Treasury, at cost	3,889,993
Common shareholders' equity	100,042,489
Total Harbison-Walker Refractories Company shareholders' equity	103,042,489
Total Shareholders' Equity	$113,786,874
Income Statement Presentation	
Costs:	
Employment (page 4):	
Wages and salaries	$ 36,010,120
Social security taxes	1,524,300
Pensions, insurance and other fringes	3,392,587
	40,927,007
Materials, supplies and services purchased (page 4)	49,903,524
Depreciation and depletion	6,442,208
Interest expensed	704,872
Minority shareholders' interest in subsidiaries' income	1,396,368
Taxes, other than payroll and income taxes	1,432,592
Federal, foreign and state income taxes provided (page 4)	11,897,300
	112,703,871
Net Income for the Year	$ 13,407,171

APPROPRIATIONS AND RESERVES

In *Accounting Terminology Bulletin Number 1, Review and Résumé,*† prepared by the committee on terminology of the American Institute of Certified Public Accountants, it is recommended that the use of the term *reserve* be limited "to indicate that an undivided portion of the assets is being held or retained for general or specific purposes, and that the use of the term in the income statement or to describe in the balance sheet deductions from assets or provisions for particular liabilities should be avoided." In connection with its discussion of the general discontinuance of the use of the term *surplus,* the committee on terminology states:

> . . . Retained income appropriated to some specific purpose nevertheless remains part of retained income, and any so-called "reserves" which are clearly appropriations or segregations of retained income, such as those for general contingencies, possible future inventory losses, sinking fund, etc., should be included as part of the stockholders' equity.

The various types of appropriations and reserves discussed in this section are those which are generally shown below the current liability section of the balance sheet (exclusive of inventory reserves which are discussed in this section under "Inventories"). Such appropriations and reserves were used most frequently by the survey companies for tax purposes, foreign exchange losses, insurance purposes, employee benefits, and in connection with properties (apart from accumulated depreciation, etc., as classified in this section, Table 18).

With regard to the reserves in general covered in the following pages, the survey showed that in 1965 a change was apparent in approximately 66 per cent of the reserves but the offsetting charge or credit to the reserve was not disclosed. About 8 per cent showed no dollar change; approximately 24 per cent of the changes were made through the income account; only in 2 per cent of the cases was the adjustment made through retained earnings.

The tables presented in this section show each of the types of the various appropriations and reserves discussed, together with their balance sheet presentation. Accompanying these tables are representative examples of such appropriations and reserves, selected from the 1965 annual reports.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

CONTINGENCY RESERVES

The committee on accounting procedure of the American Institute of Certified Public Accountants considered problems arising in the accounting treatment of general contingency reserves and in *Accounting Research and Terminology Bulletins, Final Edition,* 1961 (Chapter 6), concluded the discussion as follows:

> 7. The committee is therefore of the opinion that reserves such as those created:
> (a) for general undetermined contingencies, or
> (b) for any indefinite possible future losses, such as, for example, losses on inventories not on hand or contracted for, or
> (c) for the purpose of reducing inventories other than to a basis which is in accordance with generally accepted accounting principles, or
> (d) without regard to any specific loss reasonably related to the operations of the current period, or
> (e) in amounts not determined on the basis of any reasonable estimates of costs or losses
>
> are of such a nature that charges or credits relating to such reserves should not enter into the determination of net income.
>
> 8. Accordingly, it is the opinion of the committee that if a reserve of the type described in paragraph 7 is set up:
> (a) it should be created by a segregation or appropriation of earned surplus,
> (b) no costs or losses should be charged to it and no part of it should be transferred to income or in any way used to affect the determination of net income for any year,
> (c) it should be restored to earned surplus directly when such a reserve or any part thereof is no longer considered necessary, and
> (d) it should preferably be classified in the balance sheet as a part of shareholders' equity.

The use of a reserve for contingencies appears to be a declining practice. In 1950, 155 out of 600 survey companies, or over 25 per cent, disclosed contingency reserves. The number of companies employing this type of account has decreased each year since that time, except that in 1965 the number of companies was the same as in 1964 (28), or 5 per cent of the companies included in the survey.

As disclosed in Table 32, such reserves were usually shown either above the stockholders' equity section (19 reserves in 1965), or within the stockholders' equity section of the balance sheet (9 reserves in 1965). A complete list of references is given at the foot of Table 32 illustrating the above presentations.

In the majority of the reports presenting contingency reserves, there was either no change in the reserve balance, or the account was presented in a combined caption with other reserves, and accordingly changes in the

TABLE 32: CONTINGENCY RESERVES

Balance Sheet Presentation*	1965	1960	1955	1950
Among: *Current Liabilities*	—	—	1	2
A: Above: *Stockholders' Equity*	19	35	42	107
B: Within: *Stockholders' Equity*	9	12	29	46
Total	28	47	72	155
Terminology Used				
Reserve	20	37	55	125
Allowance	2	N/C	N/C	N/C
Appropriated	5	N/C	N/C	N/C
Provision	1	2	1	3
Various other terms	—	8	16	27
Total	28	47	72	155
Number of Companies with:				
Contingency reserves	28	47	72	155
No contingency reserves	572	553	528	445
Total	600	600	600	600

N/C—Not compiled.
*Refer to Company Appendix Section—A: 20, 29, 31, 89, 102, 157, 182, 197, 200, 310, 363, 435, 495, 550, 553, 569, 584, 587, 590; B: 170, 207, 230, 322, 423, 558, 563, 568, 580.

contingency reserve could not be determined. In those instances where there were changes in the reserves during 1965, the annual reports, in most cases, did not disclose the accounts to which the related entries were made. Examples of operation and elimination of contingency reserves as presented in the 1965 annual reports are provided below.

Reserves Eliminated

MUNSINGWEAR, INC.
Within Stockholders' Equity

	1965	1964
Earnings retained for use in the business (Notes 2 and 6):		
Appropriated for contingency	—	$ 2,100,000
Unappropriated	$13,709,079	11,996,860

Note 6: Rose Marie Reid has discontinued operations and the $2,100,000 subordinated debentures which Munsingwear holds are considered of no value. Accordingly, these debentures have been written off by charging earnings retained for use in the business. This amount will be shown as a special charge after the determination of net income in the Company's annual report (Form 10-K) filed with the Securities and Exchange Commission.

Reserves Maintained

PEDEN IRON & STEEL CO.
Within Stockholders' Equity
Reserve for Contingencies $400,000

SIGNAL OIL AND GAS COMPANY
Above Stockholders' Equity
Reserve for Contingencies $1,590,000

WESTINGHOUSE ELECTRIC CORPORATION
Above Stockholders' Equity
Allowance for Contingencies $22,777,232

EMPLOYEE BENEFIT RESERVES

There were 136 employee benefit reserves shown by 114 of the 600 survey companies in their 1965 annual reports. Table 33 discloses in comparative form the various types of employee benefit reserves found in the survey reports for the years 1965, 1960, 1955, and 1950. In most instances, these reserves were presented above the stockholders' equity section of the balance sheet (128 reserves in 1965); 5 items were classified as current liabilities, and 3 reserves were presented within the stockholders' equity section.

Detailed information regarding increases or decreases in these reserves was occasionally given in the notes to financial statements or in the president's letter (*44, 45, 159, 234, 414, 454, 567), and in some reports the related charges were found in the income statement (*89, 311, 332, 371, 533, 548, 585). A complete list of references to those survey companies which indicated reserves for employee benefits in their 1965 reports is provided at the foot of Table 33. Related information and examples of income statement presentations are provided in Section 3, Table 5.

The examples which follow illustrate the various types of employee benefit reserves and their disclosure in the financial statements.

Deferred or Contingent Compensation Plans

ASSOCIATED DRY GOODS CORPORATION
Above Stockholders' Equity
Contingent Compensation, net of taxes $1,770,300

FORD MOTOR COMPANY
Other Liabilities and Reserves:

Supplemental compensation awards, deferred installments	$ 26,478,110
Supplemental compensation reserve, unawarded balance	61,639,631
Deferred investment credit	37,440,919
Reserve for foreign operations	51,500,000
Other	24,183,635
Total Other Liabilities and Reserves	$201,242,295

FRUEHAUF CORPORATION
Other Liabilities:

Deferred compensation	$ 1,989,381
Deferred taxes on income (Note E)	10,371,092
Long-term debt (Note F)	40,447,250
Total Other Liabilities	$52,807,723

GENERAL SIGNAL CORPORATION
Current Liabilities:
Accrued payrolls, vacations and deferred compensation $1,653,903

*Refer to Company Appendix Section.

TABLE 33: EMPLOYEE BENEFIT RESERVES

Balance Sheet Presentation*	1965	1960	1955	1950
Among: *Current Liabilities* for—				
A: Incentive and deferred compensation plans	2	2	2	1
B: Profit sharing, welfare or benefit plans	2	2	2	3
C: Pension plan not funded	1	1	2	1
Pension plan — past and current service costs	—	5	1	—
Above: *Stockholders' Equity* for—				
D: Deferred or contingent compensation plan	37	22	13	6
E: Incentive compensation plan	15	10	8	2
F: Bonus plan	6	6	7	6
Profit sharing plan	—	2	2	1
G: Retired employee benefits	4	11	2	3
H: Welfare or benefit plans	16	5	8	11
Employment contract	—	1	1	1
I: Severance pay	5	3	—	—
J: Supplemental unemployment benefits	2	2	—	—
Pension or Retirement Plans:				
K: Pension plan costs	34	33	33	34
L: Past service costs	5	1	5	14
Past and current service costs	—	2	3	5
M: Future service costs	1	1	—	1
N: Former plan liability	1	1	—	1
O: Annuity costs	2	1	6	5
Within: *Stockholders' Equity* for —				
P: Employment contract	1	1	1	2
Q: Pension plan costs	1	2	—	—
R: Deferred compensation	1	2	—	—
Total	136	116	96	97
Terminology Used				
Reserve	70	68	56	75
Deferred	27	—	—	—
Provision	16	13	14	13
Accrued	3	—	—	—
Various other terms	20	35	26	9
Total	136	116	96	97
Number of Companies with:				
Employee benefit reserves	114	104	84	82
No employee benefit reserves	486	496	516	518
Total	600	600	600	600

*Refer to Company Appendix Section—A: 89, 252; B: 385, 406; C: 507; D: 34, 44, 67, 110, 138, 142, 158, 159, 165, 196, 201, 205, 225, 232, 235, 259, 266, 279, 283, 296, 300, 305, 340, 347, 352, 365, 366, 378, 395, 428, 431, 489, 521, 528, 597, 598; E: 25, 28, 87, 135, 159, 234, 324, 414, 415, 454, 467, 470, 479, 540, 585; F: 200, 249, 311, 419, 462, 474; G: 3, 158, 425, 441; H: 135, 176, 246, 249, 307, 318, 332, 348, 425, 478, 505, 515, 538, 558, 590, 594; I: 51, 251, 305, 517, 558; J: 9, 349; K: 2, 12, 35, 41, 111, 140, 148, 186, 251, 275, 285, 300, 301, 303, 307, 339, 352, 371, 379, 399, 414, 416, 433, 462, 467, 478, 483, 493, 505, 548, 563, 582, 590, 594; L: 45, 62, 222, 533, 567; M: 91; N: 365; O: 512, 517; P: 596; Q: 366; R: 372.

MIRRO ALUMINUM COMPANY

Above Stockholders' Equity

Provision for Deferred Federal Income Taxes and Deferred Compensation	$3,029,287

XEROX CORPORATION

Above Stockholders' Equity

Executive Compensation Earned, Payment Deferred	$1,676,811

Incentive Compensation Plans

FREEPORT SULPHUR COMPANY

Above Stockholders' Equity

Reserve for incentive compensation plan, net of taxes	$133,869

Notes to Financial Statements

Note 7: In April 1965, an Incentive Compensation Plan was approved and adopted by the stockholders. This Plan replaced the Key Employees' Stock Ownership Plan in that no new rights to purchase shares will in the future be granted under the latter Plan. Under the Incentive Compensation Plan, an amount not exceeding three per cent of the net income of the Company and its consolidated subsidiaries as reported in the Company's Annual Report may be awarded each year to employees in executive, managerial or other important positions who make substantial contributions to the Company. The total amount of each award normally is divided between an amount to be paid currently in cash and an amount to be awarded as contingent deferred payments in the common stock of the Company, usually payable after retirement in 10 or 15 annual installments. The total awards for the year 1965 amounted to $341,300 and were equivalent to 1.6 per cent of the Company's 1965 net income.

KELSEY-HAYES COMPANY

Long-Term Liabilities:

Deferred incentive compensation (less estimated reduction in future income taxes)	$155,577

RADIO CORPORATION OF AMERICA

Other Liabilities:

Long term debt (Note 1)	$254,818,000
Incentive plan (Note 2)	20,133,000
Deferred federal taxes on income, related to depreciation	36,974,000
Total Other Liabilities	$311,925,000

Note 2: *Incentive Plan*—At December 31, 1965, the unawarded balance of the Incentive Reserve was $3,404,000 and awards payable in RCA common stock combined with awards payable in cash after January 2, 1967 totaled $16,729,000. Payment of any deferred installment is contingent under the earning-out provisions of the Plan. The maximum 1965 credit to the reserve under the Incentive Plan, which was most recently approved by the shareholders in 1964, was $12,775,000; the Incentive Committee directed that $12,600,000 be credited to the reserve. From this credit and from the unawarded balance of $1,934,000 at December 31, 1964, awards of $11,130,000 for 1965 were directed by the Incentive Committee.

TEXAS INSTRUMENTS INCORPORATED

Other Liabilities:

Long-term debt (Note 6)	$48,707,526
Deferred incentive compensation (Note 5)	1,081,992
Total Other Liabilities	$49,789,518

Note 5: *Incentive Compensation Plan*—Officers and key employees are eligible for awards in cash and/or common stock under an incentive compensation plan approved by shareholders in 1965. The plan authorizes the board of directors to establish an incentive compensation reserve which may not exceed the lesser of (1) 10% of the amount by which the company's net income (as defined) for such year exceeds 6% on net capital (as defined) or (2) the amount paid out as dividends on the common stock during the year. The amount computed under the formula for 1965 was $2,052,000. The amount reserved was $2,000,000, of which $1,849,497 was awarded. Of the amount awarded, $1,041,490 is distributable in cash and the balance is distributable in 5,579 shares of common stock valued at the average cost of all shares held for purposes of the plan. Against the amount awarded, cash payments of $423,860 and 2,041 shares of common stock were delivered in

1965. The balance of the amounts awarded is distributable in annual instalments over the next 4 years contingent upon being earned out by the participants. The portion of the awards distributable in cash in 1966 is included in accrued expenses and other liabilities and the remainder is included in deferred incentive compensation in the balance sheet. The estimated income tax reductions in future years for awards to be earned out have been included in other assets and deferred charges and prepaid expenses in the balance sheet, and the total, $614,660, has been deducted in determining the provision for income taxes in the statement of income. At December 31, 1965, the balance sheet includes under other assets and deferred charges the cost, $1,442,366, of 9,959 shares of the company's common stock purchased for awards under the plan.

Bonus Plans

GENERAL MOTORS CORPORATION
Above Stockholders' Equity

Reserves:	
Employes benefit plans	$ 26,281,468
Contingent credits under Stock Option Plan	30,800,000
General reserve applicable to foreign operations	141,667,396
Miscellaneous	30,951,614
Total Reserves	$229,700,478

Income Statement Presentation

Provision for Bonus Plan and Stock Option Plan	$130,000,000

Notes to Financial Statements

Reserve for Bonus Plan and Stock Option Plan: For the year 1965 the Bonus and Salary Committee, in its discretion, directed a credit of $130,000,000 to the reserve, which was $84,849,266 less than the maximum amount permitted under the Bonus Plan formula as determined by the independent public accountants. Determination of the amount of the maximum credit to the reserve for 1965 and of the amount available in the reserve at December 31, 1965 is set forth on page 34.

Bonus Awards and Contingent Credits: At the date of this report, the Bonus and Salary Committee has not made final determination of individual bonus awards related to 1965 or of contingent credits to be established when stock options are granted in 1966 but has tentatively determined that the total of such awards and contingent credits shall approximate the amount available for such purposes. Accordingly, the balance in the reserve at December 31, 1965 was transferred to current liabilities, other liabilities and reserve for contingent credits in the Consolidated Balance Sheet. Such estimated bonus awards and contingent credits, together with undelivered instalments of bonus awards and contingent credits previously granted, totaled $259,622,746 at December 31, 1965.

The Consolidated Balance Sheet at December 31, 1965 gives effect to the payment of $36,473,219 and the delivery of 519,198 shares of common stock, valued at $33,783,603, on January 10, 1966, representing instalments of bonus awards related to the years 1961 through 1964 which were earned out during the year 1965 in accordance with provisions of the Bonus Plan, and instalments of contingent credits applicable to terminated stock options.

PARKE, DAVIS & COMPANY
Deferred Liabilities:

Awards under Bonus Plan, less related reduction in future income taxes	$ 311,991
Deferred taxes on income	5,320,000
Total Deferred Liabilities	$5,631,991

REMINGTON ARMS COMPANY, INC.
Above Stockholders' Equity

Provision for Awards to Employees Under Bonus Plan—exclusive of amount included in other accounts payable, $1,062,081 in 1965; $988,824 in 1964	$1,760,654

Pensions, Retirement Benefits, and Annuities

ALLIED CHEMICAL CORPORATION
Above Stockholders' Equity

Reserves:	
Pensions	$ 70,055,722
Deferred U.S. and Canadian Income Taxes	68,276,306
	$138,332,028

Notes to Financial Statements

Pensions: At December 31, 1965 unfunded past service liability was estimated by the Company's actuaries at $186,300,000; tax deductions on future payments at current rates would reduce the after-tax liability to about $93,600,000, most of which is provided for in the balance sheet reserve amounting to $70,055,722.

The after-tax cost of pensions charged to income was $9,551,000 in 1965 and $8,930,000 in 1964.

AMERICAN METAL CLIMAX, INC.
Other Liabilities:

Notes payable (page 24)	$108,030,000
Reserves, deferred credits, etc. (page 24)	19,840,000
Total Liabilities	$255,940,000

Notes to Financial Statements

Reserves, Deferred Credits, Etc.:

Reserves for pensions for United States hourly paid employees	$ 2,080,000
Miscellaneous reserves and noncurrent liabilities	5,920,000
Deferred Federal income tax	11,840,000
	$19,840,000

CONSOLIDATED PACKAGING CORPORATION
Long-Term Liabilities:

Notes and contracts payable, less current portion (Note 2)	$3,187,853
Provision for payments to employees on death after retirement	596,300
Deferred compensation (Note 5)	95,544
Total Long-Term Liabilities	$3,879,697

FALSTAFF BREWING CORPORATION
Above Stockholders' Equity

Reserve for Unfunded Past Service Costs (net of taxes) under pension plans (Note 7)	$916,212

Note 7: *Unfunded Past Service Costs*—Falstaff assumed, along with other liabilities, the obligations of Narragansett under its pension plans as of the close of business July 15, 1965. The estimated amount of unfunded past service costs assumed under these plans, net of income taxes, was recorded in a reserve account as of that date.

The amount that would be necessary to fund remaining past service costs under all pension plans of the companies is estimated to be $700,000.

GENERAL REFRACTORIES COMPANY
Above Stockholders' Equity

Reserves:	
Pensions and separation pay	$5,759,598
Deferred income taxes	2,689,311
Other	547,766
	$8,996,675

MELVILLE SHOE CORPORATION
Above Stockholders' Equity

Provision for retirement payments, less related Federal income taxes (Note 1)	$1,436,174

Note 1: *Retirement Plan*—During the year, the company adopted a policy of funding the retirement plan covering certain factory employees. In that connection, the remainder of the amount provided for retirement payments prior to adoption of funding, aggregating $1,480,000 at December 31, 1965, is being amortized at an annual rate of approximately $125,000 as a reduction of annual provisions for funding past service costs which aggregate approximately $6,600,000. The aggregate charge to expense for the year 1965 for all pension plans amounted to $503,751.

McGRAW-HILL, INC.
Within Stockholders' Equity

Retained Income:	
Appropriated	
For pensions	$ 2,000,000
For unexpired subscriptions—Net of related Federal income taxes (Note 4)	5,766,340
Unappropriated	74,970,916
	$82,737,256

A. E. STALEY MANUFACTURING COMPANY
Above Stockholders' Equity

Reserves:	
Deferred federal income taxes	$3,823,861
Retirement annuities—Note D	2,099,345
Total Reserves	$5,923,206

Note D: *Retirement Plans*—The Company's pension plans for employees were amended during the year to provide for increased benefits. The retirement plans are financed by the Company through the purchase of single-premium annuities for employees at time of retirement. Pension costs charged to income for the fiscal years 1965 and 1964 were $1,800,000 and $1,020,000, respectively.

SUNSHINE BISCUITS, INC.
Above Stockholders' Equity

Reserve for employees' pensions (Note 1)	$200,000

Note 1: At December 31, 1965, the aggregate past service liability under the company's several pension plans for employees was estimated at $19,000,000. Pension costs charged to expense amounted to $2,136,204 in 1965 and $1,972,581 in 1964, net of $200,000 reduction in reserve for employees' pensions.

Prepaid past service costs consist principally of the appraised value of buildings transferred to one of the pension plans; as such costs are charged to expense, a pro rata portion ($359,459 in 1965 and 1964) of the deferred credit arising from the transfer is credited to other income.

Under the provisions of an agreement for the sale by the pension plan Trustees as of June 30, 1966 of one of the buildings described above currently leased back from them at an annual rental of $464,000, the lease is to be cancelled as of the date of sale. In consideration of the cancellation, the company has agreed to guarantee the purchaser's mortgage note of $4,103,125 and to pay to the Trustees annually until December 27, 1985, the difference between the annual rental of $464,000 and the interest paid on the mortgage note. Depending upon the rate at which the principal of the mortgage note is repaid by the purchaser, this difference will amount to a minimum of approximately $5,900,000 and a maximum of approximately $9,175,000.

THE TORRINGTON COMPANY
Above Stockholders' Equity

Reserve for Unfunded Retirement Benefits	$395,247

UNITED STATES RUBBER COMPANY
Above Stockholders' Equity

Reserves:	
Foreign activities	$13,011,019
Retirement allowances	8,112,392
Insurance	4,532,943
Total Reserves	$25,656,354

Financial Review

Retirement Allowances: The Retirement Allowance Plans provide, generally, on a non-contributory basis, for retirement allowances to eligible employees or former employees beginning at age 65, or at the employees' option, at age 62. In addition, in 1965, a supplemental voluntary contributory pension plan was made available to eligible salary employees. The plans provide for payment, upon retirement, of monthly allowances by independent trustees to whom the Company pays amounts, including employee contributions, computed by independent actuaries, sufficient to provide no less than minimum funding.

In 1965, the total cost, before reduction for income taxes, of the Retirement Allowance Plans was $22,607,000, of which $21,243,000 was charged to operations and $1,364,000 (representing a portion of the 1965 funding cost related to past service cost) was applied to the Reserve for Retirement Allowances. Of the $8,112,000 balance in the Reserve for Retirement Allowances at December 31, 1965, $2,021,000 related to certain individuals ineligible under the funded plans.

Other Employee Benefit Reserves

NEWPORT NEWS SHIPBUILDING AND DRY DOCK COMPANY
Current Liabilities:

Accrued wages, earned vacations and incentive compensation and provision for sick leave	$14,552,523

INTERCHEMICAL CORPORATION
Above Stockholders' Equity

Reserves:	
Assets in foreign countries (page 23)	$1,022,000
Deferred income taxes (page 25)	3,669,000
Other (page 25)	498,000
	$5,189,000

Financial Review

Other Reserves: Interchem has deferred compensation contracts with certain key employees which provide for payments after termination of employment if the conditions of the contracts are met. A reserve of $222,000 has been provided for the net cost of these contracts to the company after giving effect to Federal income taxes.

The amount provided under the contract with Mr. H. B. Woodman, President, may, at the discretion of the Salary Committee of the Board of Directors, be used to acquire common shares of Interchemical. A total of 994 such shares are held in the company's treasury.

The remaining $276,000 in Other Reserves consists principally of a reserve of $256,000 for employee severance payments required under foreign social laws.

ALAN WOOD STEEL COMPANY
Above Stockholders' Equity

Reserves:	
Rebuilding and repairs	$ 695,715
Workmen's compensation, supplemental unemployment benefits, etc.	1,547,269

WHEELING STEEL CORPORATION
Above Stockholders' Equity

Reserves:	
Deferred federal taxes on income	$4,529,245
Contingencies (Note D)	3,167,215
Employee benefits and other	4,308,452

WM. WRIGLEY JR. COMPANY
Within Stockholders' Equity

Accumulated earnings retained for use in the business	$73,454,387

Note: Included in accumulated earnings retained for use in the business at both the beginning and end of each year is $2,000,000 which has been appropriated for guarantees under employment assurance contracts.

FOREIGN ACTIVITY RESERVES

On the subject of foreign operations, where United States companies have branches or subsidiaries operating in foreign countries, the committee on accounting procedure of the American Institute of Certified Public Accountants has recommended in *Accounting Research and Terminology Bulletins, Final Edition,* 1961 (Chapter 12), that:

> A sound procedure for United States companies to follow is to show earnings from foreign operations in their own accounts only to the extent that funds have been received in the United States or unrestricted funds are available for transmission thereto. Appropriate provision should be made also for known losses.

Any foreign earnings reported beyond the amounts received in the United States should be carefully considered in the light of all the facts. The amounts should be disclosed if they are significant, and they should be reserved against to the extent that their realization in dollars appears to be doubtful.

As to assets held abroad, the accounting should take into consideration the fact that most foreign assets stand in some degree of jeopardy, so far as ultimate realization by United States owners is concerned. Under these conditions it is important that especial care be taken in each case to make full disclosure in the financial statements of United States companies of the extent to which they include significant foreign items.

In *Opinion No. 6* dated October 1965, the accounting principles board of the American Institute of Certified Public Accountants amended *Accounting Research Bulletin No. 43*†, (Chapter 12) with respect to long-term receivables and long-term liabilities, effective for fiscal periods beginning after December 31, 1965, as follows:

> Paragraphs 12 and 18 state that long-term receivables and long-term liabilities should be translated at historical exchange rates. The Board is of the opinion that translation of long-term receivables and long-term liabilities at current exchange rates is appropriate in many circumstances.

Table 34 sets forth the various types of foreign activity reserves as presented in the balance sheets of the 600 survey reports for the year 1965 (together with comparative statistics for prior years). Sixty-five companies disclosed 71 such reserves. In most instances they were placed above the stockholders' equity section of the balance sheet (48 reserves in 1965). Some companies (*170, 205, 233, 235, 368, 466, 586) did not disclose the reserve directly on the balance sheet, but gave pertinent information in the notes or in the financial review.

Detailed information regarding increases or decreases in these reserves was given in only a few instances, generally in the notes to financial statements or in the president's letter. In certain reports, related charges were found in the income statement (*31, 116, 143, 175, 226, 279, 498, 523, 550, 567).

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

*Refer to Company Appendix Section.

TABLE 34: FOREIGN ACTIVITY RESERVES

Balance Sheet Presentation*	1965	1960	1955	1950
With: *Related Assets* for—				
A: Foreign investment	17	9	4	—
B: Foreign losses	5	4	1	—
Above: *Stockholders' Equity* for—				
C: Foreign exchange	13	7	7	11
D: Foreign investments	7	3	4	5
E: Foreign losses	5	3	2	3
F: Foreign operations	18	9	4	3
G: Unremitted foreign profits**	4	3	4	2
H: Foreign statutory requirements	1	3	3	5
Within: *Stockholders' Equity* for —				
Foreign investment	—	1	1	2
Foreign losses	—	1	1	1
Unremitted foreign profits	—	—	—	2
I: Foreign statutory requirements	1	5	5	7
Total	71	48	36	41
Terminology Used				
Reserve	59	38	29	39
Provision	4	N/C	N/C	N/C
Allowance	6	N/C	N/C	N/C
Various other terms	2	10	7	2
Total	71	48	36	41
Number of Companies with:				
Foreign activity reserves	65	42	31	33
No foreign activity reserves	535	558	569	567
Total	600	600	600	600

N/C—Not compiled.
*Refer to Company Appendix Section—A: 65, 106, 123, 205, 223, 235, 302, 315, 347, 362, 368, 396, 468, 516, 557, 577, 580; B: 38, 233, 235, 466, 586; C: 1, 31, 131, 135, 175, 206, 284, 305, 398, 449, 477, 479, 563; D: 195, 226, 263, 421, 486, 501, 548; E: 31, 172, 262, 498, 567; F: 1, 40, 116, 135, 142, 197, 232, 249, 263, 292, 320, 372, 377, 429, 431, 441, 470, 523; G: 143, 279, 550, 567; H: 560; I: 170.
**Includes one reserve in current liabilities (*550).

A complete list of references is given at the foot of Table 34 to various balance sheet presentations of reserves by survey companies, and examples illustrating the nature of the disclosures taken from the 1965 reports follow.

Reserves for Foreign Investment and Foreign Exchange

ASHLAND OIL & REFINING COMPANY
Noncurrent Assets

Investments in and receivables from unconsolidated foreign subsidiaries—at cost, less reserve	$2,653,029

THE DOW CHEMICAL COMPANY

Above Stockholders' Equity

Reserve for Loss on Foreign Investments	$5,000,000

Source and Application of Funds

Increase in reserve for loss on investments	$1,500,000

THE FIRESTONE TIRE & RUBBER COMPANY

Above Stockholders' Equity

Reserves:	
Foreign Investments	$ 1,500,000
Deferred Income Taxes	26,900,000
Risks Not Covered by Insurance Policies	1,200,000
	$29,600,000

Income Statement Presentation

Net Income Before Devaluation Losses	$92,560,697
Loss from Devaluation of Assets in Foreign Countries	4,393,519
Provision for Loss on Foreign Investments	1,500,000
Net Income	$86,667,178

NATIONAL STARCH AND CHEMICAL CORPORATION

Above Stockholders' Equity

Reserve for Foreign Exchange Fluctuation	$31,315

SAFEWAY STORES, INCORPORATED

Above Stockholders' Equity

Reserve for self-insurance and decline in conversion value of Canadian assets	$6,659,802

Income Statement Presentation

Provision for decline in conversion value of Canadian assets	$ 950,000

Notes to Financial Statements

Subsidiaries: The accounts of the Canadian subsidiaries are consolidated as U.S. Funds at dollar for dollar with provision made for the decline in Canadian exchange below par by establishing a reserve through a charge to income. Other foreign subsidiaries are not consolidated and the investments and advances therein, $16,214,042, are shown at U.S. dollar equity. Such investments represent: 91% interest in the United Kingdom subsidiary; 98% in the Australian subsidiary and 100% in the West German and Danish subsidiaries.

UNITED ENGINEERING AND FOUNDRY COMPANY

Noncurrent Assets

Investment in Foreign Companies, at Cost, Less Allowance of $346,463 in 1965 and 1964	$942,133

Reserve for Foreign Losses

CRANE CO.

Above Stockholders' Equity

Reserve for Foreign Contingencies	$1,482,152

Retained Earnings

Addition to Reserve for Foreign Contingencies	$1,000,000

Letter to Stockholders

Operations in the United States and Canada produced 64.8% of consolidated net income and represented 89.6% of consolidated equity; comparative percentages for existing operations in 1964 were 66.8% and 89.7%, respectively. In early 1965, the reserve for foreign contingencies was increased $1,000,000, by a charge to earned surplus, for possible future devaluation losses.

FOREMOST DAIRIES, INC.

Noncurrent Assets

Investments, Advances and Other Receivables:	
McKesson & Robbins, Incorporated, at cost (Note 2)	$54,092,000
Strong Cobb Arner Inc. (Note 3)	17,041,000
Other (Note 4)	15,184,000
Total	$86,317,000

Note 4: Other Investments, Advances and Receivables—Other investments, advances and receivables consist of the following:

Drew Chemical Corporation, at cost	$ 3,794,000
Foreign companies, at cost, less allowance for losses, $1,225,000	6,347,000
Miscellaneous, at cost, less allowance for losses, $1,000,000 in 1965, $525,000 in 1964	5,043,000
Total	$15,184,000

UNITED STATES RUBBER COMPANY

Above Stockholders' Equity

Reserves:	
Foreign activities	$13,011,019
Retirement allowances	8,112,392
Insurance	4,532,943
Total Reserves	$25,656,354

Income Statement Presentation

Income Before Taxes and Other Charges	$74,748,105
Federal and foreign income taxes (including provision for deferred taxes: 1965 — $6,855,000; 1964 — $5,417,000	$31,129,921
Minority interests	1,407,702
Foreign exchange losses	1,986,124
Provision for foreign losses	3,000,000
	37,523,747
Net Income	$37,224,358

Notes to Financial Statements

Principles of Consolidation: Foreign Activities—All subsidiary companies which are more than 50 per cent owned are included in the consolidated statements. The statements include, for the first time, the operations of 9 small 100% owned and 6 small majority owned companies.

For comparability, certain reclassifications have been made in the 1964 financial statements.

Fixed assets and long term liabilities of foreign subsidiaries are stated in United States dollars on the basis of rates of exchange prevailing at December 31, 1957 or at dates of acquisition for subsequent additions. All other foreign assets and liabilities are stated on the basis of rates of exchange prevailing at the close of the year. Cumulative gains resulting from the conversion of net current assets are carried in the Reserve for Foreign Activities; current losses are charged to such reserve, or, if no reserve is available, to consolidated income. Sales and earnings are stated at monthly average rates of exchange.

Net assets located outside the United States were $117,989,000 at the end of 1965.

The Reserve for Foreign Activities at December 31, 1965 consisted of $5,000,000 for possible foreign losses and $8,011,000 representing principally the excess of certain foreign subsidiaries' net assets over cost thereof at dates of acquisition. During the year, the Indonesian rubber plantation companies were deconsolidated and the net assets of approximately $8,000,000 were offset against unremitted profits of prior years; this had no effect on income. This decrease was partially offset by a charge to income of $3,000,000 representing a reserve for possible foreign losses.

Reserves for Operations and Unremitted Foreign Profits

HARSCO CORPORATION

Above Stockholders' Equity

Reserves:	
Deferred foreign income tax	$1,255,601
Unremitted foreign income	1,002,915
Deferred investment credit	710,243
	$2,968,759

Income Statement Presentation

Other Charges:	
Equity of minority interest in income of subsidiaries	$ 2,154,306
Provision for unremitted foreign income	149,681
	2,303,987
Net Income	$15,216,054

ABBOTT LABORATORIES
Above Stockholders' Equity

Reserve Applicable to International Operations	$2,500,000

Notes to Financial Statements

International Operations: . . . The reserve applicable to international operations has been established to provide for additional taxes upon subsequent transfer of earnings to the United States, exchange adjustments, and other international contingencies. Sales to customers by subsidiaries outside the United States aggregated $61,482,000 in 1965 and $51,216,000 in 1964. In relation to sales, the contribution of operations outside the United States to consolidated net earnings does not differ materially from the contribution of domestic operations.

BURROUGHS CORPORATION
Above Stockholders' Equity

Reserve for Foreign Operations	$3,750,000

Income Statement Presentation

Income before income taxes and provision for foreign operations	$36,697,948
Estimated U.S. and foreign income taxes	16,920,000
Provision for foreign operations	2,250,000
Net Income for the Year	$17,527,948

PEPSICO, INC.
Above Stockholders' Equity

Reserve for foreign activities	$ 2,164,007

Income Statement Presentation

Costs and Expenses:	
Cost of sales	$234,618,140
Advertising, selling and administrative	215,740,763
Interest expense	1,618,867
Other expenses	2,773,407
Adjustment for foreign activities	287,139
	$455,038,316

Notes to Financial Statements

Note 2: *Reserve for Foreign Activities*—It is the policy of the Company to exclude from consolidated net income and consolidated retained earnings the unremitted earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities by charges against income (Adjustment for Foreign Activities). The Reserve is used to absorb extraordinary losses that arise from foreign operations such as the losses resulting from devaluation of foreign currencies and unsettled political conditions preventing normal commercial operations.

CHAS. PFIZER & CO., INC.
Above Stockholders' Equity

Reserve applicable to foreign operations	$2,500,000

THE L. S. STARRETT COMPANY
Above Stockholders' Equity

Reserve:	
For Unusual Risks of Foreign Operations	$150,000

Reserves for Foreign Statutory Requirements

UNITED MERCHANTS AND MANUFACTURERS, INC.
Above Stockholders' Equity

Other Noncurrent Items and Deferred Income (Note F)	$5,076,925

Note F: *Other Noncurrent Items and Deferred Income*—The items included in this caption consist of deferred income on installment sales of capital assets ($107,945); unearned service and rental income, commissions and interest ($3,086,786); reserves for compensation payable by foreign subsidiaries under applicable foreign laws on death or dismissal of employees ($879,911); and other noncurrent indebtedness, etc. ($1,002,283).

Note A: *Foreign Subsidiary Companies*—Statutory reserves of South American subsidiaries as at June 30, 1964 and June 30, 1965, in the aggregate amounts of $1,067,433 and $1,234,036, respectively, are included in Earned Surplus in the accompanying consolidated financial statements.

Net income of foreign subsidiaries included in consolidated net income amounted to $6,567,270 which was after deducting $4,178,495 net loss arising from translation of their financial statements to United States dollars.

There was a decline, from July 1, 1965 to September 23, 1965, in foreign rates of exchange used in translating the accounts of certain foreign subsidiaries. If the rates of exchange in effect on September 23, 1965 were applied at June 30, 1965, the stated amount of net assets of foreign subsidiaries would decrease by approximately $800,000.

Investments in foreign countries are subject to exchange regulations, but, within certain limitations, the transfer of funds from these countries is not restricted at the present time.

CORN PRODUCTS COMPANY
Within Stockholders' Equity

Earned surplus	$201,241,098

Notes to Financial Statements

Equity in Subsidiaries: The company's equity in net income of domestic and international subsidiaries and branches, on a source basis amounted to $29,867,412 for the year 1965. Dividends received during 1965 amounted to $19,612,358 of which $14,084,376 was from 1965 earnings and $5,527,982 from earnings of prior years. Royalties and other income received from subsidiaries and branches amounted to $5,822,858.

The company's equity in net assets of subsidiaries included in consolidation is $142,563,152 in excess of its investment of $84,957,967 at cost or less and this amount has been included in earned and capital surplus as follows:

Earned surplus:	
Unappropriated	$ 76,795,889
Appropriated	25,490,231*
	102,286,120
Capital surplus	40,277,032
Total	$142,563,152

*The consolidated earned surplus of $201,241,098 includes $25,490,231 appropriated for legal, statutory, contingency and other reserves of certain international subsidiaries.

GUARANTEE OR WARRANTY RESERVES

The committee on accounting procedure of the American Institute of Certified Public Accountants discusses, in Chapter 3 of *Accounting Research and Terminology Bulletins, Final Edition,* 1961, the nature of current liabilities and states, among other things, "As a balance-sheet category, the classification is intended to include obligations for items which have entered into the operating cycle, such as . . . collections received in advance of the delivery of goods or performance of services[2]; . . .

[2]Examples of such current liabilities are obligations resulting from advance collections on ticket sales, which will normally be liquidated in the ordinary course of business by the delivery of services. On the contrary, obligations representing long-term deferments of the delivery of goods or services would not be shown as current liabilities. Examples of the latter are the issuance of a long-term warranty. . . ."

Table 35 discloses the various types of guarantee or warranty reserves or liabilities presented by the survey companies. Twenty-four such reserves were disclosed in the balance sheets of 20 of the 600 survey companies in the 1965 reports. Thirteen of the reserves were shown

TABLE 35: GUARANTEE OR WARRANTY RESERVES

Balance Sheet Presentation*	1965	1960	1955	1950
Among: *Current Liabilities* for—				
A: Product guarantee	5	4	2	3
B: Product warranty	3	6	3	3
C: Service guarantee	2	1	2	2
D: Service warranty	1	—	—	—
"Guarantee"	—	4	1	2
E: Contract completion	2	2	2	3
Above: *Stockholders' Equity* for—				
F: Product guarantee	4	5	11	12
G: Product warranty	2	—	1	3
Service guarantee	—	—	1	1
H: Service warranty	2	—	—	1
"Guarantee"	—	1	2	4
I: "Warranty"	2	2	2	1
J: Coupon redemption	1	1	3	2
Commercial paper guarantee	—	—	1	3
Contract completion	—	—	—	1
Miscellaneous	—	—	—	2
Total	24	26	31	43
Terminology Used				
Reserve	10	15	21	29
Provision	4	2	5	6
Various other terms	10	9	5	8
Total	24	26	31	43
Number of Companies with:				
Guarantee or warranty reserves	20	23	30	41
No guarantee or warranty reserves	580	577	570	559
Total	600	600	600	600

*Refer to Company Appendix Section—A: 122, 229, 246, 406, 587; B: 197, 385, 528; C: 366, 506; D: 385; E: 73, 406; F: 229, 316, 475, 537; G: 166, 579; H: 166, 300; I: 6, 101; J: 264.

in the balance sheets among current liabilities, directly or in the notes, and 11 were shown above the stockholders' equity section.

Two companies (*406, 475) disclosed that the charge or credit offsetting the reserve entry was made to an income account, while little or no information was provided by other companies concerning the nature or amount of increases or decreases in such accounts. References to companies revealing guarantee or warranty reserves are shown at the foot of Table 35, and examples of such reserves are given below.

Reserves for Product Guarantee or Warranty

JOHNS-MANVILLE CORPORATION
Above Stockholders' Equity
Reserves for self-insurance and product guarantees $4,413,000

*Refer to Company Appendix Section.

MOTOROLA, INC.
Current Liabilities
Product and service warranties $2,973,026

THE RUBEROID CO.
Above Stockholders' Equity
Reserve for bonded roofs $1,200,000
Source and Application of Funds
Reduction in reserve for bonded roofs ..... $ 231,128

STUDEBAKER CORPORATION
Current Liabilities
Reserve for product warranty $2,743,403

TECUMSEH PRODUCTS COMPANY
Above Stockholders' Equity
Provision for product guarantee $1,159,681

THE VENDO COMPANY
Above Stockholders' Equity
Reserve for Product Warranty $361,804

Reserves for Service Guarantee or Warranty

CONTROL DATA CORPORATION
Above Stockholders' Equity
Reserve for product and service warranties $112,526

HUPP CORPORATION
Above Stockholders' Equity
Reserves:

Federal income taxes—Note B	$1,740,249
Service warranty	760,000
Pensions and deferred compensation	370,000
	$2,870,249

SONOTONE CORPORATION
Current Liabilities
Provision for service guarantees and sundry liabilities $280,711

Other Guarantee or Warranty Reserves

ADMIRAL CORPORATION
Above Stockholders' Equity
Reserves for Warranties and Other Deferred Credits:
Reserves for warranties, less Federal and foreign income taxes thereon (1965—$1,576,354; 1964—$1,304,873) $1,684,867

BORG-WARNER CORPORATION
Above Stockholders' Equity
Provision for warranties and special purposes $6,153,262

INSURANCE RESERVES

There were 62 insurance reserves shown by 53 of the 600 survey companies in their 1965 annual reports. Table 36 discloses the various types of insurance reserves together with their balance sheet presentation.

Of the 62 reserves disclosed, 60 were presented above the stockholders' equity section. The remaining two were shown among the current liabilities.

Examples illustrating the presentation in the financial statements of insurance reserves follow.

TABLE 36: INSURANCE RESERVES

	Balance Sheet Presentation*	1965	1960	1955	1950
	Among: *Current Liabilities* for—				
A:	Self-insurance	2	2	1	—
	Workmen's compensation self-insurance	—	—	1	1
	Workmen's compensation	—	1	1	—
	Miscellaneous	—	—	1	3
	Above: *Stockholders' Equity* for —				
B:	Self-insurance**	2	2	5	7
C:	Self-insurance	23	20	18	22
D:	Workmen's compensation self-insurance	7	12	18	34
E:	Workmen's compensation**	3	1	7	5
F:	Workmen's compensation	2	14	14	13
	General insurance**	—	—	2	1
G:	General insurance	13	18	22	31
H:	Fire loss	2	8	4	8
I:	Fire loss**	1	—	—	—
J:	Accident insurance	2	2	2	5
K:	Public liability	1	—	2	5
	Employer's liability	—	1	2	2
L:	Marine insurance	3	—	1	2
M:	Tornado insurance	1	—	1	2
	Casualty risks	—	—	1	2
	Within: *Stockholders' Equity* for —				
	Self-insurance**	—	1	2	1
	Self-insurance	—	1	—	—
	General insurance	—	—	4	4
	Employer's liability	—	—	1	—
	Fire loss	—	2	2	1
	Miscellaneous	—	—	—	2
	Total	62	85	112	151
	Terminology Used				
	Reserve	57	80	98	136
	Provision	1	2	5	7
	Various other terms	4	3	9	8
	Total	62	85	112	151
	Number of Companies with:				
	Insurance reserves	53	73	102	128
	No insurance reserves	547	527	498	472
	Total	600	600	600	600

*Refer to Company Appendix Section—A: 200, 229; B: 243, 347; C: 3, 14, 38, 69, 82, 131, 175, 196, 202, 226, 266, 267, 291, 316, 395, 401, 428, 449, 477, 526, 539, 553, 594; D: 9, 51, 203, 291, 301, 478, 575; E: 43, 100, 157; F: 120, 159; G: 20, 165, 285, 310, 393, 410, 441, 500, 501, 505, 515, 567, 568; H: 517, 569; I: 478; J: 478, 569; K: 43; L: 43, 517, 569; M: 569.
**With cash or securities segregated therefor.

Self-Insurance Reserves

ACME MARKETS, INC.
Above Stockholders' Equity
Reserve for self insurance and unfunded retirement benefits $581,567

ALLIED MILLS, INC.
Above Stockholders' Equity
Reserve for Self-Insurance, etc. $712,890.28

THE FLINTKOTE COMPANY
Current Liabilities
Reserves for product guarantees and self-insurance $1,688,318

NATIONAL TEA CO.
Other Liabilities:

Deferred Federal income taxes	$5,646,000
Self-insurance	390,000
	$6,036,000

UNION OIL COMPANY OF CALIFORNIA
Above Stockholders' Equity
Allowance for self-insured risks, contingencies, etc. $7,429,000

WEST POINT-PEPPERELL, INC.
Above Stockholders' Equity
Reserves for self-insurance $400,000

Workmen's Compensation Reserves

ALAN WOOD STEEL COMPANY
Above Stockholders' Equity
Reserves:

Rebuilding and repairs	$ 695,715
Workmen's compensation, supplemental unemployment benefits, etc.	1,547,269

THE AMERICAN SHIP BUILDING COMPANY
Above Stockholders' Equity
Reserves:

For workmen's compensation and public liability self-insurance	$131,728
For insurance on floating equipment and cargo loss	51,550
Total Reserves	$183,278

Noncurrent Assets
Investments and Other Assets:

United States Treasury Bonds, pledged with United States Department of Labor in connection with workmen's compensation guarantees, at cost (quoted market: 1965, $253,588—1964, $265,444)	$274,482
Miscellaneous receivables and investments	451,838
Total Investments and Other Assets	$726,320

CONSOLIDATED LAUNDRIES CORPORATION
Above Stockholders' Equity
Reserves:

Workmen's compensation insurance	$ 75,000
Contingencies	80,000
Total Reserves	$155,000

Noncurrent Assets
Investments and Other Assets:

United States and municipal bonds on deposit with State of New York Workmen's Compensation Board—at cost	$161,810
Unconsolidated Canadian subsidiary—at cost after adjustment for undistributed net income since acquisition	236,415
Other receivables (including advances to unconsolidated Canadian subsidiary — 1965, $58,163; 1964, $48,291)	302,919
Total Investments and Other Assets	$701,144

THE ANACONDA COMPANY
Above Stockholders' Equity

Other Liabilities, Deferred Credits and Reserves:	
Deferred payments on property purchased	$ 7,335,886
Deferred credits	17,873,339
Reserve for workmen's compensation insurance and employee termination benefits	4,164,029
	$29,373,254

THE EASTERN COMPANY
Above Stockholders' Equity

Reserve for Workmen's Compensation Awards $30,000

HOLLY SUGAR CORPORATION
Above Stockholders' Equity

Reserves (principally self-insurance for certain property and workmen's compensation risks) $2,288,305

HYGRADE FOOD PRODUCTS CORPORATION
Above Stockholders' Equity

Other Liabilities and Reserves:
Self-insurance—workmen's compensation ... $100,000

Fire Insurance Reserves

ST. JOSEPH LEAD COMPANY
Above Stockholders' Equity

Reserves:	
Injury claims and workmen's liability insurance	$ 612,679
Employees life insurance and retirement	250,061
Fire insurance (see contra)	360,574
	$1,223,314

Noncurrent Assets

Other Assets:	
Securities on deposit with Governmental agencies	$ 963,429
Cash and marketable securities—Fire Insurance Fund (see contra)	360,574
	$1,324,003

STANDARD OIL COMPANY (NEW JERSEY)
Above Stockholders' Equity

Annuity, insurance and other reserves $420,990,000

Notes to Financial Statements

Annuity, Insurance, and Other Reserves: At December 31, 1965, annuity, insurance, and other reserves comprised the following:

Annuities	$276,106,000
Employee service and separation allowances	61,255,000
Marine and fire insurance	49,013,000
Other	34,616,000
Total	$420,990,000

The consolidated companies' liabilities under annuity plans were, in general, fully covered at December 31, 1965, either through funds deposited with trustees and insurance companies or by book reserves.

Other Insurance Reserves

AMERADA PETROLEUM CORPORATION
Above Stockholders' Equity

Reserves:	
Insurance	$ 691,333
Contingencies	6,238,606
Total Reserves	$6,929,939

INTERNATIONAL PAPER COMPANY
Above Stockholders' Equity

Reserves:	
Insurance	$ 2,888,241
Contingencies	5,110,772
Deferred income taxes	13,348,338
	$21,347,351

NATIONAL DAIRY PRODUCTS CORPORATION
Above Stockholders' Equity

Other:	
Deferred taxes on income	$11,289,567
Reserves for insurance, etc.	3,882,383
Minority interest in subsidiaries	1,095,369
	$16,267,319

PROPERTY RESERVES

The reserves encompassed under this heading are apart from the normal property revaluation allowances, such as for depreciation, depletion, or obsolescences; these accumulations and annual charges are discussed in Section 3.

Table 37 discloses in a comparative summary for the years 1965, 1960, 1955, and 1950 the various types of property reserves shown in the annual reports of the 600 survey companies, and their balance sheet presentation. Forty-two survey companies presented 46 reserves in their 1965 reports. The reserves were presented most frequently above the stockholders' equity section of the balance sheet (24 reserves in 1965). Eighteen were presented with the related assets.

In instances where there were increases or decreases in these reserves during 1965 the offsetting debits or credits were disclosed in only a few of the reports. In several cases the disclosed entries were shown in the income account (*21, 119, 265, 338).

A complete list of references is given at the foot of Table 37 to companies revealing various property reserves.

Examples—Property Reserves

Revaluation of Property, and Loss on Disposal of Property

ALLIS-CHALMERS MANUFACTURING COMPANY
Noncurrent Liabilities and Reserves

Reserve for expenses in discontinuing certain products and facilities $9,133,935

Notes to Financial Statements

Note 5: *Reserves*—Charges totaling $2,059,247, net of Federal income taxes, were made to the reserve for losses and expenses associated with the discontinuance of operations at the Terre Haute Plant and the steam turbine-generator and related steam condenser business at the West Allis Plant. The phasing out of these operations has been substantially completed. Certain contingencies remain outstanding, and the amount to be restored to earnings retained, if any, cannot be determined until 1967 at the earliest.

*Refer to Company Appendix Section.

THE CUDAHY PACKING COMPANY
Noncurrent Assets

Property and Equipment (Notes 2 and 5):			
Operating property—	Cost	Reserves	Net
Meat operations (Note 1)	$34,362,561	$31,381,084	$2,981,477
Other	9,530,535	4,683,359	4,847,176
Property held for sale	920,183	392,598	527,585
	$44,813,279	$36,457,041	$8,356,238

Combined Income and Retained Earnings Statement

Income (loss) before depreciation on midwestern meat packing plants	$ (984,375)
Depreciation on midwestern meat packing plants (Note 1)	890,282
Net Income (Loss) for the Year (Note 7)	$ (1,874,657)
Special Charges:	
Reserve provided equal to net book value of property and equipment at midwestern meat packing plants and elimination of related deferred charges (Note 1)	(14,877,311)
Cost of partial discontinuance of Omaha and general office operations and sale of Los Angeles plant	(2,559,658)
Total Special Charges	(17,436,969)
	$(19,311,626)

Note 1: *Midwestern Meat Packing Plants*—Operating income at the Company's four midwestern meat packing plants (Omaha, Wichita, Denver and Salt Lake City) has been generally unsatisfactory in recent years, and management studies give no assurance that significant long-term improvement can be expected. Earnings of these plants have not been sufficient to cover applicable depreciation, general office administrative and interest costs. In recognition of the loss in value of these plants as measured by their demonstrated lack of earning power, the Board of Directors determined that a special reserve should be provided equal to the net book value of the property and equipment at the four plants. No salvage values were reflected in view of the substantial contingent liabilities under the labor contract covering employees at these plants—see Note 4. This action was taken upon the recommendation of Arthur Andersen & Co., the Company's auditors. The special property reserve ($13,789,617) and the elimination of related deferred charges ($1,087,694) have been reflected as a special charge in the accompanying statements of income and earned surplus.

Depreciation expense for these plants has been provided for 1965 and 1964, and has been shown separately on the statement of income. Such depreciation provisions will no longer be required; however, property renewals, replacements and additions at these plants (which amounted to $175,000 in 1965 and $160,000 in 1964) will be charged directly to expense in future years.

The accompanying statement of income has been prepared to show the operations of the midwestern meat packing plants separately from other operations of the Company and its subsidiaries.

GENERAL BAKING COMPANY
Noncurrent Assets

Property and Plant (at cost):	
Land	$ 2,725,041
Buildings, machinery and equipment	66,702,524
Less—Accumulated depreciation including, in 1965, $1,750,000 reserve for losses on disposal of facilities (Note 1)	45,035,177
	21,667,347
Total Property and Plant	$24,392,388

Note 1: *Disposal of Unprofitable Facilities*—During 1965, the company adopted a program for the discontinuation of unprofitable operations and the disposal of idle facilities. The losses and provision for estimated future losses resulting from this program are set forth as a special charge in the amount of $4,398,269, less related federal income tax reduction of $1,907,000 in the statement of income and retained earnings. The facilities disposed of or scheduled for disposal had gross sales of approximately $35,400,000 and operated at a loss of approximately $2,450,000 in 1965, which is included in the loss before federal income taxes.

TABLE 37: PROPERTY RESERVES

	Balance Sheet Presentation*	1965	1960	1955	1950
	With: *Related Fixed Assets* for—				
A:	Revaluation of property	4	6	2	7
B:	Loss on property	10	16	5	3
	Extraordinary depreciation	—	—	5	10
C:	Purpose not stated	1	1	1	—
D:	Intangible drilling costs	1	1	1	—
E:	Obsolescence of property	1	—	—	—
F:	Miscellaneous	1	—	1	1
	Among: *Current Liabilities* for—				
G:	Furnace rebuilding, relining	1	2	1	—
H:	Moving expenses (Miscellaneous in 1950)	1	—	—	1
	Above: *Stockholders' Equity* for —				
I:	Loss on property	5	—	—	—
J:	Furnace rebuilding, relining	7	7	9	13
K:	Glass tank renewal	1	1	1	1
L:	Plant rehabilitation	1	—	3	1
M:	Repairs, painting, maintenance	8	8	10	13
	Mine development costs	—	1	1	1
N:	Moving expenses	2	2	—	—
	Normal depreciation	—	4	2	4
	Obsolescence of property	—	1	2	3
	Accelerated amortization	—	—	1	1
	Higher plant replacement costs	—	1	3	9
	Miscellaneous	—	—	3	10
	Within: *Stockholders' Equity* for—				
O:	Revaluation of property	1	2	2	4
	Loss on property	—	1	1	1
	Plant contingencies	—	—	1	—
	Higher plant replacement costs	—	4	6	13
	Steamship replacements	—	—	1	—
	Property replacement	—	1	—	—
P:	Miscellaneous	1	—	—	1
	Total	46	59	62	97

Terminology Used	1965	1960	1955	1950
Reserve	35	37	44	65
Provision	4	5	4	8
Allowance	3	N/C	N/C	N/C
Various other terms	4	17	14	24
Total	46	59	62	97

Number of Companies with:	1965	1960	1955	1950
Property reserves	42	53	53	81
No property reserves	558	547	547	519
Total	600	600	600	600

N/C—Not compiled.
*Refer to Company Appendix Section—A: 13, 119, 159, 177; B: 89, 123, 154, 210, 229, 240, 248, 251, 296, 528; C: 548; D: 20; E: 265; F: 523; G: 216; H: 21; I: 16, 138, 248, 425, 571; J: 9, 41, 176, 338, 399, 416, 433; K: 299; L: 150; M: 9, 136, 138, 165, 196, 266, 399, 441; N: 464, 592; O: 589; P: 568.

J. I. CASE COMPANY
Noncurrent Assets

Properties, at cost:	
Land	$ 2,385,197
Buildings	28,314,149
Machinery and equipment	60,785,041
	91,484,387
Less accumulated depreciation and reserve of $523,174 and $739,204, respectively, for estimated losses on disposal of plant facilities	49,090,474
	$42,393,913

GENERAL MILLS, INC.
Above Stockholders' Equity

Reserve for disposition losses (Note 8) $13,320,218

Notes to Financial Statements

Note 4: Land, Buildings and Equipment—

Buildings and equipment	$219,256,225
Less accumulated depreciation	82,233,994
Depreciated cost of buildings and equipment	137,022,231
Land	5,763,255
	142,785,486
Provision for losses on disposition of facilities (Note 8)	15,388,478
Net value	$127,397,008

Land, buildings and equipment are stated substantially at cost. Depreciation included in the accompanying financial statements for the most part has been provided by the straight-line method.

Note 8: Extraordinary Costs—On June 3, 1965, the Board of Directors authorized the company to withdraw from a major portion of its flour milling business. Costs of discontinuing such operations and disposing of facilities no longer required have been estimated at $12,764,000 (after income tax credits of $10,443,000). This amount was provided from earnings employed in the business in the fiscal year ended May 30, 1965, but will be shown as a special charge after the determination of net income in the company's annual report (Form 10-K) filed with the Securities and Exchange Commission.

HOUDAILLE INDUSTRIES, INC.
Noncurrent Assets

Property, Plant, and Equipment—At cost:	
Gross book value	$84,392,994
Less accumulated depreciation, depletion, amortization and provision for loss on disposal $315,000	51,096,795
Property, Plant, and Equipment—net	$33,296,199

Moving Expenses

AMERICAN AIR FILTER COMPANY, INC.
Current Liabilities

Reserve for 1966 plant relocation expense, net of income taxes (Note 5) .... $ 219,000

Income Statement

Other Deductions:	
Interest expense and miscellaneous	$ 388,969
Provision for 1966 plant relocation expense, net of income taxes (Note 5)	219,000
	607,969
Earnings Before Income Taxes	$5,237,727

Note 5: Plant Relocation—The Company has entered into an agreement with the City of Brownsville, Tennessee, to lease a new plant for the purpose of manufacturing products now produced at the Morrison, Illinois, plant. The Brownsville plant and related machinery have been financed by an industrial revenue bond issue of $3,200,000 which will be amortized by lease payments over a twenty year period. The sale of the Morrison property has been arranged and, during 1966, operations will be transferred from it to the Brownsville facility. The Company has established a reserve to cover the estimated costs to be incurred in 1966 in connection with this transfer by means of a charge to 1965 operations of $219,000 which is net of related income taxes.

REVERE COPPER AND BRASS INCORPORATED
Above Stockholders' Equity

Reserve for Plant Relocation Costs (Note E) $1,376,742

Note E: Reserve for Plant Relocation Costs—During 1964, the Company sold, under threat of condemnation, its plant located at Santa Ana, California, for $2,060,346. No gain has been recognized on this sale, as the Company expects to incur substantial plant relocation and start-up costs. Accordingly, the excess of proceeds over the net book value of the property sold has been recorded as a reserve for such future costs.

Repairs, Furnace Rebuilding, and Leased Property Restoration

CITY STORES COMPANY
Above Stockholders' Equity

Reserves—Note G $3,506,932

Note G: Reserves—These have been provided for the following:

Restoration of leased properties	$ 441,899
Termination of store operations	350,789
Excess rentals	219,439
Deferred compensation	994,805
Real estate dispositions	1,500,000
	$3,506,932

Reserve for termination of store operations represents the estimated expense to be incurred at vacated stores, less amounts included in current liabilities. Reserve for real estate dispositions is net of expected federal income tax reduction.

CONTINENTAL STEEL CORPORATION
Above Stockholders' Equity

Reserves for Repairs, Compensation, Insurance, etc. $648,385

DRAVO CORPORATION
Above Stockholders' Equity

Other Liabilities and Reserves:	
Repairs and self-insured risks	$ 550,000
Deferred income taxes	3,163,000
Deferred compensation	663,000
Minority interest	376,238

LIBBEY-OWENS-FORD GLASS COMPANY
Above Stockholders' Equity

Reserve for Rebuilding Furnaces $4,982,455.97

NATIONAL STEEL CORPORATION
Above Stockholders' Equity

Reserves:	
General operating purposes, including pensions	$18,826,185
Prior years' federal income taxes	4,654,277
Rebuilding and repairs	11,104,771
Total Reserves	$34,585,233

OWENS-ILLINOIS, INC.
Above Stockholders' Equity

Reserves and Other Credits:	
Reserve for rebuilding furnaces	$13,128,554
Deferred U.S. and foreign income taxes (see page 20)	21,888,762
Obligations under foreign pension plans	6,229,725
Other liabilities and reserves	1,970,549

PITTSBURGH PLATE GLASS COMPANY
Above Stockholders' Equity

Accumulated Provisions:	
Maintenance and repairs	$ 8,449,000
Insurance and unfunded and uninsured pensions	4,069,000
Foreign operations	543,000
Total Accumulated Provisions	$13,061,000

TAX RESERVES

The 1965 annual reports of the 600 survey companies disclosed 530 tax reserves in the balance sheets of 392 companies. This is a significant increase over the number of tax reserves shown in 1960 (208 reserves by 185 companies), which in turn was a substantial increase over the number of tax reserves reported in 1955 and 1950. Table 38 presents more detailed comparisons.

As stated in the 1961 edition of *Accounting Trends and Techniques* the increase in the use of such reserves in 1960 over 1955 and 1950 was due mainly to the adoption of new depreciation methods which were recognized for tax purposes in the Internal Revenue Code of 1954. This resulted in the creation of new reserves for "future taxes" and/or deferral of tax benefits, where the liberalized depreciation rates permitted under the Code were used for tax purposes only. The committee on accounting procedure of the American Institute of Certified Public Accountants discusses this subject in Bulletin No. 44 (Revised) *Declining-balance Depreciation.*† (See Section 3, "Depreciation.")

The more recent increase in the use of tax reserves stems primarily from two sources: (1) the adoption for income tax purposes of *New Depreciation Guidelines and Rules* issued by the United States Treasury Department's Internal Revenue Service as Revenue Procedure 62-21, effective July 12, 1962, and (2) the application of the investment credit accounting, also for tax purposes, as provided for in the Revenue Acts of 1962 and 1964. Frequently, under both these procedures, currently taken tax benefits are deferred for corporate accounting and reporting purposes. The accounting principles board of the American Institute of Certified Public Accountants has dealt with the accounting for *New Depreciation Guidelines and Rules* in its *Interpretive Opinions Bulletin No. 1,* also with *Accounting for the "Investment Credit"* in its *Opinions Bulletins, Nos. 2* and *4*. This is reported on later in this section.

Tax reserves were presented most frequently above the stockholders' equity section of the balance sheet (512 reserves in 1965). Table 38 discloses the various types of tax reserves and their presentation. Generally, additional comments and detailed information regarding these reserves were provided in the notes to financial statements or in the president's letter.

The following information with regard to charges or credits offsetting the reserve entry was provided by the 600 reports surveyed:

A:	Offsetting entry made to income account*	213
B:	Offsetting entry within retained earnings account*	1
C:	No dollar change from previous year*	9
	Change in the tax reserve account apparent, but the entry not disclosed	306
D:	Other accounts*	1
	Total number of tax reserves	530

*Refer to Company Appendix Section—A: 13, 14, 159, 195, 260, 321, 329, 417, 570, 575; B: 62; C: 76, 197, 201, 216, 418, 436, 447, 469, 558; D: 401.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

The examples which follow illustrate the different types of reserves and their disclosure in the financial statements. (See also Section 3, Table 9, and the examples relative thereto.)

Prior Years' Taxes and Tax Contingencies

ART METAL, INC.
Above Stockholders' Equity

Estimated liability for contingent income taxes (Note 2)	$300,000

Note 2: Estimated Liability for Contingent Income Taxes—During the year, the Company reached an agreement with the Internal Revenue Service (subject to approval by the Joint Committee on Internal Revenue Taxation) with respect to its disputed income tax liability for prior years, and also settled the prior years' tax liabilities of a wholly-owned subsidiary and certain predecessor corporations. As a result of these actions it was necessary to make a further provision of $225,000 to the estimated liability for contingent income taxes.

A substantial portion of the tax deficiency will be recoverable under present carry-forward provisions of the Internal Revenue Code.

BASIC INCORPORATED
Above Stockholders' Equity

Long-term debt and reserve for taxes	$8,750,374

Notes to Financial Statements

Federal Income Taxes: Returns through the year 1957 have been examined by the Internal Revenue Service. Certain deficiencies have been paid, but claims for refund have been filed. The management considers that its reserve of $250,374 is sufficient to cover any possible liability for all prior years.

CITIES SERVICE COMPANY
Above Stockholders' Equity

Reserves and Deferrals:	
Prior years' and deferred income taxes	$ 60,880,121
Deferred credit resulting from installment sales of properties	32,494,172
Maintenance and other operating reserves	7,108,467
	$100,482,760

DRESSER INDUSTRIES, INC.
Above Stockholders' Equity

Reserves for Contingent Taxes on Income and Foreign Business Risks (classified as part of shareowners' equity in reports filed with the Securities and Exchange Commission)	$9,100,000

Notes to Financial Statements

Note E: Commitments and Contingencies—Total commitments under continuing mobile equipment leases were approximately $5,200,000 at October 31, 1965. Annual rental payments thereunder are approximately $1,700,000.

The federal income tax returns of the Company and certain of its subsidiaries for the fiscal years 1958, 1959 and 1960 are being examined by the Internal Revenue Service. The examination primarily concerns the earnings of foreign subsidiaries. Management is of the opinion that any additional tax liability that might ultimately be determined will be adequately covered by the Company's tax provisions and existing reserves.

TABLE 38: TAX RESERVES

Balance Sheet Presentation*	1965	1960	1955	1950
With: *Related Assets* for—				
A: Deferred tax on installment sales	1	1	1	1
Amortization of emergency facilities	—	1	1	1
B: New depreciation methods	2	1	—	—
C: Miscellaneous	1	3	1	—
Among: *Current Liabilities* for—				
D: Prior years' taxes	3	5	7	3
Tax contingencies	—	2	—	3
Deferred tax:				
E: On installment sales	9	2	1	1
Re amortization of emergency facilities	—	—	2	—
New depreciation methods	—	3	—	—
F: Taxes	1	—	—	1
G: Future taxes	1	1	—	—
Above: *Stockholders' Equity* for —				
H: Prior years' taxes	3	4	9	20
I: Tax contingencies	5	7	7	13
J: Future and deferred taxes (general or miscellaneous)	24	67	9	—
K: Taxes	12	4	1	5
L: Foreign taxes	10	6	—	—
Deferred tax:				
M: On installment sales	21	9	1	2
N: On mine development costs	5	4	2	—
O: Re amortization of emergency facilities under Certificates of Necessity	7	19	29	1
P: On undistributed earnings of consolidated foreign subsidiaries	12	6	—	—
Q: New depreciation methods (1954 Internal Revenue Code and 1962 "Guidelines")	348	61	7	—
R: Investment tax credit	65	—	—	—
Within: *Stockholders' Equity* for—				
Tax contingencies	—	2	1	1
Taxes	—	—	1	—
Total	530	208	80	52
Terminology Used				
Reserve	62	75	49	37
Provision	8	6	3	5
Deferred	437	—	—	—
Various other terms	23	127	28	10
Total	530	208	80	52
Number of Companies with:				
Tax reserves	392	185	73	50
No tax reserves	208	415	527	550
Total	600	600	600	600

*Refer to Company Appendix Section—A: 261; B: 243, 380; C: 51; D: 6, 195, 259; E: 33, 110, 142, 259, 262, 263, 450, 501, 506; F: 377; G: 259; H: 62, 136, 399; I: 31, 76, 159, 197, 418; J: 5, 18, 60, 66, 69, 87, 134, 135, 136, 178, 194, 216, 235, 275, 306, 359, 419, 435, 436, 481, 499, 500, 522, 576; K: 49, 117, 167, 299, 366, 368, 373, 393, 416, 465, 577, 578; L: 12, 144, 151, 153, 258, 279, 284, 372, 465, 558; M: 67, 102, 138, 190, 224, 235, 266, 275, 278, 299, 315, 342, 352, 360, 374, 382, 403, 424, 466, 487, 597; N: 44, 47, 229, 443, 539; O: 188, 220, 318, 321, 381, 433, 442; P: 1, 37, 182, 197, 249, 294, 330, 372, 374, 415, 419, 486; Q: 23, 82, 128, 156, 251, 298, 310, 378, 408, 469, 567, 597; R: 3, 87, 147, 178, 200, 271, 358, 383, 441, 481, 555, 597.

GIMBEL BROTHERS, INC.

Current Liabilities:

Notes payable	$ 8,000,000
Accounts payable	26,850,478
Employees' compensation	6,954,702
Federal income taxes (See Note 1):	
Current year	11,403,454
Deferred and prior years (See Note 2)	7,978,482
Other taxes	6,442,388
Long-term debt—portion due within one year	4,233,354
Miscellaneous	9,180,696
Total Current Liabilities	$81,043,554

Note 2: Deferred federal income taxes result from the adoption and consistent use by the Company, for federal income tax purposes only, of accelerated depreciation and the instalment method of reporting income from certain instalment type credit sales and from the "investment credit," the benefits from which are being recognized for financial statement purposes over the useful lives of these assets. In addition, accruals for federal income taxes remaining after payments of amounts shown on the tax returns are continued pending final review and determination.

NATIONAL STEEL CORPORATION

Above Stockholders' Equity

Reserves:	
General operating purposes, including pensions	$18,826,185
Prior years' federal income taxes	4,654,277
Rebuilding and repairs	11,104,771
Total Reserves	$34,585,233

Deferred Tax on Installment Sales

ASSOCIATED DRY GOODS CORPORATION

Above Stockholders' Equity

Deferred Federal Income Taxes (Note D) .. $8,173,000

Note D: *Deferred Federal Income Taxes* result from the use, for tax purposes, of accelerated depreciation methods, and the instalment method of accounting for deferred payment sales.

CLUETT, PEABODY & CO., INC.

Current Liabilities:

Notes payable	$15,877,160
Accounts payable	8,963,514
Foreign bank loans payable	1,320,014
Accrued taxes	6,426,311
Accrued payrolls and other items	10,076,447
	$42,663,446

Notes to Financial Statements

Reclassification of Deferred Income Taxes: At December 31, 1965 deferred income taxes of $1,069,000 resulting from adoption for tax purposes of the instalment method of accounting for retail store income are included in current liabilities. Deferred income tax reductions of $1,376,672 applicable to deferred compensation awards and $185,934 applicable to provisions for foreign operation losses at December 31, 1965 have been reclassified in Reserve for Compensation Awards and in Reserve for Foreign Operations. Corresponding amounts of deferred income taxes of $649,000, and deferred income tax reductions of $891,896, and $165,615, respectively, at December 31, 1964 have been reclassified to conform to the 1965 presentation.

DIANA STORES CORPORATION

Above Stockholders' Equity

Deferred Federal Income Taxes Payable (Note 4) $229,365

Note 4: *Deferred Federal Income Taxes*—For income tax purposes the company reports profits from charge account sales as they are collected from customers. Future income taxes, payable upon such collections, are included in deferred Federal income taxes payable.

GOLDBLATT BROS., INC.

Current Assets:

Cash	$ 1,129,288
Receivables (including $3,100,000 at January 30, 1965, due after one year) less allowance of $4,938,855 and $3,829,560 at respective dates for doubtful accounts, deferred income taxes on installment sales and unearned carrying charges	18,425,181
Merchandise inventories and supplies, priced at the lower of cost or market, primarily by the retail method applied in part (approximately 70% in both years) on a "last-in, first-out" basis	25,018,496
Prepaid expenses and insurance company receivable	5,306,347
Total Current Assets	$49,879,312

SEARS, ROEBUCK AND CO.

Above Stockholders' Equity

Deferred Income Taxes (Note 4) $453,570,000

Note 4: *Taxes*—For income tax purposes, the Company uses the installment method of reporting its income. Under this method, the tax on the profit from an installment sale is payable when the profit is realized by a collection from the customer or through the sale of the account. However, the Company prepares its consolidated financial statements on the accrual basis wherein the profit on an installment sale is included in income at the time of sale, and the provision for Federal income taxes is charged against income concurrently.

THE SINGER COMPANY

Current Liabilities:	(In thousands)
Accounts payable and accrued expenses	$ 86,191
Loans and overdrafts (principally foreign banks)	163,503
Federal and foreign income taxes	69,116
Total Current Liabilities	$318,810

Notes to Financial Statements

Federal and Foreign Income Taxes: Income tax liabilities include amounts shown in prior annual reports as Deferred Federal and foreign income taxes. These relate principally to instalment sales.

Deferred Taxes re Amortization of Emergency Facilities under Certificates of Necessity

DETROIT STEEL CORPORATION

Above Stockholders' Equity

Reserve for Future Federal Income Taxes . $14,940,000

Notes to Financial Statements

Property, Plant, and Equipment, Reserve for Future Income Taxes, and Investment Credit: A substantial portion of the cost of facilities acquired under Certificates of Necessity has become fully amortized for federal income-tax purposes, and, as a result, depreciation provided in the financial statements for 1965 and 1964, which is based on normal service lives, was $1,785,000 and $1,673,000 greater, respectively, than the amounts deductible for income-tax purposes. The estimated taxes applicable thereto of $940,000 and $895,000, respectively, have been charged against the reserve for future federal income taxes provided for such purpose in prior years.

The Corporation has included the entire amount of the investment credit ($581,000 in 1965 and $1,231,000 in 1964) in income. Credits deferred in prior years by means of offsetting depreciation provisions ($509,000) were transferred to other income in 1964.

PHILADELPHIA AND READING CORPORATION

Above Stockholders' Equity

Deferred Federal Income Taxes (Note 5) .. $14,732,000

Note 5: Lone Star Steel Company, a subsidiary, provides for deferred federal taxes on earnings resulting from deductions for accelerated amortization of emergency facilities and depreciation at guideline rates, etc., less amounts charged to expense currently but not currently deductible for tax purposes (provisions for bargaining unit pensions, relining furnaces, etc.) and applies the amounts accumulated in deferred taxes on earnings in prior years as reductions of charges for federal taxes on earnings thereafter.

Deferred Taxes re New Depreciation Methods

BATES MANUFACTURING COMPANY, INCORPORATED

Above Stockholders' Equity

Deferred Federal Taxes on Income (Note 4) $1,091,000

Note 4: *Deferred Federal Taxes on Income*—In 1962 the Company commenced using "Guideline" procedures authorized by the Internal Revenue Service in computing depreciation for Federal income tax purposes. The portion of the resulting reductions in Federal income taxes, which is postponed to future years, has been offset in the statement of consolidated income by a provision for deferred taxes.

All taxes applicable to the year ended January 1, 1966, represent deferred taxes.

BROWN SHOE COMPANY, INC.

Above Stockholders' Equity

Deferred Income Taxes $1,144,065

Financial Review

Deferred Income Taxes: Deferred income taxes in the amount of $1,144,065 at October 31, 1965 substantially comprise income taxes deferred to future years as a result of the Company's adoption, retroactive to fiscal year 1962, of guideline lives for certain classes of depreciable property for federal income tax purposes. The provision for income taxes for the fiscal year 1965 included $337,000 for deferred income taxes.

CONTINENTAL CAN COMPANY, INC.

Above Stockholders' Equity

Reserves:	(In thousands)
Deferred Income Taxes	$59,856
Other	11,060
	$70,916

Financial Review

Depreciation and Income Taxes: The provision for depreciation and depletion in 1965 was $45,094,000, compared with $44,083,000 in 1964.

We continued to use accelerated depreciation methods and useful life guidelines permitted by the Internal Revenue Service for tax purposes, thus reducing income taxes payable on 1965 earnings by approximately $9,827,000. These current tax savings have been added to the reserve for deferred income taxes and do not affect reported income since straight line depreciation, consistent with prior years' reporting, is used for financial statement purposes.

The investment tax credit arising in 1965, and used to reduce the provision for income taxes, was $2,920,000; the comparable figure in 1964 was $2,670,000. The 1964 provision for income taxes was also reduced by the unamortized portion of the investment tax credit for 1962 and 1963 ($1,800,000).

GENERAL CABLE CORPORATION

Noncurrent Assets

Property, Plant and Equipment (Note 2, page 12):	
Land	$ 2,450,329
Buildings	35,330,883
Machinery, equipment, containers, etc.	85,065,726
	122,846,938
Less reserves for depreciation	62,139,618
	$ 60,707,320

Note 2: Property, plant and equipment are stated generally at cost less depreciation. The Corporation elected in 1962 to determine depreciation for Federal income tax purposes based on guideline rates which exceed those used for financial reporting purposes. Also, as in prior years, a method of accelerated depreciation has been used for tax purposes with respect to certain facilities. There has been included in the provision for depreciation $1,135,000 in 1965 and $707,000 in 1964 which amounts are equal to the reduction in Federal income tax resulting from the additional depreciation allowable.

The investment credit of $675,000 in 1965 and $250,000 in 1964 has been applied as a reduction of the provision for Federal income tax. Miscellaneous operating income for the year 1964 includes $223,000 representing investment credits deferred in prior years.

HUDSON PULP & PAPER CORP.
Above Stockholders' Equity

Reserve for Deferred Federal Income Taxes—Note B	$3,700,000

Note B: The reserve for deferred Federal income taxes represents principally the tax effects of using for tax purposes only an accelerated depreciation method and depreciation guidelines issued by the Treasury Department.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

THE YOUNGSTOWN SHEET AND TUBE COMPANY
Above Stockholders' Equity

Reserve for Future Federal Income Taxes (Note 1)	$47,700,000

Note 1: *Provision for Federal Income Taxes*—Federal income taxes in 1965 amounted to $31,750,000, after investment credits of $5,167,000, of which $27,100,000 was charged to income. The remaining $4,650,000 was charged to the reserve for future federal income taxes provided in prior years, of which $2,430,000 resulted from an excess of Erie Mining Company's book costs over those allowable for tax purposes and $2,220,000 resulted from an excess of book depreciation over tax depreciation on fixed assets acquired prior to 1955.

Deferred Taxes re Undistributed Earnings of Consolidated Foreign Subsidiaries

AMERICAN MOTORS CORPORATION
Other Liabilities:

Executive compensation payable after one year, less applicable income taxes	$ 380,261
Deferred income taxes (Note D)	5,301,060
Total Other Liabilities	$5,681,321

Note D: *Taxes on Income*—The taxes on income are stated after investment credit applicable to United States taxes of $1,069,828 in 1965 and $3,117,386 in 1964.

Deferred taxes on income are applicable principally to undistributed earnings of subsidiaries and depreciation of property, plant, and equipment deducted for tax purposes but not for financial reporting purposes.

In connection with the examination of tax returns filed by the Corporation and its predecessors in prior years, the Internal Revenue Service has proposed numerous adjustments. The most important of these adjustments relates to the transactions involving the Hudson Motor Car Company merger and, if sustained, would result in significant tax deficiencies. The Corporation, upon advice of counsel, proposes to contest these adjustments and believes that the ultimate liability for additional taxes will not exceed the amount provided therefor in the financial statements.

CUTLER-HAMMER, INC.
Above Stockholders' Equity

Reserve for deferred Federal taxes on income	$4,012,508

Financial Review

On some of its plant and equipment the company is allowed depreciation for tax purposes which exceeds that included in costs and expenses. The reduction in current income tax payable is included in the income tax provision and added to the reserve for deferred Federal taxes on income. This reserve also includes provision for income taxes on unremitted earnings of consolidated foreign subsidiaries which may be payable in the event of transfer of such earnings to the parent company.

G. D. SEARLE & CO.
Above Stockholders' Equity

Reserve: For possible losses on foreign investments and future income taxes on undistributed earnings of foreign subsidiaries	$1,580,000

Other Tax Reserves

THE FLINTKOTE COMPANY
Above Stockholders' Equity

Deferred taxes on income (Note 3)	$17,328,711

Note 3: Depreciation for book purposes is provided on the straight-line method and for certain assets is less than depreciation claimed for income tax purposes. Further, certain mine development costs are claimed for income tax purposes as incurred but for book purposes are deferred and amortized on a per-ton-mined basis. The resulting current tax benefits are deferred to subsequent periods when book provisions for depreciation and amortization will exceed the amounts allowable for income tax purposes.

HARSCO CORPORATION
Above Stockholders' Equity

Reserves:	
Deferred foreign income tax	$1,255,601
Unremitted foreign income	1,002,915
Deferred investment credit	710,243
	$2,968,759

REXALL DRUG AND CHEMICAL COMPANY
Above Stockholders' Equity

Deferred United States and foreign income taxes	$9,000,000

Notes to Financial Statements

Income Taxes: Claims for refund of United States taxes were filed in 1953 based upon the contention that the excess profits tax credits should be increased for the years 1940 to 1945, inclusive. In connection with such claims, waivers have been executed and are still outstanding as to certain of such years. While final action has not yet been taken on the claims, the Treasury Department has made protective assessments of additional income taxes for 1942, 1943 and 1944 based principally upon substantial reductions claimed in the amount of income subject to excess profits taxes in those years. If the proposed adjustments giving rise to the protective assessments are approved, the reduction in excess profits taxes will substantially exceed the related income tax assessed, whereas disapproval of the proposed adjustments would substantially eliminate the basis for the additional income tax assessments. No amounts have been included in the financial statements with respect to these claims or the protective assessments.

Rexall deducts accelerated and guideline depreciation on certain properties for tax purposes. Further, certain process development costs are deducted for tax purposes as incurred. Provision is made currently for taxes which will become payable in future years when book amortization and depreciation on a straight line basis will exceed amounts allowable for tax purposes. Provision for such future taxes amounted to $650,000 in 1965. The increase applicable to foreign taxes due after one year was $250,000.

Investment tax credits of $550,000 have been applied to reduce the 1965 tax provision.

UNITED FRUIT COMPANY
Above Stockholders' Equity

Deferred European Income Taxes	$4,816,000

INVESTMENT CREDIT

The Revenue Act of 1962 provides a credit against income taxes otherwise payable. Generally, under the law, up to 7 per cent of the cost of certain depreciable assets purchased and put in service during the year is allowed as a credit against Federal income taxes.

The objective of the investment credit, as has been stated, is to encourage modernization and expansion of the nation's productive facilities and thereby improve the economic potential of the country.

The accounting principles board of the American Institute of Certified Public Accountants issued *Opinion No. 2* in December, 1962—*Accounting for the "Investment Credit"*—with the following recommendation:

> 13. We conclude that the allowable investment credit should be reflected in net income over the productive life of acquired property and not in the year in which it is placed in service.

> 14. A number of alternative choices for recording the credit on the balance sheet has been considered. While we believe the reflection of the allowable credit as a reduction in the net amount at which the acquired property is stated (either directly or by inclusion in an offsetting account) may be preferable in many cases, we recognize as equally appropriate the treatment of the credit as deferred income, provided it is amortized over the productive life of the acquired property.

Notwithstanding the above recommendation, however, it was recognized that:

> 7. A refinement of the tax reduction concept advocates that 48% of the investment credit (the maximum extent to which the credit normally can increase net income, assuming that the income tax rate is 52% should be recorded as a reduction of tax expense of the year in which the credit arises; the balance of 52% should be deferred to subsequent accounting periods, as provided in Chapter 10(b) of *Accounting Research Bulletin No. 43*† because of the statutory requirement that the basis of the property be reduced for tax purposes by the amount of the investment credit.

Subsequent to the issuance of *Opinion No. 2* by the accounting principles board, the Revenue Act of 1964 eliminated the requirement imposed by the Revenue Act of 1962 that the investment credit be treated for income tax purposes as a reduction in the basis of the property to which the credit relates. The accounting principles board in *Opinion No. 4,* issued in March, 1964, amended its earlier opinion and concluded as follows:

> 8. It is the conclusion of this Board that the Revenue Act of 1964 does not change the essential nature of the investment credit and, hence, of itself affords no basis for revising our Opinion as to the method of accounting for the investment credit.
>
> 9. However, the authority of Opinions of this Board rests upon their general acceptability. The Board in the light of events and developments occurring since the issuance of Opinion No. 2, has determined that its conclusions as there expressed have not attained the degree of acceptability which it believes is necessary to make the Opinion effective.
>
> 10. In the circumstances the Board believes that, while the method of accounting for the investment credit recommended in paragraph 13 of Opinion No. 2 should be considered to be preferable, the alternative method of treating the credit as a reduction of Federal income taxes of the year in which the credit arises is also acceptable.
>
> 11. The Board emphasizes that whichever method of accounting for the investment credit is adopted, it is essential that full disclosure be made of the method followed and amounts involved, when material.

As might be expected, in view of the modification permitted in the use of the investment credit, as contained in the Revenue Act of 1964 and also as a result of the revised opinion expressed by the accounting principles board of the American Institute of Certified Public Accountants in its *Opinion No. 4,* the majority of companies, 226, indicated in their annual reports the use of the flow-through method of accounting in one form or another. Fifty-eight of the remaining companies adopted or continued to use the recommended productive life method, three companies used a period of years not related to productive life while two other companies made use of other variations. There were 165 companies which did not indicate that they availed themselves of the investment credit. In addition, 146 companies either did not disclose the method or referred to its use only in a prior year. Many of these 146 companies indicated in the prior year's report that they had adopted the flow-through method.

A summary of the various accounting treatments adopted by the 600 survey companies for the investment credit, is given in the following tabulation. It is supplemented by a listing of the companies, by company number, referring to the investment credit, and by examples from annual reports.

The following examples have been taken from the reports of the 600 survey companies.

Recommended Productive Life Method

INLAND STEEL COMPANY

Above Stockholders' Equity

Deferred Investment Tax Credit	$14,581,000

Review of Operations

As we reported last year, we are taking investment tax credits into income over the depreciable lives of the assets to which the credits are related. The amount of the credit for 1965 was $11,304,000 as compared with $2,587,000 for 1964. The amount of investment credit included in income for the year 1965 was $1,774,000, or 10 cents per share. In 1964 it was $823,000, or 4.5 cents per share. The deferred credit balance at December 31, 1965, amounted to $14,581,000, or 80 cents per share.

ROHM AND HAAS COMPANY

Above Stockholders' Equity

Deferred Income:	
Instalment notes receivable	$ 577,575
Investment credit	2,879,304
	$3,456,879

Letter to Stockholders

Taxes: Federal income tax returns of the parent company through 1959 have been examined and settled. As of December 31, 1965, returns for the years 1960 and 1961 were under Internal Revenue Service audit, which had not yet been concluded. It is believed that any final adjustments made for these and later years will not materially affect the financial condition of the company. Investment credit allowed under the Revenue Act of 1962, as amended, is being amortized over the productive lives of the related depreciable assets. Certain of the company's business for 1964 and 1965 is subject to renegotiation. The company believes that no provision for renegotiation is necessary for either of these years.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

ACCOUNTING FOR THE INVESTMENT CREDIT—1965

	Method Adopted*	Number of Companies
A:	Recommended productive life	58
B:	Amortized over a period of years not related to productive life	3
C:	Full flow-through for current year (entire credit reducing current Federal income tax provision, or taken into income)	169
D:	Flow-through for current and past years, but has unused investment credit carry-over at year-end	23
	Flow-through for current year; balance of previous years' deferred credit	
	E: taken into current income	6
	F: taken into retained earnings	2
	G: amortized over productive life of assets involved	20
	H: amortized over a period of years not related to productive life	2
	I: taken into prior year's income or retained earnings by means of restatement	3
	J: transferred to Federal income tax liability	1
K:	Other variations	2
L:	Referred to investment credit in report, but accounting method not disclosed	27
	Total	316
M:	Referred to investment credit in prior year, but not in current year	119
N:	Referred to investment credit, but procedure *not used*	1
	Investment credit not referred to	164
	Total	600
	Tax Credit Included*	
O:	in income	205
P:	in income, except for unused carry-over	21
Q:	with reserve for depreciation	11
R:	as deferred investment credit	40
S:	with deferred income taxes	10
T:	with other liabilities	2
	with no information in what accounts	27
	Total	316
	Investment credit referred to in prior year but not in current year	119
	Investment credit not referred to, or not used	165
	Total	600

*Refer to Company Appendix Section—A: 1, 7, 12, 17, 30, 50, 55, 61, 79, 82, 89, 97, 103, 121, 122, 125, 131, 135, 140, 146, 156, 200, 230, 231, 239, 246, 249, 255, 259, 264, 267, 271, 279, 304, 317, 327, 352, 356, 361, 370, 376, 390, 395, 422, 426, 434, 441, 457, 474, 511, 539, 548, 555, 556, 566, 569, 573, 597; B: 49, 87, 247; C: 2, 4, 6, 8, 9, 10, 14, 15, 16, 20, 22, 23, 26, 35, 37, 43, 47, 51, 54, 56, 59, 64, 67, 83, 90, 94, 98, 100, 101, 107, 108, 114, 118, 119, 126, 128, 130, 134, 136, 162, 167, 169, 170, 174, 175, 176, 182, 183, 184, 186, 187, 188, 201, 204, 205, 207, 208, 212, 214, 218, 220, 222, 233, 238, 243, 248, 251, 253, 254, 260, 265, 266, 269, 273, 274, 276, 277, 285, 291, 293, 294, 297, 298, 299, 302, 305, 306, 316, 318, 319, 324, 326, 329, 331, 335, 336, 345, 349, 350, 351, 353, 357, 367, 369, 372, 373, 379, 381, 382, 385, 391, 394, 397, 399, 406, 408, 409, 410, 414, 416, 430, 432, 437, 438, 439, 440, 443, 445, 450, 452, 454, 459, 463, 464 465, 467, 471, 475, 477, 479, 482, 483, 484, 488, 491, 496, 506, 512, 521, 522, 526, 530, 533, 535, 537, 543, 546, 549, 551, 552, 557, 562, 578, 580, 585, 588, 594, 595, 599; D: 41, 57, 66, 70, 112, 123, 148, 180, 199, 236, 321, 337, 339, 364, 403, 417, 436, 442, 485, 490, 503, 519, 590; E: 21, 38, 275, 309, 360, 421; F: 19, 268; G: 3, 45, 69, 147, 159, 161, 178, 241, 245, 286, 323, 332, 342, 398, 413, 427, 481, 520, 524, 589; H: 181, 567; I: 63, 428, 502; J: 334; K: 194, 229; L: 34, 139, 142, 145, 154, 155, 232, 244, 278, 283, 288, 325, 338, 378, 383, 400, 429, 462, 480, 489, 518, 542, 550, 554, 583, 586, 598; M: 11, 18, 24, 28, 40, 42, 48, 52, 60, 71, 73, 74, 76, 78, 80, 81, 86, 95, 96, 115, 120, 124, 127, 129, 137, 141, 153, 157, 160, 163, 165, 168, 185, 189, 191, 193, 196, 198, 203, 206, 219, 225, 226, 227, 228, 240, 257, 262, 263, 280, 292, 296, 300, 301, 308, 311, 313, 328, 330, 341, 343, 347, 355, 358, 359, 362, 371, 375, 377, 384, 386, 388, 389, 393, 402, 411, 412, 420, 423, 424, 431, 447, 449, 453, 455, 458, 460, 468, 470, 472, 487, 495, 499, 504, 507, 508, 509, 510, 516, 523, 525, 529, 531, 532, 544, 545, 547, 553, 559, 564, 572, 574, 575, 577, 587, 591, 592, 593, 600; N: 346; O: 90, 183, 350, 533; P: 66, 236, 364, 590; Q: 12, 121, 422, 573; R: 7, 200, 390, 554; S: 135, 259, 426, 539; T: 247, 249.

ANHEUSER-BUSCH, INCORPORATED

Above Stockholders' Equity

Deferred Items (Note 2):	
Income taxes	$6,160,000
Investment tax credit	2,447,373
	$8,607,373

Note 2: Deferred Items—The company uses guideline rates permitted by the Treasury Department in computing depreciation for income tax purposes. The income tax reduction of $2,660,000 in 1965 and $3,500,000 in 1964 resulted from higher depreciation for income tax purposes than for financial statement purposes. These amounts have been deferred to future years when depreciation reported in the financial statements may exceed the depreciation allowed as a tax reduction. There was no effect on net income for either year.

The investment credit provision of the Revenue Act of 1962 (amended in 1964) permitted the company to reduce federal income tax payments by $864,770 in 1965 and $730,513 in 1964. These amounts have been added to the current income tax provision in each year and will be reflected in net income over the productive lives of the qualified property additions.

CARNATION COMPANY
Noncurrent Assets

Plant Assets, at cost, less accumulated depreciation of $57,910,218 and $53,946,506 (Note 2)	$64,734,639

Note 2: Plant Assets, Less Accumulated Depreciation—Plant assets, carried at cost, at December 31, 1965 and December 31, 1964 comprised:

Buildings	$ 34,919,455
Leasehold improvements	2,017,368
Real estate improvements	2,675,926
Machinery and equipment	70,202,271
Furniture and fixtures	2,995,238
Automotive equipment	3,646,858
	116,457,116
Less—Accumulated depreciation	57,910,218
	58,546,898
Land	6,187,741
	$ 64,734,639

The reduction in income taxes resulting from the application of the investment tax credit as permitted by the Internal Revenue Act is being taken into income over the estimated useful lives of the related plant assets. The unamortized reserve for investment tax credit, aggregating $1,765,000 at December 31, 1965, has been included with depreciation in the consolidated balance sheet.

UNITED AIRCRAFT CORPORATION
Above Stockholders' Equity

Deferred Investment Tax Credit	$5,179,221

Letter to Stockholders

Federal Income Taxes: Federal income tax matters have been settled with the Internal Revenue Service through the year 1964. The accrual for federal income taxes of $28,544,360, included in the balance sheet at December 31, 1965, is believed to be adequate to cover all federal income tax liabilities of the Corporation.

The Corporation is entitled to an investment tax credit for the year 1965 of $1,900,803, relating to fixed assets acquired during the year. A method of recording the investment tax credit is followed whereby its effect upon net income is amortized over the useful lives of the related fixed assets. Such amortization credited to income in 1965 amounted to $916,301.

Full Flow-Through for Current Year

BEAUNIT CORPORATION
Notes to Financial Statements

Note 6: The Company accounts for the investment credits as a reduction of federal income tax expense in the year in which it is obtained. The credits for the 1965 and 1964 fiscal years amounted to approximately $570,000 and $310,000, respectively. Federal income tax expense for the 1964 fiscal year was also reduced by $162,376, representing the unamortized investment credit at March 31, 1963.

PITTSBURGH BREWING COMPANY
Notes to Financial Statements

Note 1: Investment Credit—An investment credit of $18,154 has been reflected in income for the fiscal year ended October 31, 1965, in accordance with the policy adopted by the company, in the preceding fiscal year, of including the entire credit in the year in which obtained. In the prior year the credit was $13,202 together with the $19,076 of the unamortized portion of credit previously deferred.

FRANK G. SHATTUCK COMPANY
Notes to Financial Statements

Note 3: Investment Tax Credit—Prior to 1964, the Company followed the practice of deferring the tax benefit resulting from the investment tax credit and amortizing it to income over the average useful life of the acquired or leased assets. Effective January 1, 1964, as a result of amendments to the income tax law, the Company changed this practice and adopted the policy of reflecting the available investment tax credit as a reduction of the provision for Federal taxes on income in the year in which the credit arises; accordingly, net income for 1965 and 1964 includes approximately $115,000 and $140,000 respectively.

CANADA DRY CORPORATION
Notes to Financial Statements

Federal Income Taxes: The Corporation follows the practice of including in current income the reduction of Federal income taxes arising from the investment credit allowable as a result of purchases of certain depreciable property. For the current year this amounted to $194,700.

Full Flow-Through for Current Year; Various Treatments of Prior Years' Deferred Credits

THE AMALGAMATED SUGAR COMPANY
Combined Income and Retained Earnings Statement

Income before provision for income taxes	$11,804,000
Provision for federal and state income taxes:	
Taxes before investment tax credit	6,133,000
Less: Investment tax credit—current year	464,000
Taxes after investment tax credit	5,669,000
Net income carried to retained earnings	6,135,000
Retained earnings at beginning of year	29,876,000
Add: Investment tax credit restored for years ended prior to September 30, 1964	275,000
	36,286,000
Less: Dividends	2,320,000
Retained earnings at end of year	$33,966,000

AMERICAN AIR FILTER COMPANY, INC.
Notes to Financial Statements

Note 4: Investment Credit—The Revenue Act of 1964 eliminated the requirement that the investment credit be treated as a reduction of the basis of the property; therefore, during the years ended October 31, 1964, and 1965, the Company recorded the credit as a reduction of the provision for Federal income taxes for such years. The previously deferred investment credit to October 31, 1963, amounting to $79,446, was restored during 1965 to the appropriate property accounts and has been included in current earnings.

ATLAS CHEMICAL INDUSTRIES, INC.
Above Stockholders' Equity

Deferred Investment Credit (Note 6)	$425,000

Note 6: Investment Credit—The income tax benefit under the investment credit provisions of the Revenue Act has been taken directly into income in 1964 and 1965 as a reduction of the provision for income taxes. The investment credit for 1963 and prior years continues to be deferred in the accounts and is being amortized over the productive life of the acquired facilities. The amount of the investment credit included in earnings is $369,000 for 1965 and $255,000 for 1964.

CONTINENTAL BAKING COMPANY
Above Stockholders' Equity

Deferred Federal Income Tax and Deferred Investment Credit (Note 2)	$4,877,210

Note 2: Deferred Federal Income Tax and Investment Credit—Provision has been made for deferred federal income tax arising from differences between tax and book income, principally the excess of tax over book depreciation.

The investment credit of $1,020,000 for 1965 has been taken directly into income as a reduction of the provision for federal income tax. The investment credits for prior years have been deferred and are being taken into income over the life of the assets with respect to purchased equipment and over the term of the lease with respect to leased equipment. As a result of this change, net income for 1965 was increased by $908,000.

CURTISS-WRIGHT CORPORATION
Notes to Financial Statements

Note 9: In 1964, the Corporation adopted the practice of reducing the provision for federal income taxes by the entire amount of investment tax credits allowed, whereas the previous practice was to amortize such credits over the lives of the related assets. Investment tax credits accumulated through December 31, 1963 are being credited to the provision for federal income taxes over a period of four years beginning in 1964. The effect of this change has not been material. Due to the foregoing, as a result of capital gains realized during 1965, and because a substantial amount of the Corporation's interest income is not subject to federal income taxes, the effective rate at which federal income taxes have been provided in 1965 has been reduced.

HAMILTON WATCH COMPANY
Notes to Financial Statements

Note 6: *Provision for Taxes on Income*—Prior to the year ended January 31, 1965, Hamilton followed the practice of amortizing the benefits of the investment tax credit over the productive lives of the related property. In the current year, after a change in the federal tax laws, Hamilton changed its practice and now records the credit as a reduction of income tax expense in the year the benefit is received. Accordingly, the income for the year ended January 31, 1965 is approximately $30,000 greater than it would have been under the company's previous practice. In addition, the net income for the year ended January 31, 1965 has been increased approximately $32,500 relating to the retroactive adjustment of the credit utilized in years prior to January 31, 1965.

The net provision for deferred income taxes relates to differences between book and tax amounts applicable to depreciation, pensions, material costs, prior year net operating losses of a merged subsidiary and a prior year installment sale of equipment.

HERSHEY CHOCOLATE CORPORATION
Notes to Financial Statements

For 1965 the investment credit, allowable under the Internal Revenue Act, has been credited to the provision for Federal income taxes. Such credits for prior years were deferred and are being amortized over the approximate life of the assets. The change in accounting practice increased net income in 1965 by $1,160,000.

THE PARKER PEN COMPANY
Notes to Financial Statements

Note 6: *Investment Tax Credit*—The company has adopted the policy of reflecting the investment tax credit on fixed asset additions as a reduction of income tax expense in the year of the asset addition. As a result of this change, the current year's investment tax credit and unamortized credits from prior years, which amounts are not significant, are included in the 1965 income statement.

PEOPLES DRUG STORES, INCORPORATED
Notes to Financial Statements

Note 1: *Investment Credit*—In 1965, the Company changed its practice of accounting for the Federal income tax investment credit by reducing the current year's provision for Federal income taxes by the amount of the 1965 investment credit with a corresponding increase in net income. The investment credit for prior years has been accounted for as a reduction of the cost of applicable assets acquired and is being applied to reduce depreciation charges over the useful life of such assets. If the Company followed the practice of prior years in accounting for the 1965 investment credit, net income for 1965 would have been reduced by $169,200.

SCM CORPORATION
Financial Review

This year the Company elected to reduce income tax provision by the full investment credit. Net income after taxes, therefore, increased $138,000, or $.06 a share. Prior years' credits are being taken into income over the lives of the related assets.

WEYERHAEUSER COMPANY
Income Statement

Costs and Expenses:	
Cost of goods sold and expenses, exclusive of items shown below:	
Cost of goods sold	$490,949,099
Selling, shipping and administrative expenses	71,206,556
Depreciation and depletion (Note 3, p. 32)	38,948,802
Taxes other than income taxes	26,063,771
Income taxes—	
Provision	31,200,000
Less—Investment credit	(7,500,000)
	$650,868,228

Financial Review

Taxes a Lower Percentage of Income: Taxes based on 1965 income amounted to $31,200,000 before deducting the investment credit. As permitted under current tax laws, the Federal income tax provision was reduced by the investment credit on 1965 property additions in the amount of $7,500,000. The comparable investment credit in 1964 was $2,500,000. The residue of investment credit for the years 1962 and 1963, which was used to reduce the book value of equipment purchased, continues to be taken into income over the lives of the related assets. At the end of 1965, the amount remaining to be amortized was $2,400,000.

Investment Tax Credit Reported But Accounting Method Not Disclosed

CLARK EQUIPMENT COMPANY
Letter to Stockholders

We have adopted the 1962 guideline depreciation rules for tax purposes and provision has been made for the deferred income tax resulting from this. The investment credit provided by the tax law was minor in 1965.

UNION TANK CAR COMPANY
Above Stockholders' Equity

Deferred Items:	
Federal Income Taxes	$54,450,000
Investment Credit	1,903,000
	$56,353,000

MISCELLANEOUS OTHER RESERVES

The assorted types of miscellaneous other reserves found in the reports of the survey companies for the years 1965, 1960, 1955, and 1950 and their balance sheet presentation are shown in Table 39. There were 165 such reserves shown by 138 companies in their 1965 annual reports.

This twentieth edition of *Accounting Trends and Techniques* is the seventh in which provision for sales returns and allowances or discounts on receivables have been included with miscellaneous other reserves, and in most cases they are combined with the amounts provided for uncollectible accounts. (See this section, Table 7 and the examples relative thereto.)

In the few cases where debit or credit offsetting entries to miscellaneous other reserves were disclosed, they were generally made to the income account. Those entries affecting retained earnings are presented in Section 4, Table 4, under "Appropriation or Reserve—Transfers thereto and Transfers therefrom."

Examples which follow indicate the various types of "other reserves" disclosed by the companies and their balance sheet accounting treatment. References are also provided at the foot of Table 39.

Loss on Investments

THE GENERAL TIRE & RUBBER COMPANY
Noncurrent Assets

Investments and Advances:	
RKO General, Inc. (Note A)	$58,168,791
A. M. Byers Company (Note B)	9,246,543
Other (Note C)	31,526,183
	$98,941,517

Note C: Other investments and advances of $31,526,183 comprise (a) capital stock and advances to foreign and domestic subsidiary companies $14,164,792, foreign and domestic associated companies $7,050,513, other receivables, sundry investments, etc., $4,485,063, all stated at cost less reserve; and (b) marketable securities $5,825,815 at cost which is less than market.

The equities in the reported underlying book amounts of these foreign and domestic companies' net assets are in the aggregate substantially in excess of the amount carried for the investments and advances.

CARRIER CORPORATION

Noncurrent Assets

Prepaid Expenses, Segregated Funds, Investments, etc.:	
Prepaid expenses and deferred charges	$ 2,122,464
Funds segregated for expansion	4,000,000
Equity in Distribution Credit Corporation	7,266,182
Investments, advances, etc., at cost less reserves:	
Subsidiaries not consolidated	3,153,619
Other	4,480,824
	$21,023,089

TEXACO INC.

Noncurrent Assets

Investments and Advances (Note 1) $241,884,571

Note 1: Investments and Advances—at Cost—

Nonsubsidiary companies (owned 50% or less) and subsidiary companies not consolidated operating in foreign countries	$169,778,377
Nonsubsidiary companies (owned 50% or less) operating in the United States	35,973,838
	$205,752,215
Less reserve	26,800,000
	$178,952,215
Miscellaneous investments, long-term receivables, etc. (less reserve of $350,000)	62,932,356
Total Investments and Advances	$241,884,571

McCORMICK & COMPANY, INCORPORATED

Noncurrent Assets

Investments:	
Investments in and advances to unconsolidated subsidiaries and 50% owned companies, at cost, less reserve; 1965 — $155,000; 1964 — $146,500 (Note B)	$1,040,456
Other	158,511
Total Investments	$1,198,967

Note B: The financial statements include the accounts of all wholly-owned subsidiaries engaged in manufacturing or selling food products. The excess cost of acquisition of subsidiaries is being amortized over a ten-year period.

The Company has an investment of $466,248 in an 80% owned unconsolidated subsidiary, Maryland Properties, Inc., which had assets of $7,732,000 and liabilities of $7,068,000 at November 30, 1965 and net income of $292,000 for the year then ended; separate financial statements for this subsidiary are included in reports filed with the Securities and Exchange Commission. The Company's equity in net assets of 50% owned companies was approximately the same as the amount of $574,208 at which the investments are carried.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION

Noncurrent Assets

Investments and Long-Term Receivables (Note 3) $77,762,000

Note 3: Investments and Long-Term Receivables—Net income includes $467,000 (1964—net loss of $457,000), the Company's proportionate share of the results of operations of 50 per cent owned domestic affiliates. The aggregate net investment in these companies at December 31, 1965 of $42,787,000 represents the cost thereof adjusted for accumulated net earnings and losses. The Company and the other stockholders of certain of the affiliates have agreements with the various lenders of the long-term debt of such affiliates pursuant to which the stockholders agree to cause these affiliates to maintain working capital at specified levels. The maximum amount the Company could contingently become obligated to pay under these agreements, should all such affiliates default and assuming the other stockholders make payments required under certain mutual contribution agreements, is estimated at $56,650,000 at December 31, 1965.

Other investments and long-term receivables of $34,975,000 are carried at cost less reserves for possible losses. This amount includes the long-term portion of $6,818,000 of notes, and $1,118,000 accrued interest thereon, received in connection with a property sale in 1962. The notes, due in equal annual installments from 1966 to 1968, and the accrued interest may be reduced if the purchaser disposes of the acquired fixed assets at a loss as a

TABLE 39: MISCELLANEOUS OTHER RESERVES

Balance Sheet Presentation*	1965	1960	1955	1950
With: *Related Assets* for—				
A: Loss on investments	26	28	2	—
B: Discounts	33	30	N/A	N/A
C: Returns and/or allowances	16	18	N/A	N/A
D: Other	8	8	—	1
Among: *Current Liabilities* for—				
E: Appraisal claims	1	4	1	—
F: Discontinued operations	1	3	—	—
G: Sales returns or allowances	3	2	2	2
Contract settlements and adjustments	—	1	—	—
H: Sugar-beet crop payments	3	2	1	1
Additional costs	—	1	1	—
I: "General" and "Sundry" purposes	1	5	1	3
Price redetermination refund	—	1	—	—
J: Other	2	2	—	2
Above: *Stockholders' Equity* for—				
K: Discontinued operations	9	3	2	—
L: Deposits refundable	1	1	2	1
M: Estimated claims payable	1	1	1	1
N: Litigation pending	1	1	3	1
Loss on receivables	—	—	1	2
Preferred stock retirement	—	—	1	2
O: Sales returns or allowances	3	3	2	1
P: "General" and "Sundry" purposes	22	32	31	28
Q: "Operating" purposes	7	10	11	13
Unrealized profit on land contracts receivable	—	—	1	—
R: Other	24	1	2	2
Within: *Stockholders' Equity* for—				
S: Preferred stock retirement	1	3	5	3
Charter requirement	—	—	1	1
Sinking fund	—	2	1	2
T: Working capital	1	—	1	1
U: "General" and "Sundry" purposes	1	5	2	4
Total	165	167	75	71
Terminology Used				
Reserve	88	98	61	57
Provision	15	14	6	3
Allowance	43	N/C	N/C	N/C
Various other terms	19	55	8	11
Total	165	167	75	71
Number of Companies with:				
Miscellaneous reserves	138	138	70	66
No miscellaneous reserves	462	462	530	534
Total	600	600	600	600

N/A—Not Available.
N/C—Not Compiled.

*Refer to Company Appendix Section—A: 16, 20, 57, 58, 82, 108, 122, 233, 246, 251, 253, 272, 300, 325, 330, 334, 365, 394, 396, 429, 465, 505, 538, 558, 569, 586; B: 13, 61, 81, 92, 111, 114, 120, 134, 138, 155, 171, 184, 187, 254, 275, 282, 301, 311, 314, 325, 327, 341, 348, 378, 379, 388, 400, 416, 468, 470, 511, 520, 551; C: 12, 114, 125, 165, 186, 216, 220, 299, 304, 305, 388, 411, 511, 550, 551, 580; D: 25, 79, 184, 253, 304, 366, 539, 553; E: 187; F: 528; G: 123, 246, 557; H: 268, 291, 575; I: 506; J: 6, 410; K: 16, 138, 154, 177, 210, 296, 528, 535, 592; L: 222; M: 587; N: 16; O: 262, 364, 498; P: 14, 18, 35, 44, 59, 131, 140, 144, 165, 186, 246, 249, 263, 264, 267, 326, 403, 416, 427, 500, 513, 553; Q: 10, 89, 136, 148, 169, 399, 463; R: 7, 100, 101, 107, 138, 150, 162, 248, 251, 254, 262, 347, 349, 393, 414, 436, 455, 463, 493, 517, 532, 578, 590; S: 383; T: 120; U: 366.

result of governmental action under the antitrust laws. Also included in the $34,975,000 is the long-term portion of $17,828,000 of non-interest bearing notes, due in equal annual installments from 1966 to 1975, received in connection with the sale of the aluminum fabricating division. These notes are also subject to possible reduction by governmental action as outlined above. In this latter transaction, such action was commenced; however, a Federal District Court denied the government's request for a preliminary injunction against consummation of the transaction and no date has been set for trial.

Discontinued Operations

STUDEBAKER CORPORATION
Current Liabilities

Reserve for current portion of costs related to discontinued operations—Note B	$6,162,846
Noncurrent Liabilities	
Reserve for costs related to discontinued operations—Note B	$10,000,000

Note B: Automotive Operations and Special Credits and Charges—In December, 1963, the Corporation discontinued manufacturing automobiles in South Bend, and since that date has been liquidating its automotive manufacturing facilities at that location. The Corporation's Canadian subsidiary continued production of automobiles at its Hamilton, Ontario, plant for distribution to Canadian, United States, and export markets. Because of adverse operating results of the Canadian subsidiary and the continued decline in the demand for Studebaker automobiles, the Corporation announced on March 4, 1966, a program for discontinuance of manufacturing automobiles in Canada and disposition of its remaining automotive facilities.

The losses anticipated in connection with this program are $8,000,000 for liquidation of Canadian automotive operations and $14,000,000 for liquidation of remaining United States automotive operations. In addition, a provision of $7,500,000 was made in 1965 to cover possible losses in connection with discontinuance of appliance manufacturing in Bloomington, Indiana and operations at two other locations.

At December 31, 1965, reserves for anticipated losses in connection with discontinued operations have been provided in the following manner:

Total remaining reserves at December 31, 1964		$29,187,189
1965 South Bend liquidation charges:		
Settlements of commitments for materials, termination pay, etc.		749,690
Other liquidation costs and expenses		1,817,665
		2,567,355
		26,619,834
Reduction in reserves for liquidation of United States automotive operations to estimated amounts required at December 31, 1965		12,619,834
		14,000,000
Provision for possible loss on liquidation of Canadian automotive operations		8,000,000
Provision for possible losses in connection with discontinuance of operations of certain nonautomotive facilities	$7,500,000	
Losses incurred in 1965	337,154	7,162,846
Total reserves for liquidation of discontinued operations at December 31, 1965		$29,162,846

Of the above reserves, $6,000,000 has been applied to inventories, $7,000,000 to properties, and $6,162,846 has been classified as a current liability to cover estimated 1966 liquidation costs and expenses.

The following special credits and charges resulting from the foregoing have been summarized in the consolidated statement of income and retained-earnings deficit:

Special Credits:	
Reduction in reserves for liquidation of United States automotive operations to estimated amounts required at December 31, 1965	$12,619,834
Gain on sale of net assets and business relating to Mercedes-Benz automobiles	3,027,326
	15,647,160
Special Charges:	
Provision for possible loss on liquidation of Canadian automotive operations	8,000,000
Provision for possible losses in connection with discontinuance of operations of certain nonautomotive facilities	7,500,000
	15,500,000
Special Credits, Less Special Charges	$ 147,160

SWIFT & COMPANY
Above Stockholders' Equity

Reserve for costs of closing plants (net after income taxes)	$2,909,431

WILSON & CO., INC.
Above Stockholders' Equity

Reserves:	
For deferred federal income taxes	$2,641,631
For plant closing losses and expenses	244,085
	$2,885,716

Litigation

ALLIS-CHALMERS MANUFACTURING COMPANY
Noncurrent Liabilities and Reserves:

Notes payable to insurance companies	$ 75,000,000
Sinking fund debentures—4.85%—due May 1, 1990	45,000,000
Contracts payable—antitrust settlements	10,288,158
Deferred Federal income taxes	1,951,213
Reserve for expenses in discontinuing certain products and facilities	9,133,935
Reserve for antitrust settlements and expenses	6,156,661
	$147,529,967

Notes to Financial Statements

Note 5: Reserves—Charges totaling $2,059,247, net of Federal income taxes, were made to the reserve for losses and expenses associated with the discontinuance of operations at the Terre Haute Plant and the steam turbine-generator and related steam condenser business at the West Allis Plant. The phasing out of these operations has been substantially completed. Certain contingencies remain outstanding, and the amount to be restored to earnings retained, if any, cannot be determined until 1967 at the earliest.

Charges totaling $4,748,710, net of Federal income taxes, were made to the reserve for antitrust settlements and expenses. Certain of the antitrust settlements are payable in installments. Installments payable in 1966 totaling $4,788,059 are included in accounts payable. Installments payable thereafter to 1970 amounting to $10,288,158 are shown as noncurrent liabilities.

Other Reserves

BROCKWAY GLASS COMPANY, INC.
Above Stockholders' Equity

Reserve for Anticipated Losses (Note 5)	$1,073,112

Note 5: Reserve for Anticipated Losses—Under the terms of the agreement for purchase of assets with Continental Can Company, Inc., Continental agreed to pay the sum of $2,800,000 to cover anticipated losses during the period beginning October 18, 1964, and ending October 17, 1967. Of this amount $1,400,000 has been credited to the reserve for anticipated losses, and $1,400,000 has been credited to the reserve for future income taxes (Note 4).

The reserve for anticipated losses has been charged with $326,888 (net after income taxes) for the loss incurred in operation of the Hazel-Atlas plants during the current year.

CANNON MILLS COMPANY
Within Stockholders' Equity

Retained Earnings (including $100,000,000 reserved by the Board of Directors of Cannon Mills Company for working capital and $11,733,612 applied to purchase of treasury stock)	$140,592,145

NORTH AMERICAN SUGAR INDUSTRIES INCORPORATED
Current Liabilities

Provision for claims and expenses in connection with the seizure of the Cuban subsidiaries' assets in 1960	$2,200,000

Sales Returns, Allowances, and Discounts

ARMSTRONG CORK COMPANY

Current Assets:	
Cash	$10,153,000
U.S. Treasury securities	24,293,000
Accounts and notes receivable (less provision for discounts and losses: 1965 — $1,691,000; 1964 — $1,479,000)	34,865,000

THE BLACK AND DECKER MANUFACTURING COMPANY

Current Assets:	
Cash	$ 3,244,782
Trade accounts receivable, less allowances (1965 — $399,520; 1964 — $323,172) for doubtful accounts and discounts	22,110,237

MUNSINGWEAR, INC.

Current Assets:	
Cash	$ 670,038
Receivables:	
Trade (less allowances for cash discounts, returns and doubtful accounts: 1965, $417,349; 1964, $366,927)	8,287,427
Other	460,914
Net Receivables	$8,748,341

SQUARE D COMPANY

Current Assets:	
Cash	$ 8,149,922
Marketable securities—at cost (approximates market)	18,259,328
Receivables, less allowances for losses, adjustments and discounts (1965—$325,000; 1964—$325,000)	21,875,650

TWENTIETH CENTURY-FOX FILM CORPORATION

Current Assets:	
Cash	$13,927,056
Notes, accounts and other receivables, less provision for allowances and doubtful accounts	30,338,086

Operating Purposes

THE BENDIX CORPORATION
Above Stockholders' Equity

Reserves:	
Sundry operating reserves	$2,120,116
For contingencies (Note 8)	2,500,000
Total Reserves	$4,620,116

THE COLORADO FUEL AND IRON CORPORATION
Above Stockholders' Equity

Other Liabilities and Reserves:	
Long-term debt	$49,606,000
Pensions	33,445,000
Operating reserves	7,686,000
Other deferred items	56,000
	$90,793,000

REPUBLIC STEEL CORPORATION
Above Stockholders' Equity

Operating and other reserves—Note H	$11,461,455

Note H: *Reserves*—In 1965 the Corporation discontinued its practice of providing reserves for expenditures to be incurred in connection with the repair and rebuilding or replacement of certain facilities. The practice was then adopted of charging such expenditures directly to income when incurred, except expenditures for blast furnace stoves, open hearth furnaces, and arc furnaces which are charged to property accounts and amortized over estimated periods of productivity. This change in practice did not have a material effect on net income for the year 1965. The reserves provided which had not been used were retained for estimated costs and expenses incidental to abnormal retirements of such facilities.

Preferred Stock Retirement

MOORE DROP FORGING COMPANY
Within Stockholders' Equity

Stockholders' Equity:	
Preferred stock, Note 3	$ 376,000
Common stock, Note 3	360,697
Total capital stock	736,697
Capital surplus	1,904,113
Earnings retained in the business, Note 1	9,741,666
Sinking fund for retirement of preferred stock	17,845
	12,400,321
Preferred stock in treasury, 1,476 shares at cost (1,871 in 1964)	63,466
Total Stockholders' Equity	$12,336,855

Note 3:	1965
Preferred stock, 4¾% cumulative par value $50; Authorized and issued 7,520 shares (1965) and 7,935 shares (1964)	$376,000
Common stock, par value $1; Authorized 500,000 shares; Issued 360,697 shares 1965 and 1964	360,697
	$736,697

The preferred stock is redeemable in whole, or in part, at the option of the board of directors, on 30 days' notice at $52 per share, plus accrued dividends. The preferred stock is entitled to the benefit of a cumulative sinking fund payable out of the annual net earnings after preferred dividends, in an amount equal to 3% of the total par value of preferred stock outstanding July 1, 1955. During the year ended June 30, 1965, 415 shares of preferred stock were retired from shares in the treasury and $17,845.50 has been set aside for retirement of preferred stock in the year ending June 30, 1966.

General and Sundry Purposes

DEERE & COMPANY
Above Stockholders' Equity

Pension and Miscellaneous Reserves	$15,985,632

THE GOODYEAR TIRE & RUBBER COMPANY
Above Stockholders' Equity

Reserves for:	
Sundry liabilities, foreign operations, etc.	$26,023,836
Foreign investments—general reserve	11,988,517
Deferred Federal income taxes	19,037,912
	$57,050,265

PEOPLES DRUG STORES, INCORPORATED
Above Stockholders' Equity

Miscellaneous Reserves	$195,243

CAPITAL STOCK

CLASSIFICATION OF CAPITAL STOCK

The various classes of capital stock and their presentation, as disclosed in the balance sheets of the 600 survey companies, are summarized in Table 40. This table indicates a trend towards the simplification of the capital structure, for, as may be observed, 280 of the survey companies in 1950 had only one type of common or "capital" stock compared with 334 companies in 1965.

A further analysis of the figures in Table 40 also indicates a trend in the terminology used. Thus it may be noted that of the number of companies presenting only one class of stock, 161 used the term "common" in 1950; this number increased to 260 in 1965. On the other hand, of the 124 companies using the term "capital" in 1950 to describe their class of stock, only 78 companies used such designation in 1965. The term *capital* is giving way to the term *common.* It should be mentioned that the term *capital* is used only when there is but one class of stock authorized. When, however, preferred stock has been authorized or issued, the ordinary stock then becomes *common.*

The remaining major category in Table 40 relates to companies having both one class of common stock and one class of preferred; the number of such companies declined from 269 in 1950 to 200 in 1965. Extensive references are given throughout the table to the various classes of stock summarized therein.

TABLE 40: CLASSIFICATION OF CAPITAL STOCK

Combination of Stock Classes*	1965	1964	1960	1955	1950
A: Common Stock and one type of Preferred Stock	200	208	244	254	269
B: Common Stock	257	250	205	186	158
C: "Capital Stock"	77	84	97	113	122
D: Common Stock and two types of Preferred Stock	50	44	39	36	36
E: Common Stock (two types)	3	3	6	4	3
F: Common Stock (two types) and one type of Preferred Stock	4	4	3	3	6
G: "Capital Stock" (two types)	1	1	1	1	2
H: Common Stock and three or more types of Preferred Stock	7	5	4	1	3
I: Common Stock (two types) and two or more types of Preferred Stock	1	1	1	2	1
Total	600	600	600	600	600
Number of Companies presenting:					
Only Common Stock	260	253	211	190	161
Both Common and Preferred Stock	262	262	291	296	315
Only "Capital Stock"	78	85	98	114	124
Total	600	600	600	600	600

*Refer to Company Appendix Section—A: 8, 9, 15, 18, 19, 23, 24, 26, 27, 28, 31, 34, 35, 40, 45, 52, 58, 59, 61, 67, 68, 71, 76, 80, 91, 93, 95, 98, 99, 112, 118, 119, 123, 128, 130, 131, 132, 140, 141, 144, 147, 148, 153, 156, 157, 158, 161, 162, 164, 166, 169, 171, 172, 174, 175, 176, 177, 181, 184, 185, 189, 196, 200, 202, 206, 211, 212, 215, 218, 221, 222, 224, 226, 228, 233, 235, 236, 242, 245, 246, 248, 250, 253, 254, 260, 264, 265, 266, 268, 270, 275, 276, 277, 282, 287, 288, 292, 295, 299, 300, 303, 308, 310, 312, 313, 314, 315, 318, 320, 323, 325, 328, 329, 330, 333, 339, 340, 344, 347, 348, 351, 353, 355, 356, 357, 363, 364, 365, 368, 372, 375, 377, 382, 383, 386, 392, 395, 398, 400, 403, 410, 413, 416, 422, 426, 427, 430, 433, 438, 440, 449, 452, 454, 456, 459, 460, 462, 463, 465, 468, 469, 477, 480, 481, 482, 483, 489, 493, 508, 509, 512, 513, 515, 518, 519, 527, 529, 540, 544, 553, 557, 562, 563, 564, 566, 567, 568, 569, 570, 571, 573, 574, 583, 585, 587, 588, 590, 592, 598, 599; B: All 600 companies not specifically listed above or below under other captions; C: 20, 37, 48, 51, 62, 64, 72, 73, 75, 81, 94, 97, 100, 105, 108, 117, 126, 127, 152, 194, 209, 210, 213, 241, 272, 283, 304, 307, 326, 336, 337, 345, 346, 359, 384, 385, 397, 399, 409, 419, 421, 429, 432, 444, 448, 450, 453, 458, 466, 470, 475, 478, 484, 491, 499, 501, 505, 514, 516, 517, 524, 525, 533, 535, 538, 539, 549, 551, 554, 558, 561, 576, 577, 589, 594, 596, 600; D: 16, 22, 33, 39, 41, 60, 65, 69, 77, 82, 87, 101, 122, 136, 142, 150, 180, 191, 216, 232, 249, 255, 284, 293, 296, 301, 305, 309, 321, 332, 334, 352, 366, 369, 371, 379, 394, 425, 434, 442, 447, 467, 494, 526, 528, 541, 543, 565, 572, 595; E: 120, 294, 350; F: 107, 187, 341, 495; G: 192; H: 114, 125, 217, 229, 285, 360, 405; I: 298.

VALUES SHOWN FOR SHARES OF STOCK

The various methods used by the 600 survey companies to indicate the values shown for shares of stock in the balance sheet are summarized in Table 41.

The trend, as indicated by this table, is towards the use of the term *par value* in describing common or capital stocks; 513 such stocks were so described in 1965 as against 404 in 1950. As a corollary to this, there is a trend away from the use of the term *no par value* in this connection; there were only 96 common or capital stocks described as *no par value* in 1965, compared with 209 in 1950.

STATUS OF CAPITAL STOCK

The extent of disclosure by the survey companies of the number of shares of capital stock authorized, issued, and outstanding, is summarized in Table 42.

In 1950 the terms mostly used in the balance sheets with reference to common stocks were *authorized, issued, outstanding;* the table indicates that this combination of designations is steadily declining and that the use of the terms *authorized, issued* is gaining and now predominates.

Examples of Balance Sheet Presentation

The following examples illustrate the various methods of presentation of capital stock information in the balance sheets, supplemented by the notes to financial statements relative thereto.

TABLE 41: VALUE SHOWN FOR SHARES OF STOCK

Class of Stock	1965	1964	1960	1955	1950
Common Stock with Shares described as:					
Par value stock	435	427	423	395	319
Par value stock at—					
"Stated value" per share	2	3	6	2	3
"Stated value" per total	15	15	10	2	—
"Assigned value" per share	1	1	1	1	1
No par value stock at—					
"Stated value" per total	16	16	15	12	—
"Stated value" per share	10	8	12	16	28
"Assigned value" per share	1	1	1	—	1
"Declared value" per share	—	—	—	1	1
Not further described	50	53	42	65	135
Total	530	524	510	494	488
"Capital Stock" with Shares described as:					
Par value stock	57	60	71	82	80
Par value stock at—					
"Stated value" per total	2	2	4	—	1
"Stated value" per share	1	1	1	—	—
No par value stock at—					
"Stated value" per total	4	4	5	3	—
"Stated value" per share	3	4	4	6	9
Not further described	12	14	14	24	35
Total	79	85	99	115	125
Preferred Stock with Shares described as:					
Par value stock	247	239	241	230	272
Par value stock at—					
"Redemption value" per share	—	—	1	1	—
"Stated value" per share	2	1	N/C	N/C	N/C
No par value stock at—					
"Stated value" per total	6	8	8	2	—
"Stated value" per share	24	19	13	21	25
"Assigned value" per share	3	3	—	1	1
"Liquidating value" per share	10	9	9	7	8
Not further described	37	39	28	40	54
Share value not mentioned	—	—	3	—	3
Total	329	318	303	302	363

N/C—Not compiled.

ARDEN-MAYFAIR, INC.

Stockholders' Equity:

Preferred stock:	
Authorized 1,000,000 shares without par value, stated value \$40.00 per share, \$3.00 cumulative and participating to not in excess of \$1.00 per annum. Redeemable at \$60.00 per share.	
Issued 152,926 shares	\$ 6,117,040
Common stock:	
Authorized 4,000,000 shares par value \$1.00 per share.	
Issued 2,819,905 shares	2,819,905
Capital surplus	27,152,132
Retained earnings	4,689,315
	40,778,392
Less cost of 21,500 shares of common stock in treasury	481,433
	\$40,296,959

TABLE 42: STATUS OF CAPITAL STOCK

	Number of Shares Shown for—	1965	1964	1960	1955	1950
	*Common Stock**					
A:	Authorized, issued, outstanding	130	142	165	175	192
B:	Authorized, issued	266	236	196	183	159
C:	Authorized, outstanding	128	136	135	117	111
D:	Authorized, issued, outstanding, unissued	1	1	3	3	6
E:	Authorized, outstanding, unissued	1	1	1	1	5
F:	Authorized	1	1	4	3	3
G:	Authorized, issued, unissued	2	2	1	—	—
	Issued	—	—	—	3	2
	Outstanding	—	—	1	4	2
	Issued, outstanding	—	2	3	1	1
H:	Status not set forth	1	3	1	4	7
	Total	530	524	510	494	488
	*"Capital Stock"**					
I:	Authorized, issued, outstanding	23	21	31	42	49
J:	Authorized, issued	42	49	49	51	57
K:	Authorized, outstanding	14	15	16	15	10
	Authorized, issued, outstanding, unissued	—	—	—	1	1
	Authorized	—	—	—	1	—
	Issued	—	—	1	2	1
	Outstanding	—	—	1	—	1
	Issued, outstanding	—	—	—	2	3
	Status not set forth	—	—	1	1	3
	Total	79	85	99	115	125
	*Preferred Stock**					
L:	Authorized, issued, outstanding	69	79	77	77	100
M:	Authorized, issued	78	80	77	94	115
N:	Authorized, outstanding	94	89	85	87	96
O:	Authorized, issued, outstanding, unissued	1	1	5	—	1
	Authorized, outstanding, unissued	—	1	2	1	2
P:	Authorized, issued, unissued	1	—	—	—	—
Q:	Authorized	3	5	5	4	3
R:	Authorized, designated and issued	1	—	—	—	—
	Issued	—	—	2	1	1
S:	Outstanding	4	1	2	4	4
T:	Issued, outstanding	1	5	—	—	—
U:	Status not set forth	3	3	4	6	8
V:	Authorized — None issued to date	73	54	44	27	32
W:	Authorized, issued; undesignated and unissued	1	—	—	1	1
	Total	329	318	303	302	363

*Refer to Company Appendix Section—A: 14, 82, 111, 149, 199, 251, 367, 380, 416, 462, 542, 562; B: 12, 30, 101, 158, 235, 294, 347, 372, 434, 492, 504, 593; C: 22, 76, 130, 169, 226, 271, 309, 361, 442, 486, 528, 592; D: 353; E: 150; F: 590; G: 203, 403; H: 392; I: 20, 37, 100, 194, 213, 272, 304, 337, 429, 499, 505, 525; J: 48, 72, 127, 152, 241, 283, 345, 397, 419, 444, 516, 538; K: 51, 81, 117, 126, 210, 326, 336, 359, 385, 409, 458, 478, 561, 600; L: 26, 35, 118, 175, 216, 236, 310, 325, 467, 489, 565, 572; M: 9, 98, 171, 181, 266, 293, 312, 382, 447, 452, 544, 570; N: 15, 40, 125, 161, 217, 255, 321, 394, 449, 483, 557, 588; O: 282; P: 371; Q: 67, 285, 590; R: 71; S: 360; T: 440; U: 34, 332, 392; V: 8, 59, 157, 191, 222, 265, 329, 368, 427, 465, 541, 574; W: 144.

AMERADA PETROLEUM CORPORATION

Stockholders' Equity:

Capital stock (Note 1):	
Authorized:	
16,000,000 shares of no par value	
Issued:	
14,753,200 shares (including treasury stock of 1,995,620 shares at December 31, 1965, and 2,026,080 shares at December 31, 1964—net outstanding stock 12,757,580 shares at December 31, 1965, and 12,727,120 shares at December 31, 1964)	$ 13,581,375
Capital surplus (Arising from sale of treasury stock under the incentive stock option plan)	5,810,651
Earnings retained in business	267,682,998
	287,075,024
Less treasury stock (1,995,620 shares at December 31, 1965, and 2,026,080 shares at December 31, 1964) reacquired—at cost	2,459,549
Total Stockholders' Equity	$284,615,475

Note 1: *Capital Stock and Stock Option Plan*—Under the stock option plan approved by the stockholders in 1952 there were outstanding at January 1, 1965 options to certain officers and key employees to purchase 115,740 shares of stock of the Corporation. During the year, options for 30,460 shares were exercised. At December 31, 1965, options to purchase 85,280 shares were outstanding. The plan provided that no options would be granted after June 1, 1962; therefore, no shares were available for the granting of options at the year-end. The options outstanding on December 31, 1965 are exercisable for periods up to 10 years from date of grant and were granted at the following prices and dates: 13,800 at $63.00 on May 22, 1957; 40,540 at $39.40 on April 25, 1961; 2,800 at $50.95 on April 9, 1962; 28,140 at $44.80 on May 28, 1962.

BEECH-NUT LIFE SAVERS, INC.

Stockholders' Equity:

Common stock, $5 par value (Note 5)	$ 33,493,770
Authorized 9,000,000 shares	
Issued—1965—6,698,754 shares; 1964—6,682,104 shares	
Additional capital arising from exercise of employee stock options	3,022,148
Earnings retained in the business	65,840,116
	102,356,034
Less 74,800 reacquired shares—at cost	1,328,253
Total Shareholders' Equity	$101,027,781

Note 5: A qualified stock option plan was approved by the shareholders on April 14, 1964. Terms of the plan authorize the granting of options on 300,000 shares of the company's common stock at not less than the fair market value at the time the options are granted. Options granted under the plan are exercisable in installments on a cumulative basis over a period of not more than four years, beginning one year after date of grant. During 1965 options to purchase 124,440 shares at prices ranging from $57.13 to $62.75 a share were granted. No options were exercised during 1965 under the 1964 plan. At December 31, 1965 options to purchase 132,440 shares at prices ranging from $53.00 to $62.75 a share were outstanding under this plan.

The restricted stock option plan adopted in 1957 was terminated by the Board of Directors on April 14, 1964 except with respect to outstanding options on that date. The 1957 plan permitted the granting of options on 300,000 shares of unissued common stock at 95% of the fair market value at the time the options were granted.

Prior to January 1, 1965 options for 256,840 shares had been exercised under the 1957 plan. During 1965 options for 16,650 shares were exercised at prices ranging from $15.53 to $35.15 a share, and options for 3,850 shares were cancelled. Options to purchase 22,660 shares at prices ranging from $31.53 to $35.15 a share were outstanding at December 31, 1965. Outstanding options are exercisable in installments on a cumulative basis over six years from date of grant. No additional options may be granted under the 1957 plan.

CELANESE CORPORATION OF AMERICA

Stockholders' Equity:

Capital stocks (Note 8):	(In thousands)
Preferred, Series A (4½% cumulative)	$ 90,860
Convertible Preference ($3.00 cumulative)	2,500
7% Second Preferred (cumulative)	3,240
Common—without par value	116,518
	213,118
Additional paid-in capital (Per accompanying statement)	19,728
Retained earnings (Per accompanying statement and Note 7)	282,893
Total Stockholders' Equity	$515,739

Note 8: *Capital Stocks*—The number of shares of each class of capital stock authorized and outstanding at December 31, 1965 was as follows:

Preferred Stock, Series A (4½% cumulative), par value $100 per share—authorized and outstanding 908,602 shares

Convertible Preference Stock ($3.00 cumulative), without par value—authorized and outstanding 100,000 shares

7% Second Preferred Stock (cumulative), par value $100 per share—authorized and outstanding 32,398 shares

Common Stock, without par value—authorized 15,000,000 shares; outstanding 11,828,972 shares

The Preferred Stock, Series A, may be redeemed at the option of the Corporation at the redemption price per share of $102 to and including May 1, 1966 and $100 thereafter, plus accrued dividends. Upon voluntary liquidation, dissolution or winding up, the holders of the Preferred Stock, Series A, have a preference to the extent of the then applicable redemption price. There is no provision for redemption of the 7% Second Preferred Stock; such stock has a preference in liquidation of $100 per share plus accrued dividends.

The Convertible Preference Stock may be redeemed at the option of the Corporation at $65 per share plus accrued dividends and is convertible into Common Stock at the rate of .68-1/3 of one share of Common Stock and cash of $1.15 for each share of Convertible Preference Stock, subject to adjustment in certain events. On voluntary or involuntary liquidation, the Convertible Preference Stock is entitled, in preference to the 7% Second Preferred Stock and Common Stock, to $55 per share, plus accrued dividends. The aggregate liquidation preference of the 100,000 shares outstanding at December 31, 1965 is $3,000,000 in excess of the aggregate stated value of the shares, but no restriction of retained earnings is created thereby.

On April 14, 1965, the stockholders approved a Stock Option Award Plan which allows the Corporation to grant options to officers and employees for the purchase of 590,000 shares of Common Stock of the Corporation. In 1965, options were granted to officers and employees to purchase 46,200 shares of common stock at $86 per share (aggregate $3,973,200), the market price at the date of grant. The options become exercisable for 15,400 shares in each of the years 1966 to 1968, and they expire in 1970.

At December 31, 1965, unissued shares of Common Stock were reserved for the following purposes:

	No. of Shares
Conversion of Convertible Preference Stock	68,334
Conversion of 4% Convertible Subordinated Debentures (see Note 7)	788,598
Stock Option Award Plan	590,000
	1,446,932

SIMONDS SAW AND STEEL COMPANY

Capital:

Capital stock without par value, 2,000,000 shares authorized, 1,520,000 shares issued and outstanding (Note C)	$ 3,040,000
Additional paid-in capital (Note C)	1,426,125
Accumulated earnings retained for use in the business	44,608,087
	$49,074,212

Note C: Restricted stock options were outstanding and exercisable for 18,750 shares at prices ranging between $27.40 and $31.72 per share. During the year options for 28,800 shares were exercised, which resulted in credits of $57,600 to capital stock and $727,990 to additional paid-in capital.

CHEMETRON CORPORATION

Stockholders' Investment:	
Capital stock:	
Cumulative preferred, $100 par. Authorized (1965) 15,950 shares; issued:	
4¼% series: 1965, 12,950 shares; 1964, 14,000 shares	$ 1,295,000
4¾% series: 1965, 3,000 shares; 1964, 3,750 shares	300,000
Common, $1 par. Authorized 4,000,000 shares; reserved for conversion privileges of subordinated debentures, 450,051 shares in 1965; issued: 1965, 3,086,451 shares; 1964, 3,062,860 shares (Note 7)	3,086,451
Total capital stock	4,681,451
Additional paid-in capital (Note 4)	21,220,321
Reinvested earnings, per accompanying statement (Note 3)	76,821,383
Total	102,723,155
Less treasury stock, at cost (Note 5)	34,895
Total Stockholders' Investment	$102,688,260

Note 7: *Restricted Stock Option Plan*—In 1958 the stockholders approved the adoption of a restricted stock option plan under which not more than 100,000 shares of $1 par common stock are made available for the granting of options to certain officers and key employees by the Executive Committee.

Through 1965 options had been granted (but not exercised) with respect to 41,960 shares at an aggregate option price of $881,160 (such price being 95% of quoted market value at date of granting). Of these, options with respect to 31,760 shares were exercisable at December 31, 1965. Options with respect to 23,540 shares were exercised during 1965 at an aggregate option price of $494,340.

FORD MOTOR COMPANY

Stockholders' Equity:	
Capital stock, par value $2.50 per share, 1965—111,174,616 shares and 1964—110,889,702 shares	$ 277,936,540
Capital account in excess of par value of stock	330,878,130
Earnings retained for use in the business	3,881,987,332
Total Stockholders' Equity	$4,490,802,002

Notes to Financial Statements

Capital Stock: Authorized and issued shares of capital stock at December 31, 1965, were as follows:

	Shares	
	Authorized	Issued
Class A Stock (Nonvoting)	119,667,135	38,916,667
Class B Stock (Voting)	29,305,064	12,266,564
Common Stock (Voting)	250,000,000	59,991,385
	398,972,199	111,174,616

All general voting power is vested exclusively in the holders of Common Stock and the holders of Class B Stock, voting together without regard to class. At December 31, 1965, the holders of Common Stock were entitled to one vote per share and in the aggregate had 60% of the general voting power, and the holders of Class B Stock were entitled to such number of votes per share as would give them in the aggregate the remaining 40% of the general voting power, as provided in the Company's Certificate of Incorporation. The Certificate provides that all shares of Common Stock, Class A Stock and Class B Stock share equally in the assets upon liquidation and in dividends, except that any stock dividends are payable in shares of Common Stock to holders of that class, Class A Stock to holders of that class, and Class B Stock to holders of that class.

GENERAL BRONZE CORPORATION

Capital Stock:	
Serial preferred stock, authorized 200,000 shares, par value $25 per share, none issued	
Common stock, authorized 2,000,000 shares, par value $2.50 per share; outstanding at December 31, 1965, 796,360 shares (Note 3)	$1,990,900
Surplus:	
Paid-in and capital surplus (Note 5)	2,474,398
Earned surplus	3,937,643
	$8,402,941

Note 3: At a special meeting held June 16, 1965, stockholders voted to change the 1,000,000 authorized shares of common stock, par value $5.00 per share, into 2,000,000 authorized shares with a par value of $2.50.

Under a restricted stock option plan adopted in 1956, options, granted in 1961, were outstanding at December 31, 1965 for the purchase by officers and employees of 34,780 shares of common stock at $9.375. During 1965 options for 4,750 shares became exercisable and options for 12,720 shares were exercised. The fair value on the date the options became exercisable was $15.625 per share and the fair value of the shares issued upon exercise of the options ranged from $13.75 to $18.875 a share. All options expire June 16, 1966.

At December 31, 1965 warrants, exercisable through December 31, 1968, were outstanding for the purchase of 80,000 shares of common stock at $10 per share.

HOLLY SUGAR CORPORATION

Stockholders' Investment:	
Common Stock (authorized, 1,500,000 shares of $10 par value each; reserved for conversion of debentures, 243,561 shares; issued, 681,340 shares)	$ 6,813,400
Other Paid-In Capital	757,317
Earnings Invested in the Business (restricted as to payment of cash dividends, 1965, 22,690,450; 1964, 21,820,226)	29,158,585
Total	36,729,302
Less Cost of Common Stock Held in Treasury (1965, 23,020 shares; 1964, 3,020 shares reclassified in 1965)	743,370
Stockholders' Investment (net)	$35,985,932

Letter to Stockholders

Common Stock in Treasury: On January 6, 1965, the Corporation purchased from The First National Bank of Denver, Trustee under the Will of Ethel I. Carlton, 20,000 shares of its Common Stock at $34 per share, the closing market price on the preceding market day. The Corporation already then had in its Treasury 3,020 shares reacquired some years ago at a cost of approximately $21 per share. The average cost of the 23,020 shares of Common Stock held in the Treasury at March 31, 1965, is $32.29 per share.

A plan for employee purchases of Common Stock and for a qualified incentive stock option plan will be submitted for approval of Stockholders at the annual meeting on June 30, 1965. Common Stock held in the Treasury is available for these or other corporate purposes.

UNITED ENGINEERING AND FOUNDRY COMPANY

Capital Shares:	
Preferred, Seven Per Cent. Cumulative Noncallable, Par $100 each.	
Authorized and Outstanding 2,048 Shares in 1965 and 1964	$ 204,800
Common, Par $5 each.	
Authorized 5,000,000 Shares, Issued 2,587,233 in 1965, 2,586,773 in 1964	
Less: 34,470 Held in Treasury	12,763,815
Capital in Excess of Par Value of Shares	777,744
Earnings Retained in the Business	37,778,046
	51,524,405
Cost of Preferred Shares Held in Treasury, 202 in 1965, 85 in 1964	31,224

HUDSON PULP & PAPER CORP.

Stockholders' Equity:	Number of Shares	
Capital Stock:		
Cumulative Preferred Stock, par value $25 per share (redeemable at $26.99 to $25.00 per share):		
Authorized — 324,600 shares		
Outstanding:		
5% Series A (net of 4,000 shares held for retirement and 14,400 shares in treasury)	47,600	$ 1,190,000
5.12% Series B (net of 7,529 shares in treasury)	63,271	1,581,775
5.7% Series C	88,000	2,200,000
6¼% Series D (net of 6,000 shares held for retirement)	84,000	2,100,000
	282,871	7,071,775
Cumulative Second Preferred Stock, $1.41 Series, par value $24.50 per share (redeemable at $25.00 to $24.50 per share):		
Authorized — 246,877 shares		
Outstanding (net of 10,000 shares held for retirement and 1,393 shares in treasury)	173,457	4,249,697
Common Stock, par value $1 per share:		
Authorized — 1,500,000 shares (of which 25,000 Class A shares are reserved for options)		
Issued:		
Class A	654,390	654,390
Class B	500,000	500,000
		12,475,862
Capital Surplus—Note D		7,328,055
Retained Earnings		30,201,745
		50,005,662
Less: 16,355 shares of Common Stock, Class A, in treasury, at cost		425,249
Stockholders' Equity as at August 31, 1965—Notes C and D		$49,580,413

Notes to Financial Statements

Note D: The shares of Common Stock, Classes A and B, are equal in all respects except that, in any calendar year prior to January 1, 1972, cash dividends on Class A may be declared in excess of those declared on the Class B, but such excess may be not more than $1.50 per share annually. Since March 1, 1965, there has been no disparity in the rate per share paid on these two classes. Prior thereto, Class B shares received no dividend.

The annual sinking fund requirements of the Cumulative Preferred Stock (24,000 shares) and the Cumulative Second Preferred Stock (10,000 shares) have been met as of August 31, 1965.

Under the Stock Option Plans of 1957 and 1962, options for the purchase of 10,500 shares of Common Stock, Class A, are outstanding as at August 31, 1965, and options for 14,500 shares are available for future grant on or before December 31, 1965. During the year, an option for 140 shares was exercised and options for 5,860 shares expired. No additional options were granted.

The increase in Capital Surplus of $303,587 resulted from the (i) $282,635 excess of par value of Cumulative Second Preferred Stock over par value of common stock issued in exchange therefor (ii) excess of par values over cost of capital stock acquired and (iii) issuance of common stock upon the exercise of a stock option.

LEAR SIEGLER, INC.

Stockholders' Equity:	
Capital stock	
Preferred — authorized 105,000 shares without par value; stated value $100 a share—	
$5.75 cumulative convertible Series A	
1965—issued and outstanding 4,658 shares	$ 465,800
1964—issued 12,567 shares; outstanding 11,452 shares	—
$4.50 cumulative Series B	
1965—issued and outstanding 12,000 shares	1,200,000
Common—$1 par value—	
1965—authorized 7,500,000 shares; issued 4,131,308 shares; outstanding 3,958,960 shares	4,131,308
1964—authorized 5,000,000 shares; issued 4,010,806 shares; outstanding 3,980,458 shares	—
Additional capital	26,284,791
Retained earnings	22,548,744
	54,630,643
Less cost of treasury stock	2,521,121
	$52,109,522

LIGGETT & MYERS TOBACCO COMPANY

Stockholders' Equity:	
Preferred stock 7% cumulative, par value $100—authorized, 341,398 shares; issued, 225,141 shares; in treasury, 71,050 shares	$ 15,409,100
Common stock, par value $25—authorized, 5,000,000 shares; issued, 1965, 3,961,963 shares, and 1964, 3,957,813 shares (Note 1)	99,049,075
Paid-in capital in excess of par values of capital stocks (Note 2)	21,522,790
Retained earnings (Note 3)	176,120,960
Total	312,101,925
Less cost of common stock in treasury (1965, 113,600 shares, and 1964, 6,800 shares)	9,243,489
Total Stockholders' Equity	$302,858,436

Note 1: At January 1, 1965, there were outstanding options granted under the Incentive Stock Option Plan to officers and key employees to purchase, subject to certain limitations, 24,258 shares of the Company's common stock. During 1965, options for 4,150 shares were exercised for an aggregate option price of $279,919, and options for 711 shares were canceled. At December 31, 1965, options were outstanding and exercisable with respect to 19,397 shares having an aggregate option price of $1,521,123. In accordance with the Plan, option prices represent closing quoted market values of the shares on the dates the options were granted.

THE MACKE COMPANY

Shareholders' Investment (Notes 1 and 2):	
Common stock, Class A, $1 par, authorized 1,500,000 shares, outstanding 730,518 shares and 678,091 shares, respectively	$ 730,518
Common stock, Class B, $1 par, authorized 250,000 shares and 300,000 shares, respectively; outstanding 241,325 shares and 289,592 shares, respectively	241,325
Paid-in surplus	8,269,876
Retained earnings	4,079,628
Total Shareholders' Investment	$13,321,347

Note 1: *Common Stock*—Class A shares are reserved as follows: 31,190 shares for holders of the Company's 5%, $1,500,000 notes, due 1977, which have warrants exercisable at $27 per share through 1972 and at $31 per share from 1973 through 1977.

241,325 shares for exchange of all of the outstanding Class B shares, 48,267 annually through 1969, at the option of the shareholders.
37,440 shares for issuance to employees under a stock option plan at per share prices ranging from $16.28 to $21.13.

Note 2: Dividend Restrictions—The terms of the loan agreements restrict the retained earnings available for cash dividends. Retained earnings free of such restrictions was $1,325,000 at September 30, 1965.

In addition, Class B shareholders are not entitled to cash dividends in any year until cash dividends of 35¢ per share have been declared on Class A shares in that year. Thereafter, both classes share equally in dividend declarations. This restriction on dividends on Class B shares terminates on 48,267 shares annually on each December 31 through 1969.

CARRYING VALUE OF CAPITAL STOCK GREATER THAN PAR VALUE

Fifty-seven of the survey companies presented, in their 1965 reports, the aggregate carrying value of their capital stocks at greater amounts than the aggregate "par value" of the issued shares. The values used in the annual reports by those companies are shown in the following tabulation.

Common stocks extended at*:	Number of Companies
A: Stated value	17
B: Assigned value	1
C: Value not referred to	30
	48
Capital stocks extended at*:	
D: Stated value	3
E: Value not referred to	4
	7
Preferred stocks extended at*:	
F: Stated value	2
Total	57

*Refer to Company Appendix Section—A: 91, 144, 155, 161, 186, 215, 229, 248, 312, 327, 380, 406, 492, 493, 522, 581, 582; B: 352; C: 12, 35, 50, 74, 90, 153, 185, 189, 193, 211, 221, 240, 244, 271, 306, 316, 332, 335, 369, 371, 391, 394, 424, 441, 464, 552, 555, 566, 586, 588; D: 62, 97, 152; E: 117, 307, 470, 475; F: 22, 440.

The following examples illustrate various presentations shown in the 1965 reports of the survey companies.

AMERICAN BAKERIES COMPANY

Stockholders' Equity:	
Cumulative prior preferred stock, $1.80 series ($25 par value). Authorized 200,000 shares; issued and outstanding 98,095 shares, at liquidating value of $35 a share	$ 3,433,325
5% cumulative convertible preferred stock ($100 par value). Authorized 140,000 shares; issued and outstanding 132,015 shares and 135,415 shares, at respective dates	13,201,500
Common stock, without par value. Authorized 5,000,000 shares; outstanding 1,779,435 shares and 1,755,307 shares, at respective dates, after deducting 7,855 shares and 16,685 shares of treasury stock, respectively (Note 6)	2,674,496
Retained earnings (Note 2)	30,980,032

ART METAL, INC.

Shareholders' Equity:	
Capital stock, $1 par value, authorized 2,000,000 shares; issued 894,009 shares at stated value of $12 per share (Note 5)	$10,728,108
Retained earnings	8,236,915
Less cost of 30,987 shares of treasury stock	335,717
Total Shareholders' Equity	$18,629,306

GENERAL MILLS, INC.

Stockholders' Equities (Notes 9 and 10):	
Preferred stock—5% cumulative	$ —
Common stock:	
Issued	50,908,294
Earnings employed in the business	99,268,388
Treasury stock (deduct)	(6,035,562)
Total	$144,141,120

Note 9: Stockholders' Equities—

	1965 Shares	1965 Amount	1964 Shares	1964 Amount
Preferred stock—par value $100 each:				
Authorized	500,000		500,000	
Issued and outstanding—5% cumulative	—	—	221,473	$ 22,147,300
Common stock—$3.00 par value:				
Authorized	10,000,000		10,000,000	
Reserved for issuance under stock option plan:				
Options outstanding	159,039		174,541	
Available for grant	—		38,548	
Issued at stated value	7,727,307	$ 50,908,294	7,681,005	49,716,536
Earnings employed in the business		99,268,388		105,390,397
		150,176,682		155,106,933
Less common stock held in treasury—at cost	142,732	6,035,562	56,406	2,046,976
Common Stockholders' Equity		144,141,120		153,059,957
		$144,141,120		$175,207,257

Note 10: Other Matters—As of May 30, 1965, the unpaid cost of past services in connection with the several employees' retirement plans has been estimated by independent actuaries to be $12,583,000.

At May 30, 1965, authorized but unexpended appropriations for property additions and improvements amounted to approximately $34,000,000.

On June 28, 1965, the Board of Directors authorized filing with the Securities and Exchange Commission a registration statement contemplating the issuance of $35,000,000 of sinking fund debentures due August 1, 1990, and also proposed an amendment of the corporation's Certificate of Incorporation that would: (1) eliminate the existing 500,000 authorized shares of preferred stock; (2) create two new classes of preferred stock, namely, 500,000 shares of cumulative prior preferred stock, $100 par value, and 2,000,000 shares of cumulative preference stock, without par value; and (3) increase the number of authorized shares of $3.00 par value common stock from 10,000,000 to 11,500,000.

The company is of the opinion that no material amounts will be refunded on contracts subject to government renegotiation.

There was no litigation pending at May 30, 1965, not provided for in the accounts, which, in the opinion of management, would have a significant effect on the financial position of the company.

CONSOLIDATED CIGAR CORPORATION

Stockholders' Equity:	
Common Stock, $1 par value (Notes 1 and 5):	
Authorized, 8,000,000 shares. Issued and outstanding at stated value, 5,108,605 shares in 1965 and 5,039,905 shares in 1964	$24,951,405
Capital surplus (sale of stock through rights)	6,443,202
Earnings employed in the business (Notes 3, 4 and 6)	40,229,570
Total Stockholders' Equity	$71,624,177

ENDICOTT JOHNSON CORPORATION

Stockholders' Equity:		
Capital stock:		
Cumulative preferred stock, par value $100 per share, redemption price and liquidation preference $100 per share:		
Authorized—150,000 shares issuable in series		
Issued—4% series ..	73,060	
In treasury	680	
Outstanding	72,380	$ 7,238,000
Common, par value $10.00 per share:		
Authorized — 1,200,000 shares (Note 3)		
Issued and outstanding — 814,920 (810,720 in 1964) stated at ...		20,310,000
Additional paid-in capital		22,836
Accumulated retained earnings (Note 2)		24,067,663
		$51,638,499

R. H. MACY & CO., INC.

Investment of Shareholders, represented by:	
Cumulative preferred shares, 500,000 authorized; par value $100 each—	
4¼% Series A—165,600 shares issued; 5,990 in treasury; 159,610 outstanding, callable at $107.50 each	$ 15,961,000
4% Series B—100,000 shares issued and outstanding	10,000,000
Common shares, $0.50 par value, assigned value $7.50 per share—10,000,000 authorized; 4,379,596 and 4,320,308 issued; 7,878 in treasury; leaving 4,371,718 and 4,312,430 outstanding (Notes 2, 3, and 4*)	32,787,885
Additional paid-in capital; 1965 increase comprises $231,788 received over assigned value of common shares issued under options and $276,388 credit from conversions of 5% Debentures into common shares	18,009,907
Earnings reinvested in the business, per statement on page 11; at July 31, 1965, $52,900,000 is not distributable to common shareholders under terms of long-term debt agreements	72,382,472
Total Investment of Shareholders	$149,141,264

BETHLEHEM STEEL CORPORATION

Stockholders' Equity:	
Common Stock (Note B):	
Authorized 80,000,000 shares, par value $8	
Outstanding 45,987,118 shares—1965	
45,511,118 shares—1964	$ 575,992,000
Earnings invested in the business	1,131,590,000
Total Stockholders' Equity	$1,707,582,000

MELVILLE SHOE CORPORATION

Shareholders' Equity:	
Capital Stock (Notes 2 and 3):	
Preferred stock:	
Series A, $4.75 dividend	$ —
Series B, $4.00 dividend	11,841,900
Common stock	12,284,194
	24,126,094
Retained earnings	21,866,262
	45,992,356
Less cost of preferred shares held in treasury	141,625
	$45,850,731

Note 2: Capital Stock—The Series A cumulative preferred stock of $100 par value aggregating 14,373 shares outstanding at the beginning of the year were redeemed at par on March 1, 1965 and are carried as authorized but unissued shares; 1,695 cancelled Series A shares held in treasury at the beginning of the year were eliminated from authorized shares by amendment to the certificate of incorporation.

During the year, 2,410 shares of Series B cumulative preferred stock of $100 par value were purchased at an aggregate cost of $217,000 and cancelled; 830 of such shares together with the 12,690 cancelled shares of Series B held in treasury at the beginning of the year were also eliminated from authorized shares by amendment to the certificate of incorporation. Accordingly, at December 31, 1965 there were 118,419 shares of Series B cumulative preferred stock (including 1,580 shares held in treasury) authorized and issued; such shares are redeemable at the option of the company at $101 to December 1, 1966 and $100 thereafter. At December 31, 1965, 103,350 shares of cumulative preferred stock of $100 par value were authorized but unissued.

Authorized common stock consists of 3,500,000 shares of $1 par value, of which 2,790,458 shares are issued and outstanding. Common stock includes additional capital amounting to $9,066,897 which arose from conversion of 4% preferred shares into shares of common stock prior to redemption of the 4% preferred shares in February 1950 and is included in common stock capital in accordance with statutory requirements. Capital surplus of $243,126 at beginning of year, plus $183,713 arising from purchases at less than par value of preferred stock, is also included in the common stock account.

SHELL OIL COMPANY

Shareholders' Investment:	
Common stock, authorized 80,000,000 shares at $1.00 par value, issued 60,865,518 shares (1964 — 60,687,068 shares) at stated value (Note 7)	$ 227,442,000
Amount in excess of common stock stated value (Note 7)	254,526,000
Retained earnings	1,273,694,000
	1,755,662,000
Less 113,009 shares (1964 — 126,194 shares) held in treasury, at cost	4,869,000
Total Shareholders' Investment .	$1,750,793,000

TREASURY STOCK

Of the 600 survey companies, 386 referred to treasury stock in their 1965 reports as follows:

Three hundred and thirteen companies referred only to *common* treasury stock; 16 companies showed only *preferred* stock in treasury; and 57 companies referred to both *common* and *preferred* treasury stock.

BALANCE SHEET PRESENTATION

The usual practice of the survey companies is to present treasury stock within the stockholders' equity section of the balance sheet, either as a deduction from the total of capital stock and surplus or as a deduction from issued stock of the same class. Other methods of presentation are less frequently used within the stockholders' equity section. In a few instances, treasury stock was set forth in the noncurrent asset section of the balance sheet, or information with regard to such stock was presented in notes to the financial statements, as per details in Table 43.

BASIS OF VALUATION

The two most frequently mentioned bases of valuation for common and preferred treasury stock are "cost" and "par value."

The basis of valuation of treasury stock used by the survey companies for the years 1965, 1955, and 1950 is summarized in Table 43.

Examples of the various methods of presentation of treasury stock from the 1965 reports follow.

Within Stockholders' Equity Section

(a) Deducted from Capital Stock and Surplus

AMERICAN SUGAR COMPANY

Shareholders' Investment:			
Capital stock			
Preferred stock, 5.44% cumulative, $12.50 par value, authorized and issued 1,800,000 shares			$ 22,500,000
Common stock, $12.50 par value, authorized 5,200,000 shares, issued 3,702,252 shares			46,278,150
Income retained for use in the business (Note 3)			57,673,407
			126,451,557
Less cost of treasury stock (Note 5)			2,779,437
Shares	1965	1964	
Preferred	25,000	3,000	
Common	115,400	63,500	
			$123,672,120

THE ARUNDEL CORPORATION

Stockholders' Equity:	
Common stock—authorized 600,000 shares without any nominal or par value; issued, 495,426 shares stated at $10 per share	$ 4,954,260
Capital surplus—Note D:	
Balance at beginning of year	1,688,051
Deduct pro rata portion of excess of purchase price over stated value of treasury stock acquired	43,458
Balance at end of year	1,644,593
Earnings retained—Note D:	
Balance at beginning of year	13,416,819
Add net earnings for the year	1,253,522
	14,670,341
Deduct:	
Cash dividends—$1.40 per share	611,948
Cost of treasury stock in excess of stated value and amounts charged to capital surplus	345,252
	957,200
Balance at end of year	13,713,141
	20,311,994
Less common stock in treasury at stated value	678,210
Total Stockholders' Equity	$19,633,784

HOWMET CORPORATION

Stockholders' Equity (Notes 2 and 4):	
Common Stock $1 par value; authorized—5,000,000 shares; issued including shares in treasury: 1965—3,610,996 shares including 195,120 shares issued in February 1966 on conversion of preferred stock; 1964—3,415,876 shares	$ 3,610,996
Capital surplus	20,717,487
Retained earnings	28,863,861
	53,192,344
Less cost of common stock in treasury (1965—143,742 shares; 1964—236,485 shares)	1,695,846
Total Stockholders' Equity	$51,496,498

J. P. STEVENS & CO., INC.

Shareowners' Equity—Notes C and D:		
Capital stock—par value $15 a share:		
	Shares	
Authorized	6,500,000	
Issued	5,397,853	$ 80,967,795
Capital in excess of par value		59,560,874
Accumulated earnings		152,513,607
		293,042,276
Less: Cost of capital stock held in treasury, 169,485 shares in 1965 and 136,091 shares in 1964		5,876,855
Total Shareowners' Equity		$287,165,421

F. W. WOOLWORTH CO.

Shareholders' Equity:	
Capital Stock—par value $3 1/3 per share:	
Authorized—60,000,000 shares	
Issued—29,250,000 shares	$ 97,500,000
Earned surplus	531,331,330
	628,831,330
Treasury stock—139,182 shares, at cost less $901,634	1,647,080
	$627,184,250

TABLE 43: TREASURY STOCK

Balance Sheet Presentation*	I: "Common" Treasury Stock 1965	1955	1950	II: "Preferred" Treasury Stock 1965	1955	1950
Within Stockholders' Equity Section:						
A: Deducted from *total* of capital stock and surplus	222	124	103	30	41	36
Deducted from *total* of capital stock and capital surplus	—	1	1	—	—	—
B: Deducted from *total* of capital surplus and retained earnings	1	2	1	1	—	—
C: Set forth separately but not deducted from total capital stock and surplus	25	—	—	1	—	—
D: Deducted from retained earnings	1	5	11	—	1	4
E: Deducted from issued stock of the same class	87	77	97	35	48	53
F: Set forth with issued stock of the same class	1	1	4	—	2	2
In Noncurrent Asset Section:						
G: Separately set forth therein	6	10	10	—	1	1
H: Set forth therein as a part of various special funds or with other assets	11	8	2	—	1	1
I: *Set forth in Notes to Financial Statements*	23	10	6	6	8	3
Total Presentations	377	238	235	73	102	100
Basis of Valuation						
Per-share value shown at:						
Cost	270	133	113	31	44	36
Par value	78	49	56	31	38	38
Stated value	5	8	9	3	4	6
Cost or less than cost	—	2	2	—	—	—
Less than cost	4	2	3	—	—	—
Carrying value	—	—	—	—	1	—
Lower of cost or market	—	2	—	—	—	—
Liquidation value	—	—	—	2	1	1
Various other	4	—	4	—	—	1
Not shown	16	42	48	6	14	18
Total Valuations	377	238	235	73	102	100
Number of Companies presenting:						
Only "common" treasury stock	313	181	182	—	—	—
Both "common" and "preferred" treasury stock	57	49	48	57	49	48
Only "preferred" treasury stock	—	—	—	16	48	52
Total Treasury Stock	370	230	230	73	97	100
No treasury stock	230	370	370	189	199	204
No "preferred" stock class	—	—	—	338	304	296
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—I—A: 1, 3, 6, 9, 11, 12, 17, 20, 26, 28, 30, 33, 34, 35, 38, 40, 43, 44, 45, 46, 48, 53, 54, 55, 58, 63, 65, 68, 69, 70, 71, 77, 78, 79, 81, 82, 83, 85, 86, 88, 94, 96, 99, 101, 102, 103, 104, 109, 114, 116, 118, 120, 127, 131, 132, 133, 134, 136, 137, 141, 143, 145, 147, 148, 153, 154, 156, 157, 159, 162, 165, 166, 168, 181, 187, 195, 196, 197, 198, 201, 202, 207, 218, 219, 227, 229, 230, 233, 234, 237, 238, 240, 241, 243, 244, 248, 252, 253, 258, 260, 264, 272, 275, 276, 279, 280, 281, 282, 283, 285, 291, 293, 294, 296, 297, 298, 302, 304, 305, 306, 311, 316, 317, 318, 320, 324, 327, 329, 330, 331, 332, 334, 335, 340, 347, 353, 357, 363, 366, 370, 372, 374, 379, 382, 389, 393, 394, 396, 397, 398, 401, 403, 404, 412, 414, 418, 421, 423, 425, 431, 433, 434, 435, 440, 443, 448, 451, 453, 455, 456, 463, 465, 468, 470, 475, 479, 480, 482, 484, 491, 492, 500, 501, 502, 504, 505, 507, 513, 516, 518, 520, 521, 522, 524, 529, 531, 532, 533, 538, 539, 541, 544, 546, 549, 551, 558, 559, 560, 563, 567, 570, 571, 572, 574, 576, 577, 578, 585, 593, 594, 595, 596; B: 548; C: 29, 57, 62, 95, 112, 128, 139, 152, 158, 160, 208, 211, 223, 235, 341, 348, 376, 387, 441, 503, 530, 536, 554, 588, 589; D: 247; E: 2, 5, 7, 13, 14, 16, 22, 24, 36, 37, 50, 51, 67, 74, 76, 80, 91, 98, 100, 111, 121, 138, 140, 164, 169, 172, 173, 174, 177, 184, 191, 203, 206, 213, 214, 225, 261, 278, 300, 301, 309, 310, 338, 344, 346, 352, 354, 359, 360, 365, 386, 402, 410, 411, 417, 428, 432, 447, 450, 458, 460, 461, 464, 466, 467, 469, 478, 483, 485, 495, 506, 509, 517, 523, 525, 528, 534, 543, 552, 553, 557, 564, 566, 573, 575, 583, 597; F: 262; G: 60, 249, 266, 377, 454, 470, 587; H: 44, 73, 108, 117, 197, 244, 246, 303, 308, 474, 486; I: 25, 31, 59, 87, 144, 150, 151, 189, 204, 205, 255, 299, 373, 375, 394, 417, 449, 477, 519, 525, 540, 561. II—A: 9, 33, 39, 41, 45, 61, 101, 131, 148, 181, 312, 323, 334, 363, 366, 371, 372, 383, 392, 434, 440, 452, 468, 480, 518, 529, 557, 563, 570, 571; B: 567; C: 211; E: 15, 52, 112, 164, 172, 174, 184, 191, 215, 216, 249, 298, 300, 301, 308, 309, 310, 325, 340, 344, 352, 379, 382, 386, 410, 425, 447, 460, 544, 562, 564, 565, 566, 573, 583; I: 65, 162, 233, 299, 519, 588.

(b) Deducted from Issued Stock of the Same Class

AMERICAN MOTORS CORPORATION

Stockholders' Investment:	
Capital Stock, par value $1.66-2/3 a share (Note C):	
Authorized 30,000,000 shares	
Issued—19,268,359 shares at September 30, 1965	$ 32,113,932
In treasury—202,895 shares at September 30, 1965	338,158
Outstanding—19,065,464 shares at September 30, 1965	31,775,774
Additional paid-in capital	50,069,529
Earnings retained for use in the business (Note B)	185,403,703
Total Stockholders' Investment	$267,249,006

EATON YALE & TOWNE INC.

Shareholders' Equity:	
Capital Stock:	
4¾% Cumulative Convertible Preferred Shares, par value $25.00 per share—Note D:	
Authorized 600,000 shares	
Outstanding 571,553 shares at December 31, 1965	$ 14,288,825
Common Shares, par value $1.00 per share—Notes D and E:	
Authorized 10,000,000 shares	
Outstanding 7,300,501 shares (after deducting 30,156 shares in treasury) at December 31, 1965	7,300,501
Capital in excess of par value—Note F	53,941,968
Earnings retained for use in the business —Notes A and C	190,090,829
	$265,622,123

HUPP CORPORATION

Stockholders' Equity:	
Serial preferred stock—Note C	$ 5,478,600
Common stock—Notes C and D	6,394,507
Capital surplus	25,848,607
Retained earnings—Note A	6,345,574
	$44,067,288

Note C: Serial Preferred and Common Stock—

	Number of Shares
Serial Preferred Stock, par and redemption value $50 a share; issuable in series:	
Authorized	400,000
5% series A, Cumulative:	
Designated	117,962
Issued	110,472
Less shares in treasury	900
Outstanding	109,572
Common Stock, par value $1 a share:	
Authorized	8,000,000
Issued	6,415,652
Less shares held in treasury	21,145
Outstanding	6,394,507

RAYBESTOS-MANHATTAN, INC.

Capital Stock and Surplus:	
Capital stock:	
Authorized, 2,000,000 shares without par value	
In treasury, 90,824 shares	
Outstanding, 1,261,200 shares with stated value of $12.50 per share	$15,765,000
Earned surplus	40,767,450
Total Capital Stock and Surplus	$56,532,450

THE L. S. STARRETT COMPANY

Stockholders' Equity (Note C):	
Common Stock—1,026,185 shares	$ 2,565,463
Capital Surplus	3,529,870
Retained Earnings	6,466,462
Total Stockholders' Equity	$12,561,795

Note C: Common stock authorized 1,279,930; issued 1,072,844 (assigned value $2.50 per share); in treasury 46,659. Option Plan shares not fully paid amount to 195,578.

During the year 9,379 shares of stock were purchased for the treasury at a cost of $289,821 of which $23,447 was charged to Common Stock, $49,206 to Capital Surplus and $217,168 to Retained Earnings. In addition there was purchased for retirement 220,070 shares at a cost of $6,898,094.

Other Presentations within Stockholders' Equity Section

PITTSBURGH PLATE GLASS COMPANY

Capital and Retained Earnings:	
Common stock—authorized, 12,500,000 shares, par value $10 each; issued 1965, 10,770,760 shares; 1964, 10,750,725 shares	$207,374,000
Earnings retained for use in the business (after transfers to capital)	402,396,000
Less common stock in treasury (1965, 156,535 shares; 1964, 127,710 shares) at cost	(9,912,000)
Capital and Retained Earnings	$599,858,000

THE TORRINGTON COMPANY

Capital:	
Common Stock, Without Par Value	
Authorized 2,000,000 shares	
Outstanding 1,621,570 shares	
Held in Treasury 58,430 shares	
Issued 1,680,000 shares at stated value	$ 7,000,000
Net Earnings Retained in the Business	57,413,718
Capital Surplus—Foreign Subsidiaries	1,974,642
	59,388,360
Deduct Common Stock held in Treasury, at cost less reserve—58,430 shares	806,965
Balance	58,581,395
	$86,201,260

Presented in Noncurrent Assets

RADIO CORPORATION OF AMERICA

Noncurrent Assets

Investments:	
Investments, at or below cost	$35,082,000
RCA common stock held in treasury, at cost (Note 2) 1965, 159,017 shares; 1964, 138,524 shares	5,345,000
Total Investments	$40,427,000

Note 2: *Incentive Plan*—At December 31, 1965, the unawarded balance of the Incentive Reserve was $3,404,000 and awards payable in RCA common stock combined with awards payable in cash after January 2, 1967 totaled $16,729,000. Payment of any deferred installment is contingent under the earning-out provisions of the Plan. The maximum 1965 credit to the reserve under the Incentive Plan, which was most recently approved by the shareholders in 1964, was $12,775,000; the Incentive Committee directed that $12,600,000 be credited to the reserve. From this credit and from the unawarded balance of $1,934,000 at December 31, 1964, awards of $11,130,000 for 1965 were directed by the Incentive Committee.

G. D. SEARLE & CO.

Other Assets:

Prepaid expenses	$ 873,111
Cash surrender value of paid-up insurance on life of officer	174,360
Common stock in treasury available for Employees' Savings and Profit Sharing Plan, 36,500 shares in 1965 and 34,200 shares in 1964, at cost	2,144,288
	$3,191,759

Set Forth in Notes to Financial Statements Only

EASTMAN KODAK COMPANY

Capital and Retained Earnings:

	(In thousands)
Common stock ($5 par value, 180,000,000 shares authorized)	
Issued: 80,602,718 shares	
Par value—paid in or transferred from retained earnings	$ 403,014
Additional retained earnings transferred to capital	246,058
Balance of retained earnings used in the business	375,101
Total	$1,024,173

Notes to Financial Statements

Sundry Investments, Receivables, and Deposits: The total included $7,388,000, representing the cost of 174,208 shares of Eastman Kodak Company common stock purchased and held by the company. These shares are approximately equal to the shares contingently allotted to participants under the Incentive and Deferred Compensation Plan.

GENERAL ELECTRIC COMPANY

Share Owners' Equity

Preferred stock (2,000,000 shares authorized; none issued)	$ —
Common stock (issued shares, $5 par value per share)	455,840,260
Amounts in excess of par value received for stock	266,753,930
Retained earnings	1,384,424,404
Share Owners' Equity	$2,107,018,594

Financial Summary

Investments and Advances: Investment in General Electric common stock at the end of 1965 totaled $40.0 million, compared with $30.3 million at the end of 1964, and represented cost of 388,903 shares held for corporate purposes such as requirements for the Savings and Security Program and the Incentive Compensation Plan. On December 31, 1965, these shares had a quoted market value of $45.9 million. A summary of changes in these holdings during 1965 is shown below:

	Number of Shares
General Electric common stock held at Jan. 1, 1965	362,934
Acquired during the year	599,700
	962,634
Used during the year for:	
Incentive Compensation Plan	
Delivered to participants	41,251
Transferred under deferred provisions	17,168
General Electric Savings and Security Program	496,280
General Electric Savings and Stock Bonus Plan	18,201
Other awards to employees	831
Total shares used	573,731
Shares held at Dec. 31, 1965	388,903

"DATED" SURPLUS

In February, 1956, the committee on accounting procedure of the American Institute of Certified Public Accountants issued *Accounting Research Bulletin No. 46, Discontinuance of Dating Earned Surplus.* This bulletin refers to Paragraph 10 of Chapter 7 (a), "Quasi-Reorganization or Corporate Readjustment," of *Accounting Research and Terminology Bulletins, Final Edition*, 1961, which reads as follows:

> After such a readjustment earned surplus previously accumulated cannot properly be carried forward under that title. A new earned surplus account should be established, dated to show that it runs from the effective date of the readjustment, and this dating should be disclosed in financial statements until such time as the effective date is no longer deemed to possess any special significance.

Bulletin No. 46 states that the dating of earned surplus following a quasi-reorganization would rarely, if ever, be of significance after a period of ten years. It also states that there may be exceptional circumstances in which the discontinuance of the dating of earned surplus could be justified at the conclusion of a period of less than ten years.

The earliest date still shown in the financial statements of the 1965 survey companies from which the earnings have been accumulated is the year 1949. Company No. 400* dated its earned surplus (deficit) account in 1965. This was the only change from 1964. The following summary disclosed the decrease in the number of survey companies showing "dated" surplus in their reports since 1955:

Date from which Earnings Accumulated	Balance Sheets for: 1965*	1964	1960	1955
Years 1925 through 1948	—	—	1	29
A: 1949-1951	1	1	1	1
B: 1952-1954	1	1	2	1
1955-1957	—	—	1	—
C: 1959-1961	2	2	2	—
D: 1962-1963	3	3	—	—
E: 1965	1	—	—	—
	8	7	7	31

*Refer to Company Appendix Section—A: 440; B: 177; C: 93, 123; D: 70, 150, 436; E: 400.

*Refer to Company Appendix Section.

STOCK OPTION AND STOCK PURCHASE PLANS

Accounting Research and Terminology Bulletins, Final Edition, 1961, issued by the committee on accounting procedure of the American Institute of Certified Public Accountants (Chapter 13, Section B), discusses the compensation feature involved in stock option and stock purchase plans, and the accounting treatment which should be given thereto. In this connection the following brief quotation may be of interest:

> The practice of granting to officers and other employees options to purchase or rights to subscribe for shares of a corporation's capital stock has been followed by a considerable number of corporations over a period of many years. To the extent that such options and rights involve a measurable amount of compensation, this cost of services received should be accounted for as such. The amount of compensation involved may be substantial and omission of such costs from the corporation's accounting may result in overstatement of net income to a significant degree. . . .
>
> In connection with financial statements, disclosure should be made as to the status of the option or plan at the end of the period of report, including the number of shares under option, the option price, and the number of shares as to which options are exercisable. As to options exercised during the period, disclosure should be made of the number of shares involved and the option price thereof.

STOCK OPTION PLANS

Table 44 reveals a considerable increase in recent years in the number of companies having employee stock option plans. The 1965 annual survey reports disclosed 484 companies referring to such plans, as compared with 251 companies for the year 1955.

During the year under review, stock option plans† were

A:	Initially established by	68 companies
B:	Terminated in the current year by	43 companies
C:	Amended or modified by	30 companies

†Refer to Company Appendix Section—A: 7, 18, 125, 166, 183, 214, 239, 263, 293, 312, 431, 552; B: 78, 123, 137, 169, 220, 248, 355, 421, 472, 492, 528, 544; C: 22, 89, 101, 129, 138, 226, 264, 297, 358, 433, 481, 584.

Fifty-nine stock option plans were also terminated in a prior year except for options previously granted but not exercised (*1, 20, 90, 128, 208, 283, 366, 393, 459, 494, 586, 590).

A single company may establish a plan during the year, terminate a plan, amend or modify one, or any combination of such actions. As a result, some companies are represented more than once in the above tabulation.

*Refer to Company Appendix Section.

In the annual reports which included discussions of employee stock option plans the following information, generally in the notes to financial statements, was given:

(a) Date of granting of options
(b) Number of employees or classes of employees to whom options were granted
(c) Number of shares reserved to cover employee stock options and number of shares, if any, for which options have been granted
(d) Option price and relation of option price to market value of the stock at date of granting of option
(e) Length of option period and provisions as to prior termination by retirement, death, etc., of employees
(f) Accounting treatment of certain transactions pertaining to employee stock options

Eighty-four companies indicated in their 1965 reports that they had met the requirements of "qualified stock options" as set forth in the Revenue Act of 1964. Restricted stock options were referred to by 121 of the survey companies. The compensation feature received little or no comment.

Examples illustrating the disclosure of various types of information concerning employee stock option plans are given below. (Plans which resulted in entries to surplus accounts during 1965 are presented extensively in Section 4 under "Employee Stock Plans.")

Initially Established During Year

ALAN WOOD STEEL COMPANY
Notes to Financial Statements

Note 4: Stock Options—At December 31, 1965, 50,000 shares of the Company's Common Stock were reserved under the Company's Qualified Stock Option Plan. Under the Plan, which was adopted in April 1965, the option price shall not be less than the fair market value on the date of grant, options extend for a term of five years and options may not be exercised until one year from date of grant, at which time each option is exercisable in whole or in part. During 1965, options for 2,000 shares were granted at $28.75 per share.

At December 31, 1965, 31,325 shares of the Company's Common Stock were reserved for options outstanding under the Company's former Qualified Stock Option Plan for Key Employees terminated in 1964. During 1965, options for 2,650 shares were exercised at $22.62 per share; no options were cancelled or expired and options on 13,500 shares became exercisable. Of the options outstanding at December 31, 1965 (28,325 at $22.62 per share and 3,000 at $24.50 per share), options for 22,400 shares were exercisable.

An additional 12,500 shares of Common Stock were reserved at December 31, 1965 for an option exercisable to January 1, 1970 at $38.10 per share.

THE CUDAHY PACKING COMPANY
Notes to Financial Statements

Note 8: Stock Options—A qualified stock option plan was approved by the stockholders in February 1965, reserving 75,000 shares of the Company's common stock for issuance under the plan. At October 30, 1965, options were outstanding to purchase 29,000 shares at $8.00 per share and 13,000 shares at $10.625 per share, the fair market value at the respective dates of grant. These options expire in 1969. No options have been exercised under this plan.

TABLE 44: EMPLOYEE STOCK OPTION PLANS

	Relationship of Option Price to Market Value at date of grant of option*	1965	1964	1963	1960	1955
	Option Price shown as a percentage, which was:					
A:	Not less than 100% of market value	77	65	N/C	N/C	N/C
B:	Not less than 95% of market value	55	88	190	159	72
C:	Exactly 95% of market value	27	30	64	59	51
D:	Between 94% and 86% of market value	1	1	2	3	—
E:	Not less than 85% of market value	9	12	20	12	8
F:	Exactly 85% of market value	4	4	6	10	3
G:	More than one percentage used	80	70	5	5	—
		253	270	287	248	134
	Option Price shown in dollar amount only, which was:					
	Above market value	—	1	1	2	5
H:	Equal or approximately equal to market value	120	91	72	58	39
	Below market value	—	4	1	4	4
I:	Market value not shown or referred to	170	153	116	101	65
		290	249	190	165	113
	Option Price not shown in either per cent or dollars, but stated to be:					
J:	Above market value	1	1	1	1	—
K:	Equal to market value	23	20	16	15	4
	Below market value	—	—	—	—	1
		24	21	17	16	5
L:	*Neither Option Price nor Market Value stated or indicated*	60	37	19	24	19
	Total number of plans	627	577	513	453	271
	Date of Option Price Determination:					
	Date of grant of option to employee	380	383	378	323	N/A
	Day prior to grant of option to employee	2	3	4	5	
	More than one date provided by plan	2	2	N/C	N/C	
	Miscellaneous other dates	2	2	N/C	N/C	
	No reference to time of determination of price per share to employee	241	187	131	125	
	Total	627	577	513	453	
	Number of Companies					
	Referring to employee stock option plans	484	486	472	438	251
	Not referring to employee stock option plans	116	114	128	162	349
	Total	600	600	600	600	600

N/C—Not Compiled.
N/A—Not Available.
*Refer to Company Appendix Section—A: 3, 18, 32, 33, 38, 39, 42, 50, 70, 73, 74, 80, 82, 86, 93, 98, 106, 133, 142, 156, 181, 183, 192, 212, 214, 220, 223, 227, 230, 239, 245, 249, 264, 265, 299, 307, 309, 313, 334, 347, 352, 362, 366, 371, 390, 392, 398, 399, 400, 403, 445, 449, 460, 464, 469, 472, 483, 488, 490, 492, 505, 512, 517, 552, 580, 583, 586, 598; B: 8, 10, 12, 31, 39, 57, 61, 83, 111, 122, 145, 146, 154, 164, 175, 192, 193, 203, 214, 229, 231, 285, 293, 320, 348, 366, 370, 378, 388, 392, 398, 408, 415, 417, 431, 437, 438, 450, 464, 479, 480, 492, 526, 542, 551, 552, 553, 559, 586, 597; C: 3, 11, 53, 69, 81, 85, 126, 131, 152, 169, 190, 214, 233, 235, 245, 247, 309, 335, 355, 363, 396, 427, 459, 476, 522, 527, 584; D: 275; E: 6, 12, 80, 86, 159, 254, 373, 387, 399; F: 323, 403, 406, 579; G: 30, 36, 37, 43, 48, 55, 60, 89, 92, 94, 101, 114, 118, 135, 138, 151, 153, 162, 170, 180, 183, 184, 191, 198, 222, 230, 238, 278, 284, 289, 292, 294, 301, 303, 310, 324, 330, 331, 333, 341, 353, 358, 369, 377, 385, 395, 402, 411, 419, 421, 443, 452, 467, 472, 475, 481, 498, 504, 508, 510, 516, 525, 527, 528, 529, 530, 532, 543, 545, 549, 554, 555, 558, 560, 565, 578, 579, 585, 591, 598; H: 4, 7, 9, 40, 51, 59, 65, 81, 85, 92, 96, 110, 112, 115, 123, 125, 126, 134, 136, 144, 147, 150, 158, 159, 164, 168, 177, 186, 199, 200, 204, 208, 211, 215, 218, 232, 233, 234, 240, 241, 246, 247, 248, 267, 272, 279, 281, 282, 287, 290, 293, 297, 300, 302, 304, 311, 312, 315, 321, 323, 325, 328, 342, 345, 357, 360, 364, 375, 382, 384, 391, 405, 418, 425, 433, 434, 444, 449, 451, 452, 454, 457, 461, 471, 478, 483, 487, 491, 493, 495, 501, 502, 503, 509, 511, 514, 519, 520, 524, 526, 527, 528, 538, 553, 566, 569, 588, 589, 592, 593, 599, 600; I: 1, 2, 7, 9, 15, 17, 20, 22, 24, 25, 26, 34, 35, 41, 47, 52, 54, 56, 62, 66, 67, 68, 75, 76, 77, 78, 84, 87, 90, 91, 93, 95, 97, 109, 115, 116, 124, 128, 129, 130, 132, 139, 141, 143, 147, 155, 158, 160, 161, 166, 172, 188, 189, 194, 195, 196, 201, 202, 206, 208, 211, 212, 213, 216, 217, 221, 225, 232, 233, 237, 240, 242, 244, 252, 255, 257, 258, 261, 262, 263, 270, 272, 273, 274, 276, 283, 296, 306, 311, 312, 316, 318, 329, 342, 350, 351, 355, 356, 359, 361, 362, 365, 368, 371, 372, 374, 375, 378, 379, 380, 381, 393, 394, 401, 404, 407, 412, 422, 426, 430, 435, 441, 442, 466, 468, 473, 477, 482, 484, 494, 495, 497, 499, 500, 503, 523, 536, 539, 541, 567, 574, 577, 581, 582, 583, 586, 590, 595; J: 71; K: 6, 8, 14, 61, 197, 221, 243, 271, 280, 305, 338, 340, 354, 355, 357, 416, 431, 463, 465, 513, 518, 584; L: 8, 18, 44, 55, 64, 72, 73, 97, 100, 102, 106, 108, 137, 148, 167, 174, 176, 178, 185, 210, 226, 244 253, 260, 263, 298, 305, 317, 332, 343, 387, 397, 400, 416, 420, 424, 429, 455, 456, 463, 470, 473, 489, 496, 517, 519, 540, 544, 557, 564, 572, 576, 587.

BAUSCH & LOMB INCORPORATED
Notes to Financial Statements

Note 6: *Other Matters*—Effective January 1, 1965, the Company's Contributory Retirement Plan was amended to improve benefits at no increased cost to eligible employees and to revise certain actuarial estimates to give recognition to changing conditions. The estimated unfunded past service cost at December 26, 1965 amounted to $8,135,000. During 1965, $810,000 including $459,000 for past service benefits, was charged against earnings.

After shareholders' approval in 1965, the Company reserves 30,000 shares of common stock for its Qualified Stock Option Plan. Options for such shares may be granted at 100% of market value of the stock on day of grant and they will expire five years from date of issuance. Options granted prior to 1965 were at not less than 85% of market value on date of grant and expire ten years from date of issuance.

The options exercised in 1965 resulted in $50,050 being added to common stock and $104,071 being credited to capital in excess of par value. Options for 17,230 shares were exercisable at the close of 1965 and 3,250 shares were available for future grants.

	Price Range Per Share	Number of Unexercised Option Shares
December 27, 1964	$14.25-$35.00	19,585
Granted under 1965 plan	$51.25	26,750
Exercised	$14.25-$51.25	(5,005)
Cancelled	$35.00	(500)
December 26, 1965	$14.25-$51.25	40,830

The Company is a defendant in certain antitrust proceedings which have not as yet been brought to trial. Counsel for the Company has advised that the Company has a meritorious defense to these proceedings.

HARSCO CORPORATION
Notes to Financial Statements

Note 7: *Stock Options*—On October 8, 1965, the shareholders approved a stock option plan under which 200,000 shares (after giving effect to a change in common stock issued as approved by stockholders on October 8, 1965) are reserved for issuance to employees selected by the stock option committee. The plan is designed to meet the requirements of a qualified stock option plan under the Revenue Act of 1964.

Among other things, the plan provides that option prices will be equal to the fair market value of the shares on date granted, expire five years after grant, become exercisable in annual cumulative installments one year after grant and are limited to 20,000 shares per employee. No options may be granted after June 21, 1975.

As of December 31, 1965, options had been granted under the plan for 97,000 shares at an option price of $20.28 per share of which 25 per cent become exercisable July 22, 1966.

INLAND STEEL COMPANY
Financial Review

***Changes in Shares under Option and Purchase Plans*:**

	Options Granted under Executive Stock Option Plans	Available for Grant under Present or Future Plans	Total
Balance December 31, 1964	270,529	898,194	1,168,723
1965 Executive Stock Option Plan		500,000	500,000
Options Granted:			
$43.0625 per share	62,700	(62,700)	
$43.3125 per share	10,900	(10,900)	
Options Exercised:			
$28.8333 per share	(34,918)		(34,918)
$23.6875 per share	(400)		(400)
$36.4375 per share	(985)		(985)
$39.3125 per share	(225)		(225)
Shares Purchased under Inland Stock Purchase Plan		(100,155)	(100,155)
Balance December 31, 1965	307,601	1,224,439	1,532,040

Option Prices range from $23.6875 to $48.25 per share.
Options with respect to 170,963 shares were exercisable at December 31, 1965.

FAIRCHILD HILLER CORPORATION
Notes to Financial Statements

Note 8: The Corporation has adopted three Incentive Stock Option Plans which authorize the granting of options to purchase common stock to officers and other key employees at fair market value at the date of grant. At year end, no options had been granted under the 1965 Plan, which was approved by the stockholders in September, 1965. Activity with respect to the 1955 Plan and the 1960 Plan for the year ended December 31, 1965, is presented below:

	1955 Plan Shares	1955 Plan Price	1960 Plan Shares	1960 Plan Price
Shares subject to option:				
Balance, January 1, 1965	8,300	$ 7.875 to $11.0625	183,100	$ 5.875 to $11.3125
Options granted	—		20,400	8.0625 to 10.1875
Options cancelled	1,000*	8.625	29,000*	6.0625 to 10.875
Options exercised	2,820*	7.875	22,750*	6.0625 to 11.3125
Balance, December 31, 1965	4,480	$ 7.875 to $11.0625	151,750	$ 5.875 to $11.3125
Number of employees holding options	4		46	
Shares exercisable at December 31, 1965	4,480		120,350	

*Deduction

There are no shares available for option under the 1955 Plan or the 1960 Plan. Under the 1965 Plan, there were available for option 251,500 shares plus an additional number of shares equal to those shares subject to option under the 1960 Plan at December 31, 1965, which thereafter terminate without having been exercised.

THE GLIDDEN COMPANY

Shareholders' Equity:
Common Stock—par value $4 a share:
Authorized—10,000,000 shares
Reserved for conversion and options—1,126,166 shares
Issued—6,234,716 shares $24,938,864

Notes to Financial Statements

Note D: During the year, a new stock option plan became effective for key personnel, and authority to grant options under all prior stock option plans was terminated. At the beginning of the year, options were outstanding for 282,237 shares of Common Stock. During the year, options for 44,000 shares were granted, options for 48,295 were exercised, and options for 788 shares were canceled. No options became exercisable during the year. At August 31, 1965, options for 277,154 shares were outstanding and 250,000 shares were reserved for the future granting of options.

Amended or Modified During Year

PHILADELPHIA AND READING CORPORATION
Notes to Financial Statements

Note 6: At the annual meeting on May 10, 1965, the stockholders of the Corporation increased the number of shares of stock which the directors may grant under the Stock Option Plan to officers and employees from 57,864 shares to 150,000 shares. Under the plan, options may be granted at a price not less than the fair market value at the time of grant.

The following is a summary for 1965:

	Options Outstanding	Price Range
Balance, January 1	106,665	$33.81 to 54.07
Option granted	15,000	44.31
Options cancelled or expired	(5,638)	33.94 to 39.21
Options exercised	(34,967)	33.81 to 39.21
Balance, December 31	81,060	33.81 to 54.07

Options for 49,064 shares were exercisable at December 31, 1965. Shares reserved for the granting of options under the plan totaled 53,264 at January 1, 1965 and 135,000 at December 31, 1965. No charges have been made against income in connection with these options.

Subject to stockholders' approval, the Board of Directors granted an option for 10,000 shares to an officer of a subsidiary.

THE BENDIX CORPORATION
Notes to Financial Statements

Note 10: *Capital Stock*—Under a Stock Option Plan, approved by the stockholders on February 27, 1952 (as amended on February 27, 1957, February 28, 1962 and February 23, 1965), at September 30, 1965 there were 349,942 shares of common stock reserved for allotment and sale to eligible employees, of which 261,492 shares were under option at prices ranging from $41.85 to $67.70 a share, which represented 95% (100% for options issued after January 1, 1964) of the average market prices, as adjusted for stock dividends, on the dates the options were granted.

During the year ended September 30, 1965 options were exercised for 1,555 shares at prices ranging from $41.85 to $50.62 per share.

Reference is made to page 7 of this report for information relating to the acquisition of the assets and businesses of certain companies in exchange for shares of the Corporation's common stock subsequent to September 30, 1965.

CITY STORES COMPANY
Notes to Financial Statements

Note H: *Stock Options*—The Company's Stock Option Plan, as amended in 1964, makes available for granting to selected key executives stock options to purchase 125,000 shares of the Company's common stock. The Plan authorizes the granting of options at 95% of the market price at date of grant through 1963 and at 100% thereafter. Options granted in 1964 and thereafter are exercisable over a period not exceeding five years and options granted prior to 1964 are generally exercisable over a period not exceeding ten years, commencing 12 and 18 months, respectively, from grant dates. During the year, options to purchase 32,700 shares were granted, and options for 22,500 shares were cancelled. At January 30, 1965, options were outstanding for the purchase of 74,700 shares at prices ranging from $8.43 to $12.79 per share. On April 7, 1965, options for 18,650 shares were granted at $11.38 per share. No options have been exercised.

FALSTAFF BREWING CORPORATION
Notes to Financial Statements

Note 6: *Stock Options*—Under a stock option plan adopted in 1956 and amended in 1965, 95,000 shares of common stock were reserved for issuance upon the exercise of options to be granted to officers and key employees. At January 1, 1965, there were outstanding options for 38,182 shares at prices of $11.70 and $16.922 a share. During 1965, options were exercised with respect to 10,082 shares. The foregoing option prices represent 95% of the market price of the shares on the dates the options were granted. Under the amended stock option plan, options granted in the future must be at a price that is not less than 100% of the fair market value of the common stock on the date the option is granted. At December 31, 1965, 69,500 shares of common stock were reserved for the unexercised options (at prices of $11.70 and $16.922 a share) and for options not yet granted.

H. J. HEINZ COMPANY
Notes to Financial Statements

Note 3: *Capital Stock*—The employees' incentive stock option plan, approved by the shareholders in 1960, was amended on June 12, 1964 to meet the requirements of a qualified stock option plan under the Revenue Act of 1964. Prior to June 12, 1964, common stock options were granted at not less than 95% of fair market value at date of grant and, with certain exceptions, were exercisable to the extent of 25% thereof at the time of grant and 25% annually thereafter. Subsequent to June 12, 1964, common stock options may be granted at not less than 100% of fair market value and are, with certain exceptions, immediately exercisable in full within five years from the date of grant but no later than the expiration date of the plan, March 11, 1970. Simultaneously with the modifications indicated above, the Board of Directors reduced to 100% of the market price on June 12, 1964 the option price of certain outstanding options granted prior to January 1, 1964 at option prices substantially in excess of the market price on June 12, 1964. Accordingly, options were modified to effect a reduction in option prices from $57.95 to $36.62½ per share applicable to 8,500 shares and from $59.38 to $36.62½ per share applicable to 2,500 shares.

During the fiscal year, options for 13,000 shares were granted, options for 36,500 shares expired or were cancelled and options for 28,352 shares were exercised at prices varying from $27.31 1/3 to $45.49 per share. At April 28, 1965, 88,842 shares of common stock were subject to outstanding options at prices ranging from $27.31 1/3 to $57.25 per share with expiration dates at various times to March 11, 1970, and 65,000 additional shares were reserved for purposes of the plan and not subject to options.

THE RUBEROID CO.
Notes to Financial Statements

Note 5: *Stock Option Plan*—The Company's incentive stock option plan for officers and key employees, as amended in 1965, provides for the granting of options to purchase capital stock, with the stipulation that no one employee be granted an option for more than 10,000 shares. Prior to January 1, 1965, option prices had to be not less than 95% of fair market prices at the dates the options were granted and options had to be exercised within ten years from the date of grant. All options granted subsequent to December 31, 1964 must be at not less than 100% of fair market prices and, the options must be exercised within five years from the date of grant. The optionee may exercise up to 40% of the shares subject to option in each of the first two years following the date of grant and the remainder at any time thereafter. Options become cumulative, if not exercised, for the duration of the option period.

Particulars relating to shares of capital stock issuable under options granted under the plan follow:

Option Date and Price Per Share	Exercised or Terminated during 1965	Shares under Option December 31, 1965
June 1957—$28.50	7,125	10,587
Feb. 1958—$34.25	—	2,400
Feb. 1959—$40.00	—	4,300
Jan. 1960—$38.75	1,600	15,250
Oct. 1960—$31.75	—	13,100
Apr. 1962—$35.50	—	4,000
May 1963—$27.00	1,870	17,190
	10,595*	66,827

*Includes 3,175 shares under options terminated during the year.

All shares under option at December 31, 1965 were exercisable at that date. The above option prices represent 95% of the market price of the stock on the dates the options were granted. At December 31, 1965 there were 95,225 shares available under the plan for the granting of additional options.

Options covering 7,420 shares were exercised during the year and such shares were issued from the treasury. The net result of these transactions was credited to the capital stock account.

SERVEL, INC.
Notes to Financial Statements

Note 6: There were outstanding at October 31, 1964, under a Stock Option Plan on which the right to grant options was terminated on January 12, 1965, options to purchase a maximum of 22,250 shares of common stock. No options were granted during the 1965 fiscal year, an option for 3,750 shares lapsed, options for 4,250 shares became exercisable, and no options were exercised during such fiscal year. Consequently, at October 31, 1965 there was a maximum of 18,500 shares covered by outstanding options, exercisable as to only 6,000 shares.

STOCK PURCHASE PLANS

There were 62 survey companies that indicated in their 1965 annual reports the existence of various employee stock purchase plans. The information contained in the annual reports of the survey companies for 1965, 1960, and 1955 concerning the determination under these plans of the subscription price and its relation to the market value of the stock is summarized in Table 45.

Examples from 1965 annual reports illustrating the information given with regard to employee stock purchase plans follow. (Plans which resulted in entries to the surplus accounts during 1965 are presented extensively in Section 4 under "Employee Stock Plans.")

It should be emphasized that information contained in annual reports on stock purchase plans generally is meager, possibly because of the seemingly greater importance of stock option plans. Stock purchase plans also vary greatly from one another, which presents prob-

TABLE 45: EMPLOYEE STOCK PURCHASE PLANS

Determination of Subscription Price and Relationship to Market Value*	1965	1960	1955
A: Subscription price shown as a percentage, which was not less than 75% of market value at subscription date	18	8	2
B: Subscription price shown in dollar amount only, and price set at time stock offered for subscription	9	2	5
C: Not determinable from annual report	2	10	3
Subscription price not shown, but stated to be equal to market:			
D: At time stock offered for subscription	2	5	—
E: At time of purchase	3	1	1
On last business day preceding the offering	—	—	1
F: Neither subscription price nor market value stated or indicated	28	34	28
Total	62	60	40
Number of Companies with:			
Employee stock purchase plan	62	60	40
No employee stock purchase plan	538	540	560
Total	600	600	600

*Refer to Company Appendix Section—A: 69, 110, 115, 136, 156, 233, 254, 287, 293, 304, 307, 331, 348, 368, 381, 398, 501, 541; B: 92, 100, 166, 195, 250, 302, 404, 426, 439; C: 153, 569; D: 188, 266; E: 8, 116, 552; F: 2, 9, 29, 124, 135, 151, 175, 232, 246, 249, 276, 285, 303, 316, 372, 409, 453, 492, 495, 502, 515, 518, 525, 531, 560, 576, 587, 590.

lems in grouping them within headings such as those shown in Table 45.

AIR REDUCTION COMPANY, INCORPORATED

Notes to Financial Statements

Note F: (in part) Pursuant to the employee stock investment plan, the Company is offering up to a total of 200,000 shares of its unissued common stock to employees eligible to participate in the plan, at a price determined by the last sale of the Company's common stock on the New York Stock Exchange on certain quarterly dates, except that no sale may be made under the plan at a price of less than $26.67 a share. For each five shares of common stock purchased by a participating employee, the Company will contribute to the employee one additional share of its common stock purchased in the open market. Through 1965, 121,151 shares, for an aggregate consideration of $6,867,399, had been issued to 4,870 employees under the plan, and 22,538 shares were purchased for such employees at a cost of $1,269,662.

Of the total authorized and unissued shares of common stock, 216,990 shares were reserved at December 31, 1965 for issuance for stock options and the employee stock investment plan described above. The employee stock investment plan may be suspended or discontinued by the Board of Directors at any time.

ATLAS CHEMICAL INDUSTRIES, INC.

Notes to Financial Statements

Note 7: *Capital Stock*—(in part) Under the Stock Purchase Plan for non-exempt employees, there were subscriptions outstanding at December 31, 1965 for the sale of approximately 23,000 shares of common stock to employees at $15.81 a share, the fair market value on March 11, 1964, the date the plan was authorized by the Board of Directors. Generally, subscriptions are being paid in equal monthly instalments over a two-year period but may be cancelled at any time before final payment at the option of the subscriber.

In addition to the shares reserved for outstanding options and subscriptions, 116,748 shares are reserved for issuance upon conversion of class A stock.

BRUNSWICK CORPORATION

Notes to Financial Statements

Note 13: *Common Stock*—(in part) Under the employees' stock purchase plan (which excludes key management employees), 124,157 shares of common stock are reserved for issuance to eligible employees. In 1965, the Company granted rights and employees purchased 88,171 shares at 85% of market at dates of grant.

BURROUGHS CORPORATION

Noncurrent Assets

Other Assets:	
Investment in Burroughs Finance Corporation	$ 5,209,988
Notes receivable from officers and key employees for purchase of common stock of the Company	2,640,808
Deferred charges and other assets	3,488,710
	$11,339,506

Financial Review

Stock Option and Stock Purchase Plans: Under a restricted stock option plan adopted in 1962, options to purchase 48,250 shares at $40.1875 a share were granted to 18 officers on May 10, 1962. Options for 8,750 shares have been cancelled, leaving 39,500 shares subject to exercise pursuant to the provisions of the plan, of which 15,800 shares are exercisable as of December 31, 1965. No options have been exercised under the plan and no further restricted stock options will be granted.

In 1964 an installment stock purchase program was implemented for key management employees and officers, under which the Company sold 70,090 of its treasury shares to said persons. A similar program was undertaken in 1965 to include additional key employees and officers. To accomplish this, the Company in 1965 acquired 45,000 additional shares of its common stock on the open market and sold a total of 38,650 of these treasury shares at the mean between the high and low market price on the respective dates of purchase. In payment the purchasers delivered to the Company their interest-bearing notes aggregating $1,412,386 due in ten equal annual installments. All notes are secured by the shares purchased; as each installment is paid on a note, a proportionate number of shares is released.

In 1965 payments on notes aggregated $339,000 and 12,164 shares were released to the purchasers. Current assets shown on the consolidated balance sheet at December 31, 1965 include $298,239 due on notes during 1966.

W. T. GRANT COMPANY

Capital . . . Notes A, B, D, and E:	
Capital Stock	
Cumulative Preferred—$100 par value:	
Authorized 250,000 shares	
Issued 150,000 shares of 3¾% series	$ 15,000,000
Common—$2.50 par value:	
Authorized 8,500,000 shares	
Issued 6,014,681 and 5,941,081 shares, respectively	15,036,703
Capital paid-in in excess of par value of shares issued	21,751,283
Amounts paid by officers and employees under purchase contracts for 466,105 and 432,895 shares, respectively, of unissued Common Stock	698,469
	37,486,455
Earnings retained for use in the business	111,024,597
Total Capital	$163,511,052

Notes to Financial Statements

Note E: The 3¾% Cumulative Preferred Stock is redeemable at the Company's option in whole or in part at $100 per share plus accrued dividends to date of redemption.

At January 31, 1965, 555,155 shares of the Company's unissued Common Stock were reserved under the Employees' Stock Purchase Plans. Contracts for the sales of such shares, on a deferred payment basis, are made at approximate market prices at dates of contracts. Shares are issued after completion of payments. In addition to the shares reserved under these Plans, the only other shares of Capital Stock reserved for options, warrants, conversions, and other rights are shares of issued Common Stock held as explained in Note B.

CONTINGENCIES

In October, 1958, the committee on accounting procedure of The American Institute of Certified Public Accountants issued *Accounting Research Bulletin No. 50—Contingencies*† which states that:

> In the preparation of financial statements presenting financial position or operating results, or both, it is necessary to give consideration to contingencies. In accounting, a contingency is an existing condition, situation or set of circumstances, involving a considerable degree of uncertainty, which may, through a related future event, result in the acquisition or loss of an asset, or the incurrence or avoidance of a liability, usually with the concurrence of a gain or loss. A commitment which is not dependent upon some significant intervening factor or decision should not be described as a contingency.

Contingent Liabilities

Disclosures relating to the principal types of contingent liabilities revealed in the 1965 annual reports of the 600 survey companies have been segregated in this section as follows:

(a) Renegotiation: U. S. Government Contracts—Renegotiation and price redetermination, presentation of estimated liability (see Table 9)
(b) Long-term Leases: Disclosure by Lessees (see Table 19)
(c) Contingency Reserves: Balance Sheet Presentation and Terminology Used (see Table 32)
(d) Fire Loss and Other Insurance Reserves (see Table 36)
(e) Contingent Liabilities—Other: Nature of (see Table 46)

Table 46 summarizes the nature and frequency of such other contingent liabilities as may arise from pending litigation, guarantees, possible tax assessments, purchase commitments, agreements, etc.

A total of 283 survey companies referred to such contingencies in their 1965 annual reports. In most cases (247 companies) the disclosure was made either in the notes to the financial statements or in the president's letter to stockholders. The others (36 companies) presented the contingency within the balance sheet, in memorandum form, with no dollar amount shown or with the dollar estimates not included in the balance sheet total (*6, 7, 33, 36, 62, 70, 84, 87, 114, 123, 127, 137, 159, 166, 184, 190, 194, 220, 293, 337, 346, 380, 393, 409, 456, 480, 522, 550, 560, 561, 563, 571, 573, 590, 591, 598).

†Included in *Accounting Research and Terminology Bulletins, Final Edition*, 1961.
*Refer to Company Appendix Section.

EXAMPLES OF CONTINGENT LIABILITIES

The extent of the information disclosed as to contingent liabilities and the manner of presentation are illustrated in the following examples selected from the 1965 reports.

Litigation

ANCHOR HOCKING GLASS CORPORATION
Review of Operations

In our 1964 Annual Report we referred to the fact that Corning Glass Works had filed a suit charging that the manufacture and sale of Anchor Hocking cookware infringes a Corning patent. This case was tried in the U. S. District Court in Wilmington, Delaware in June, 1965 and we are awaiting a decision of the court.

ANHEUSER-BUSCH, INCORPORATED
Notes to Financial Statements

Note 6: Commitments and Contingencies—In connection with the plant expansion and improvement program, the company has commitments for capital expenditures totaling about $26,546,000 at December 31, 1965.

On July 14, 1961, a complaint was filed against the Company by International Breweries, Inc., in the United States District Court for the Southern District of Florida, at Tampa, alleging that the Company is unlawfully using the word "Bavarian" on one of its beers, and seeking to have the Company enjoined from using the words "Bavarian" and "Bavarian's" in connection with the sale or distribution of beer or closely related products other than in certain areas where such words were used on May 15, 1957. The complaint does not challenge the use by the Company of the trademark "Busch" in connection with the sale of Busch Bavarian beer. In 1964 the District Court decided in favor of the Company and refused to grant plaintiff an injunction concerning the word "Bavarian." Plaintiff has appealed this decision to the United States Court of Appeals for the Fifth Circuit at New Orleans.

On March 30, 1962, a complaint was filed against the Company and Swed Distributing Company and Swed (Louis) Distributing Company by International Breweries, Inc., in the United States District Court for the Southern District of Florida, at Tampa, alleging violations by the Company of the Sherman and Clayton Acts and requesting treble damages.

On February 1, 1962, the Company acquired from Rahr Malting Co., its malting and grain storage facilities at Manitowoc, Wisconsin. On January 31, 1962, in the United States District Court for the Eastern District of Missouri, Eastern Division, the United States of America filed suit under Section 7 of the Clayton Act to enjoin the Company from this acquisition. No preliminary injunction was sought. The relief sought by the United States is to require the Company to divest itself of the malting and grain storage facilities at Manitowoc acquired from the Rahr Malting Co. The Company has denied violation of Section 7 of the Clayton Act and of any anti-trust acts and the consequent restraint of interstate commerce.

On December 21, 1962, the United States of America filed suit in the United States District Court, Eastern District of New York, against the F.&M. Schaefer Brewing Company and the Company alleging, among other things, that the defendants were engaged in a combination and conspiracy in unreasonable restraint of interstate commerce in violation of Section 1 of the Sherman Act. The main allegation of the complaint is that henceforth the Company would sell its Budweiser beer only to Schaefer for resale to retailers within the New York Metropolitan area. During 1964 the Company discontinued using Schaefer as a distributor in the New York Metropolitan area and this area is now serviced by independent wholesalers. The government has not withdrawn its suit.

During 1963 two shareholders of the Company filed suit against Mr. August A. Busch, Jr. and the Company asserting that certain sales to Mr. Busch under the Company's Stock Option Plan were in violation of the preemptive rights of the shareholders who had voted against adoption of such Plan in 1955, and also that Mr. Busch was receiving compensation in excess of the value of his services. In January, 1964, the Circuit Court ruled against the suing shareholders on both contentions. The Supreme Court of Missouri, after having affirmed the decision relating to stock options, granted a rehearing thereon. The case is, on the date of this report, pending upon such rehearing. The decision relating to compensation has been affirmed by the St. Louis Court of Appeals.

The Company was defendant in certain other lawsuits at December 31, 1965, the ultimate outcome of which cannot be determined at this time. The Company's liability under such suits, if any, would not materially affect its financial condition or operations.

TABLE 46: CONTINGENT LIABILITIES

Nature of Contingency*	1965	1960	1955
Litigation:			
A: Nongovernment	78	75	53
B: Government	61	64	27
C: Not identified	39	17	23
Guarantees:			
D: Subsidiaries	51	53	48
E: Affiliated and associated companies	54	26	18
F: Other	36	29	28
G: Possible tax assessments	39	42	24
H: Accounts or notes receivable sold	38	33	15
I: Purchase or repurchase commitments	38	22	16
J: Miscellaneous agreements and contracts	32	39	34
Total	466	400	286
Number of Companies referring to Contingent Liabilities:			
On the face of the balance sheet	36	13	213
In notes to financial statements or in president's letter only	247	252	
Total	283	265	213
Not referring to contingent liabilities	317	335	387
Total	600	600	600

*Refer to Company Appendix Section—A: 7, 70, 84, 87, 166, 184, 194, 243, 249, 260, 308, 316, 357, 402, 432, 470, 518, 544, 575, 579; B: 16, 18, 28, 51, 100, 164, 182, 232, 247, 282, 347, 372, 429, 431, 437, 451, 544, 565, 584, 588; C: 6, 20, 56, 89, 121, 122, 144, 150, 180, 233, 245, 321, 416, 477, 494, 495, 515, 527, 529, 538; D: 33, 36, 59, 65, 72, 125, 139, 163, 208, 219, 275, 285, 314, 327, 354, 391, 416, 429, 517, 587; E: 25, 59, 60, 89, 100, 125, 136, 233, 285, 309, 330, 394, 412, 429, 463, 488, 517, 538, 572, 599; F: 54, 58, 96, 100, 114, 127, 137, 215, 264, 339, 351, 418, 441, 457, 492, 505, 538, 558, 579, 584; G: 9, 29, 37, 43, 102, 108, 141, 157, 158, 251, 277, 315, 320, 341, 355, 488, 490, 508, 538, 571; H: 6, 33, 62, 70, 119, 131, 139, 208, 245, 277, 287, 343, 379, 382, 450, 472, 519, 565, 574, 587; I: 3, 8, 13, 14, 24, 59, 119, 125, 131, 180, 287, 309, 379, 385, 412, 429, 477, 545, 590, 591; J: 68, 83, 166, 177, 210, 211, 217, 242, 297, 298, 300, 328, 330, 387, 479, 482, 489, 514, 549, 572.

ERIE FORGE & STEEL CORPORATION
Notes to Financial Statements

Note G: Litigation—The Corporation and several other corporations engaged in the heavy forging and castings industries are defendants in two antitrust actions instituted by the Department of Justice in 1962 and 1963. A former officer of the Corporation is also a defendant in the latter suit. Not guilty pleas have been filed in both actions. These actions are not expected to have any material adverse effect upon the Corporation's financial position.

A derivative action is pending against certain directors and other defendants wherein it has been alleged that salary paid to an officer and certain legal fees to general counsel were excessive. A finder's fee paid in connection with the acquisition of Continental Rubber Works is also a subject of the action. Special counsel retained by the Corporation are of the opinion that there is no merit to this suit.

LINK-BELT COMPANY
Notes to Financial Statements

Pending Legal Proceedings: The company is co-defendant in several suits relating to damages arising from an explosion and fire. The damages claimed are in excess of insurance coverage. The company is also defendant in a suit alleging infringement of a patent. The company denies liability on the foregoing and believes the final outcome of these matters will not materially adversely affect the financial statements of the company.

UNITED SHOE MACHINERY CORPORATION
Below Stockholders' Equity

See page . . . 18 for information on a contingent liability relative to The Hanover Shoe, Inc. treble-damage suit.

Letter to Stockholders

As stated in the January Quarterly Report, the Corporation and the Department of Justice filed reports on the effect of the antitrust decree in the past ten years as required by the decree. Based on extensive studies the Corporation concluded that workable competition had been fully established in the shoe machinery industry and filed a concurrent petition requesting a significant reduction in the restrictions of the past ten years.

The Government reached a contrary conclusion and petitioned, among other things, that USM be required to submit a plan for establishing "an independent full-line shoe machinery manufacturing company capable of competing with" the Corporation; and that hearings be held to assure that the plan is feasible and equitable and does not result in a forfeiture to USM stockholders.

Convinced that the Government conclusion is not justified by the facts, we consider their proposal for the creation of a new full-line company, apparently from our own resources and organization, to be unwarranted, impractical and contrary to the best interests of the industries involved and of the consuming public. We are contesting vigorously the Government conclusion and proposal as indicated in the Litigation section of this report.

Litigation: We have referred on page 5 to the reports and petitions filed in December 1964, as required by the Court decree in the antitrust suit originally brought by the Government against the Corporation in December 1947.

A preliminary hearing in these proceedings was held in the United States District Court at Boston on January 11, 1965. After hearing argument of counsel for the Corporation and the Department of Justice, the Court ordered the reports, petitions and other documents which the parties had filed impounded in the Court so as not to be available for general inspection or publication. In taking this action the Court expressed its concern over the effect of publicity on the interests of stockholders. The Court also requested the parties to confer with one another in view of the wide disparity between the Government's and the Corporation's conclusions, and to make an effort to agree on basic facts on which further consideration by the Court could be predicated. Such procedure was undertaken promptly, has been pursued intensively the past several months, and was still continuing at the time this report went to the printer.

We have referred in past reports to the treble-damage suit brought in 1955 (prior to the effective date of the Federal four-year Statute of Limitations) by The Hanover Shoe, Inc. in the United States District Court at Scranton, Pennsylvania. The case was tried in that Court in 1962-63. On April 28, 1965 the Court filed an Opinion based in substantial part on the 1953 decision in the Government antitrust suit and holding that the Corporation is liable to the plaintiff for damages incurred in the period 1939-1955. The Court concurrently issued an Order requiring the plaintiff to file within ten days a recalculation of its claimed damages (from a starting point of $1,830,640 found by the Court by averaging calculations introduced during the trial). Proceedings on this basis are not yet completed, and no judgment has been entered. The damages ultimately found will be trebled as required by statute. After these further proceedings in the District Court and the entry of a final Judgment, it is our intention to file an appeal in the Court of Appeals for the Third Circuit and, therefore, no reserve has been provided in the financial statements.

WORTHINGTON CORPORATION
Letter to Stockholders

Continued progress was made in resolving pending suits arising out of the government's prosecution in 1961 of manufacturers of electrical equipment on charges of violating the Sherman Act. Of the 53 suits that were unresolved at the beginning of the year, 41 were dismissed by year end. Of these, price adjustments were made in 15 and the balance withdrawn without the payment of money. As in previous years, the settlements were charged to current operations. None of the suits has yet come to trial and your management continues to feel that there is no need to provide reserves due to the actions still pending.

NATIONAL DAIRY PRODUCTS CORPORATION
Above Stockholders' Equity

Contingent Liabilities (See Note)

Notes to Financial Statements

Contingent Liabilities: Substantial amounts are involved in various legal proceedings in which the Company is a defendant. It is not feasible to predict or determine the outcome of these proceedings, the adjustments in operations which adverse decisions might require or the ultimate liabilities, if any, which might result, but it is believed that the outcome would not materially affect the Company's consolidated financial position or operations.

Review of Operations

Litigation: In the 1959 antitrust case (Kansas City), the Company has petitioned the U. S. Supreme Court to review the adverse decision of the U. S. Circuit Court on the Company's appeal. This case was mentioned in the last annual report and the proceedings in the treble damage suits against the Company based on these alleged antitrust violations are still suspended pending appellate review. The indictment and civil suit brought by the Government in Baltimore, relating to alleged antitrust violations in connection with fluid milk sales in that area, are still pending.

Appeals to the Federal Trade Commission from the hearing examiners' rulings in the 1957 case alleging price discrimination in the sale of milk in certain other markets and in the 1962 case alleging price discrimination in the sale of jelly, marshmallow topping and yogurt have been argued and are awaiting decision.

The Company and nine other dairy concerns are among the defendants named in an antitrust suit brought in December, 1965, charging conspiracy to fix prices in the sales of milk in Miami and South Florida. The Company has entered a plea of not guilty and the case is pending in the Federal District Court. In addition, other litigation of the nature usual to companies operating similar businesses, and various governmental investigations are also pending. Further comments regarding the significance of legal proceedings appear in the "Notes to Consolidated Financial Statements," on page 19.

Guarantees

BLUE BELL, INC.
Notes to Financial Statements

Note 5: *Commitments and Contingent Liabilities*—The Company has long-term leases in effect at September 30, 1965 which expire in from three to twenty years from that date and require annual rental payments totaling approximately $265,000.

As of September 30, 1965, the Company and its subsidiaries had outstanding open balances on letters of credit totaling approximately $5,018,000 and is contingently liable as guarantor on mortgages, short-term bills discounted, etc. totaling approximately $301,000 (including $219,000 applicable to European subsidiaries). Any liability that may result from lawsuits and other claims pending against the Company as of September 30, 1965 will not be material in the opinion of counsel for the Company.

J. I. CASE COMPANY
Below Stockholders' Equity

Contingent Liabilities (Note 11)

Notes to Financial Statements

Note 11: *Guarantees of French Subsidiaries' Debt*—The Company has guaranteed $1,940,000 of its French subsidiaries' debt at October 31, 1965.

THE CESSNA AIRCRAFT COMPANY
Financial Summary

Expenditures for factory buildings, machinery and equipment and a small amount of land amounted to $4,122,000. Additional expansion of domestic plant facilities in 1966 will require fixed asset expenditures which probably will exceed those of 1965. The new factory building at Glenrothes, Scotland, and the additional machinery required there will total $1,500,000. These additions were financed with Cessna's guarantee through British financial channels. This enabled Cessna to cooperate with the United States government in its efforts to minimize the flow of U. S. dollars abroad.

THE CLEVELAND-CLIFFS IRON COMPANY
Notes to Financial Statements

Note F: *Partnership Companies*—At December 31, 1965, the Company was contingently liable for debt of certain partnership companies in the amount of $5,462,000.

CONSOLIDATION COAL COMPANY
Notes to Financial Statements

Note 1: *Contingent Liabilities*—The Company was contingently liable as guarantor of outstanding notes payable of its unconsolidated (61% owned) subsidiary in the amount of $7,219,400, and was obligated to provide sufficient revenues for fifty per cent owned companies to meet installments on notes payable of $1,801,709. The companies were also contingently liable in connection with certain legal and other proceedings on which the Company's counsel estimated there will be no material liability.

MONSANTO COMPANY
Financial Review

The company is a defendant in several antitrust actions and in a patent infringement suit. The defense of these cases is generally in early stages of preparation. Company counsel believe that these actions can be successfully defended and that, in any event, the results of such litigation will not have any materially adverse effect on the financial position or operations of Monsanto.

The company was contingently liable as guarantor of bank loans to 50 per cent-owned companies and others aggregating approximately $8,600,000 at December 31, 1965 and $12,300,000 at the end of 1964.

Possible Tax Assessments

DIANA STORES CORPORATION
Above Stockholders' Equity

Commitments and Contingencies (Note 5)

Note 5: *Commitments and Contingencies*—The minimum annual rentals of the company and its operating subsidiaries under leases with terms expiring three years after July 31, 1965 amount to approximately $4,600,000, of which $1,000,000 is applicable to leases on properties owned by real estate subsidiaries; approximately 70% of the balance of $3,600,000 is payable within twenty years.

The Internal Revenue Service has examined the income tax returns of the company for the fiscal years 1962 and 1963 and has asserted a deficiency of approximately $350,000. In the opinion of Tax Counsel the proposed deficiency is without merit. The company will contest the deficiency and has made no provision for such deficiency in the financial statements.

MSL INDUSTRIES, INC.
Notes to Financial Statements

Note 4: *Federal Income Taxes*—As a result of the sale of its railroad assets and business, the Company claimed a loss in its 1960 Federal income tax return of approximately $30,000,000. The Company applied approximately $5,000,000 of this loss as a carryback to the years 1957, 1958, and 1959, and received a refund of income taxes paid for those years of about $2,630,000. The Company applied the balance of the loss, approximately $25,000,000, as a carryover to offset taxable income for the years 1961 through 1964 and a part of 1965. The Company's right to the carryback and carryover of the loss is currently being reviewed by the Internal Revenue Service. Tax returns for 1960 through 1965 and returns for years prior to 1960, at least to the extent of the carryback, remain open for review. To date no report has been received from the Internal Revenue Service.

In the opinion of tax counsel for the Company, the sale of the Company's railroad assets and business produced a net operating loss for 1960 which is properly carried back to the taxable years 1957, 1958, and 1959 and carried over to the taxable years 1961 through 1965, to the extent available. Tax counsel have advised that while carryovers of the net operating loss may be challenged by the Internal Revenue Service, it is, in their opinion, probable that the carryovers will be upheld.

Tax counsel further state that the amount of the net operating loss available for carryover from 1960 depends in part upon historical data with respect to properties acquired prior to 1916 and cannot be precisely determined at this time. However, it is probable, in their opinion, assuming that the loss may properly be carried over and after leaving a reasonable margin for difference of opinion as to the historical data used in computing the loss claimed in 1960, that the amount of the 1960 net operating loss remaining after carryback to 1957, 1958, and 1959 will be sufficient, when carried over, to offset all taxable income of the company for the period from January 1, 1961, through December 31, 1964, and a substantial part of the taxable income for the year ending December 31, 1965. Tax counsel's opinion is based on accounting records and data supplied by the Company and its accountants.

The Company provided a reserve for future taxes payable arising from the use of accelerated depreciation for tax purposes.

REXALL DRUG AND CHEMICAL COMPANY
Notes to Financial Statements

Income Taxes: Claims for refund of United States taxes were filed in 1953 based upon the contention that the excess profits tax credits should be increased for the years 1940 to 1945, inclusive. In connection with such claims, waivers have been executed and are still outstanding as to certain of such years. While final action has not yet been taken on the claims, the Treasury Department has made protective assessments of additional income taxes for 1942, 1943 and 1944 based principally upon substantial reductions claimed in the amount of income subject to excess profits taxes in those years. If the proposed adjustments giving rise to the protective assessments are approved, the reduction in excess profits taxes will substantially exceed the related income tax assessed, whereas disapproval of the proposed adjustments would substantially eliminate the basis for the additional income tax assessments. No amounts have been included in the financial statements with respect to these claims or the protective assessments.

ROHM AND HAAS COMPANY
Notes to Financial Statements

Note 2: *Income Taxes*—The provision for income taxes is subject to final determination by Federal, state and foreign taxing authorities. Federal income tax returns of the parent company have been examined by the Internal Revenue Service and settled through 1959. The returns for 1960 and 1961 are currently under examination. Certain adjustments have been proposed. However, in the opinion of management, any final adjustments made for these and later years will not have a material effect upon the financial condition of the company. Certain of the parent company's business for 1964 and 1965 is subject to renegotiation. The Renegotiation Board has indicated that the company will not be renegotiated with respect to years prior to 1964. It is believed that provision is not required for renegotiation.

STANDARD OIL COMPANY (NEW JERSEY)
Notes to Financial Statements

Contingent Liabilities: The company and certain of the consolidated companies were contingently liable at December 31, 1965, for $250,000,000 for guarantees of notes, loans, and performance under contracts. The company is also obligated to certain companies in which it has stock investments to provide specified minimum revenues from crude or product shipments or by other means. It is anticipated that the crude or product shipments will be sufficient to provide the revenues required.

At the end of 1965, Creole Petroleum Corporation operating in Venezuela received a notice from the Ministry of Finance objecting to some of the company's export sales prices and alleging resulting income tax deficiencies in the amount of $68,000,000 for the years 1958, 1959, and 1960. Creole's position is that the prices at which it sold its crude and products were the best obtainable in the market at the time. No provision has been made in the accounts for the claims received to date.

Several lawsuits are pending against the company and some of the consolidated companies in which claims are made in substantial amounts. The company is advised by its general counsel that, although the legal and financial responsibility in respect of such litigation cannot be ascertained, it is his opinion that any ultimate liability will not be materially important in relation to the total assets of such companies.

Accounts or Notes Receivable Sold

THE BABCOCK & WILCOX COMPANY
Financial Review

The parent Company is considering the possibility of changing certain of its tax accounting practices from the present accrual method to a method which will minimize payment of taxes in advance of receipts from customers. Because adoption of one of the methods under consideration—the installment method—could result in an additional tax in 1966 on certain profits already reported in taxable income, it was necessary at the end of 1965 to sell to a group of banks, on a one-time basis, certain accounts receivable and rights to proceeds from unbilled shipments. This one-time transaction resulted in a temporary marked decrease in those two assets and a corresponding increase in marketable securities.

Since this sale was on a recourse basis, the Company is contingently liable to the banks for $74,966,000. This contingent liability, because of payments by our customers during the regular course of business, should be reduced to approximately $20,200,000 at the end of 1966, and to $6,100,000 at the end of 1968, and will be fully discharged by June 30, 1973.

Any changes that might be made in the Company's accounting practices would be for tax purposes only and would have no material effect on the Company's financial accounting for determining earnings for stockholder reporting purposes.

BIGELOW-SANFORD, INC.
Notes to Financial Statements

Note 6: The Company had the following contingent liabilities and commitments as of December 31, 1965: discounted dealers' working capital notes of approximately $2,257,000 which arise in the normal course of business; and long-term leases on real property covering a period of three years or more from December 31, 1965, with annual rentals of approximately $780,000.

HEYWOOD-WAKEFIELD COMPANY
Notes to Financial Statements

Note E: Aggregate annual rentals of approximately $150,000 are payable under lease agreements expiring in 1968 and 1969.

The Company was contingently liable as endorser of notes discounted in the amount of $645,695 at December 31, 1965.

STANRAY CORPORATION
Above Stockholders' Equity

Contingent Liabilities (Notes D and G)

Note G: *Contingent Liability*—The Company is contingently liable on dealer contracts aggregating $502,000 which have been sold to a finance company.

UNITED MERCHANTS AND MANUFACTURERS, INC.
Below Stockholders' Equity

Contingencies and Other Comments (Note H)

Note H: *Contingencies and Other Comments*—1. Contingencies, commitments, etc. as at June 30, 1965, consisted of notes and trade acceptances receivable discounted approximating $9,070,000, commitments for the acquisition of fixed assets and other items approximating $5,460,000, unused letters of credit approximating $2,540,000, and sundry guarantees, etc. approximating $3,610,000.

Purchase or Repurchase Commitments

INTERLAKE STEEL CORPORATION
Notes to Financial Statements

Note 3: *Iron Ore Interests*—The Company has interests in various ore mining and pelletizing projects and is required to take its ownership proportion of the pellets and concentrates produced for which it is committed to pay its proportionate share of the operating costs of these projects either directly or as a part of the product price. The minimum amount which the Company is committed to pay is approximately $2,350,000 annually over about 20 years, regardless of the quantity of ore received.

RANCO INCORPORATED
Above Stockholders' Equity

Contingent Liabilities (Notes 8 and 9)

Note 8: In 1961 a one-third interest in the company's motor subsidiaries was sold. The purchaser has the option, exercisable to November 1, 1967, to require Ranco to repurchase its shares at the original purchase price plus or minus its share of accumulated earnings or deficit from date of sale, a total of $3,361,968 at September 30, 1965.

Note 9: Italian fiscal authorities have been investigating the tax effect of the transfer of the controls business and assets from Ranco Italiana S.p.A. to Ranco Controls S.p.A. which took place in 1961. No assessment has been made and any such assessment, if made, will be contested. In management's opinion, the amount, if any, which may be ultimately determined will not be material to the company's consolidated financial position.

SEARS, ROEBUCK AND CO.
Financial Review

The Company also had merchandise on order and in transit amounting to $1,003,742,000 as of year end.

XEROX CORPORATION
Below Stockholders' Equity

Commitments and Contingent Liabilities (Note 7)

Note 7: *Commitments and Contingent Liabilities*—(d) The Company has entered into an exclusive license agreement for the initial purchase and marketing of certain equipment, subject to performance specifications. The agreement provides for minimum purchases, which may be cancelled by the Company upon payment of termination charges estimated not to exceed $5,000,000.

Miscellaneous Agreements or Contracts

SCOTT PAPER COMPANY
Financial Summary

Acquisition: On June 21, 1965, Scott Paper Company issued 1,600,000 of its common shares in the acquisition of The Plastic Coating Corporation and Tecnifax Corporation and their affiliated companies. This acquisition is considered to be a pooling of interests for accounting purposes. Accordingly, all financial statements in this report for 1964 and 1965 include the combined accounts. In the 10 year summary the accounts have not been combined for the years prior to 1964.

Under the terms of the acquisition agreement, if the average daily closing price of Scott common shares on the New York Stock Exchange during February, 1970, does not equal or exceed $45 per share, Scott will be required to deliver additional common shares. The number of additional shares will depend upon the average daily closing price with fewer shares to be delivered as the price approaches the $45 figure, but in no event will the additional number exceed 522,000.

In 1965 the acquired companies contributed more than their proportion to Scott's consolidated net earnings based on the relationship of the number of common shares issued in the acquisition to the total number of shares outstanding.

UNITED PARK CITY MINES COMPANY
Below Stockholders' Equity
Contingent Liabilities (Note E)

Note E: *Contingent Liabilities*—Contingent liabilities exist for the repayment, with interest, of amounts advanced by the Office of Minerals Exploration of the United States Department of Interior under minerals exploration project contracts. These contracts provide that if marketable ore is discovered by the exploration work, repayment of the advances and accrued interest is to be made in the form of a 5 per cent royalty on net returns from the sale of such ore produced within a ten-year period. To December 31, 1965, $101,163 had been advanced to the company for one exploration project and royalties totaling $53,262 (representing principal and interest) had been repaid from the sale of ore resulting therefrom. An additional $69,531 had been advanced for another project being conducted jointly by the company and Keystone Mining Company, and $20,818 (representing principal and interest had been repaid in royalties from the sale of ore resulting from the joint project.

UNIVERSAL LEAF TOBACCO CO., INC.
Below Stockholders' Equity

Contingent Liabilities:	
Letters of Credit	$1,032,508

Contingent Assets

Accounting Research Bulletin No. 50—Contingencies, previously referred to, also states that:

> 3. . . . However, contingencies which might result in gains usually are not reflected in the accounts since to do so might be to recognize revenue prior to its realization, but there should be adequate disclosure.
>
> 5. . . . Although disclosures discussed here should be made with respect to those contingencies which may result in material gains or assets as well as with respect to those which may result in material losses or liabilities, care should be exercised in the case of gains or assets to avoid misleading implications as to the likelihood of realization. . . .

The comparatively few disclosures relating to contingent assets in the 1965 annual reports of the 600 survey companies refer generally to carry-forward losses, or to claims for refund of taxes resulting from favorable federal court interpretations of the applicable provisions of the Internal Revenue Code or rulings of the Internal Revenue Service.

The following examples of the disclosure of contingent assets have been selected from the 1965 reports.

Carry-forward Losses

WALTER KIDDE & COMPANY, INC.
Notes to Financial Statements

Federal Income Taxes: The provision for Federal income taxes in 1965 has been reduced by the application of net operating losses carried forward from prior years. Without the benefit of the carryforward of these losses, the provision for Federal income taxes in 1965 would have been increased and net income reduced by approximately $470,000. At December 31, 1965, loss carry-forwards available for tax purposes to offset against otherwise taxable income in future periods were approximately $2,200,000.

SEABOARD ALLIED MILLING CORPORATION
Notes to Financial Statements

Note 4: *Federal Taxes on Income and Investment Credit*—As a result of the utilization of a net operating loss carryforward and the use of depreciation deductions for tax purposes which in the aggregate exceed depreciation per books, the tax savings applicable to the loss from liquidation of certain baking and cattle operations is adequate to offset income reflected in the consolidated statement of income. Since no tax liability exists for the current year, the investment credit of $26,000 may be carried forward to offset income tax liabilities of future years. Provision, however, has been made for the temporary tax savings resulting from the use of depreciation deductions for tax purposes which exceed book depreciation.

U.S. INDUSTRIES, INC.
President's Letter

Details of the 1965 performance can be read at a glance on previous page. Sales totaled $126 million—16 per cent higher than 1964. Earnings reached $5,625,049, or $2.12 per common share—three times the earnings in 1964. The impact of these results is lessened somewhat by the fact that although the company paid income taxes on overseas profits, we were not required to pay United States income taxes by virtue of a tax credit carry forward (which we estimate will remain effective until some point in 1967). If such domestic income taxes had been required, our earnings would have been about 30 per cent less in 1965.

Notes to Financial Statements

Note C: *Income Taxes*—The Internal Revenue Service is currently examining the federal income tax returns of the Company for the years 1954 through 1960. It is anticipated that this examination will not result in material amounts of additional income taxes.

No federal income taxes were payable for the years 1965 and 1964 because of losses and loss carryovers. Income from continuing operations includes income of foreign subsidiaries in the amounts of $310,725 in 1965 and $1,011,067 in 1964, not subject to foreign income taxes, substantially all of which has been distributed to the Company in the form of dividends. Federal income taxes otherwise payable because of such distribution were offset by loss carryovers.

To the extent that federal income tax on income from continuing operations, including the aforementioned foreign income, was eliminated by reason of losses or loss carryovers resulting from losses shown elsewhere in the statement of income, a charge in lieu of federal income taxes has been applied to reduce such income from continuing operations and an equivalent amount has been included as a credit under the caption "Losses from operations discontinued or to be discontinued and non-recurring items." At December 31, 1965, the Company's unused loss carryover amounted to approximately $6,500,000 which may be applied against its taxable income of future years. Of this amount, $2,800,000 expires on December 31, 1967, and $3,700,000 on December 31, 1969.

WALWORTH COMPANY
Financial Review

Income Tax: At December 31, 1965 the Company had a tax loss carry-forward of $6,700,000 which can be deducted from future taxable earnings principally through the year 1968.

AMERICAN SAINT GOBAIN CORPORATION
Notes to Financial Statements

Note 5: Federal Income Taxes—No provision has been made for Federal taxes on income because of the carry-over of prior years' operating losses. After giving effect to the operating loss deduction used in the year 1965, the Company has an unused operating loss carry-over from prior years of $255,000 which is available to reduce income subject to Federal income taxes within a three year period. In addition, investment credits of $1,200,000 are available to reduce Federal income taxes within the next two to five years.

THE COLORADO FUEL AND IRON CORPORATION
President's Letter

No provision for Federal income taxes was applicable either in 1965 or 1964 due to the availability of a tax loss carry-forward. At the end of 1965 a remaining tax loss carry-forward of approximately $5,500,000 was still available to apply against taxable earnings of future periods. Investment tax credits of about $1,930,000 were available at year end to offset future Federal income taxes.

Claims for Refund of Taxes

GENERAL REFRACTORIES COMPANY
Notes to Financial Statements

Note 2: Federal Income Tax Liabilities—The company has initiated the steps necessary to sue for the recovery of approximately $900,000 of additional federal income taxes for the years 1954 through 1960 (including interest) arising out of the partial disallowance of foreign tax credits and in this connection the related cost to the company of $801,239 has been deferred pending adjudication of the proposed legal action.

Provisions for income taxes, which are deemed adequate, have been made in the accompanying income statements; however, a final determination of the company's federal income tax liabilities for years after 1960 is not now possible. The applicability of percentage depletion allowance to the minerals mined by the company is dependent upon regulations under the Internal Revenue Code of 1954, which have not yet been issued. Further, the method of computing the company's foreign income tax credits for those years may be affected by the results of the above described proposed legal action. Presently, the company's tax returns for the years 1961 and 1962 are being examined by the U.S. Treasury Department.

In 1965, a foreign subsidiary's income tax liabilities for the years 1962 through 1964 were redetermined, resulting in the net refund of approximately $750,000 of foreign income taxes, which amount has been deferred and not taken into income pending settlement of income tax liabilities for years after 1960.

In the event the company's position in respect to both the percentage depletion and foreign tax credit issues should not be sustained and after giving effect to the aforementioned subsidiary's income tax redetermination, the foreign tax credit which would otherwise have been unused and available as a carry forward at December 31, 1965, would be exhausted and consolidated net income for the years 1965 and 1964 would be decreased approximately $550,000 and $350,000, respectively. Consolidated net income for the years 1961 through 1963 would not be materially affected.

REXALL DRUG AND CHEMICAL COMPANY
Notes to Financial Statements

Income Taxes: Claims for refund of United States taxes were filed in 1953 based upon the contention that the excess profits tax credits should be increased for the years 1940 to 1945, inclusive. In connection with such claims, waivers have been executed and are still outstanding as to certain of such years. While final action has not yet been taken on the claims, the Treasury Department has made protective assessments of additional income taxes for 1942, 1943 and 1944 based principally upon substantial reductions claimed in the amount of income subject to excess profits taxes in those years. If the proposed adjustments giving rise to the protective assessments are approved, the reduction in excess profits taxes will substantially exceed the related income tax assessed, whereas disapproval of the proposed adjustments would substantially eliminate the basis for the additional income tax assessments. No amounts have been included in the financial statements with respect to these claims or the protective assessments.

THE BOEING COMPANY
Financial Review

Federal Income Taxes: The Internal Revenue Service has reviewed and agreed to all federal income tax returns through the year 1963, except for certain pending refund claims which have not been recorded in the accounts. The income tax liability stated on the balance sheet is believed to provide adequately for the years 1964 and 1965.

F. W. WOOLWORTH CO.
Notes to Financial Statements

Note D: Depreciation and Income Taxes—For income tax purposes depreciation is calculated by the parent Company and Canadian subsidiary using accelerated methods and the parent Company uses the United States Treasury guideline lives for furniture, fixtures and equipment; for financial accounting purposes depreciation is calculated using other rates and the straight-line method. As a result, the amount of depreciation to be claimed on income tax returns exceeds the amount charged to income, and income taxes payable for 1965 have been reduced $5,354,030; 1964, $5,957,707. This did not affect net income for either year because the provision for income taxes includes an amount equivalent to the income taxes deferred; in 1964, such provision was offset in part by an investment tax credit adjustment of $910,352. In previous years the comparable reduction in taxes currently payable was offset by an additional provision for depreciation in lieu of deferred income taxes; the financial statements for 1964 have been conformed with the presentation now used.

The investment tax credit of $1,295,798 has been included in net income as a reduction of the provision for income taxes.

In 1965, the Company filed a claim for refund of federal income taxes for the year 1962 in the amount of $4,380,512 resulting from the retroactive adoption for tax purposes of guideline depreciation on furniture, fixtures and equipment for that year; when received, the amount of the refund will be credited to the reserve for deferred income taxes.

Other

AMERADA PETROLEUM CORPORATION
Notes to Financial Statements

Note 4: Amerada-Shell Agreement—Effective January 1, 1966, the Corporation assigned an undivided half interest in its Libyan holdings and properties to a company of the Royal Dutch/Shell Group subject to reservation by the Corporation of the right to produce for its own benefit certain quantities of oil in excess of one half of the total production from the Libyan holdings. As part of the transaction, Shell agreed to reimburse the Corporation for approximately one half of its total Libyan expenditures from the beginning of its operations in 1955 to January 1, 1966, with adjustments for amortization and other charges properly allocable to oil sold by the Corporation prior to such date. The reimbursement is estimated to aggregate approximately $64,000,000, of which $15,970,000 was received in January, 1966, and the remainder is due in January, 1967.

The related long-term agreement provides for joint production by Shell and Amerada of crude oil from their Libyan properties and for the sale to Shell of Amerada's share of the jointly produced oil. Stockholders were given particulars of the transaction in a letter dated January 17, 1966.

ELGIN NATIONAL WATCH COMPANY
President's Letter

In phasing out of all military contracts, there still remain other claims against the Government, including a new claim for the aforesaid contract cancellation. We have fully reserved significant inventories and other losses on the cancelled contract. Every effort will be made to effect recovery. All expenses necessary in documenting these claims have been completed and a skeleton crew of military specialists has been retained to carry out the mechanics necessary for collection.

OXFORD PAPER COMPANY
Financial Review

The Investment Tax Credit applied as a reduction of the Federal Tax liability for 1965 amounted to $292,000. The unused balance of Investment Tax Credit available for use in 1966 and future years totals $810,000.

CONSOLIDATION OF SUBSIDIARIES

The committee on accounting procedure of the American Institute of Certified Public Accountants discussed in *Accounting Research Bulletin No. 51*† the accounting treatment for *Consolidated Financial Statements.* The opening paragraph titled "Purpose of Consolidated Statements" is as follows:

1. The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions. There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.

There is no uniform procedure followed by the survey companies with regard to the amount of disclosure given to the basis of inclusion or exclusion of the accounts of subsidiary companies in consolidation.

In general, relatively few companies provide detailed information concerning the basis used in the consolidation of their financial statements. In some annual reports the names of subsidiaries are omitted, or referred to merely as "subsidiaries," "domestic subsidiaries," or "foreign subsidiaries." For the purpose of this tabulation, a company has been considered as a subsidiary if it is so described in the annual report, or if it is stated therein to be over 50 per cent owned.

In most instances, the basis of consolidation is *indicated* rather than stated; usually the basis of consolidation can be determined only by observing the nature of the *unconsolidated* subsidiaries or the fact that there is no investment in unconsolidated subsidiaries.

The research department of the American Institute of Certified Public Accountants, in 1956, published a *Survey of Consolidated Financial Statement Practices,* based upon replies to questionnaires sent to approximately 400 of the survey companies included in this study (*Accounting Trends and Techniques,* 1955 Edition).

The survey showed that the principal considerations advanced for determining whether or not to include a subsidiary in the consolidated statements were:

1. the degree of control by the parent company,
2. the extent to which the subsidiary is an integral part of the operating group, and
3. whether the subsidiary is a domestic or a foreign corporation.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

The separate study of consolidation practices provides more information than is available in an examination of the annual reports alone.

Table 47 summarizes the various bases of consolidation of domestic and foreign subsidiaries, with corresponding references to survey companies disclosing their consolidation policies.

This table indicates that of the 567 companies having subsidiaries in 1965, 277 companies presented fully consolidated statements, 278 companies had some subsidiaries consolidated and some not consolidated, and only 12 reports disclosed all subsidiaries as unconsolidated.

The most significant factors in excluding certain subsidiaries from consolidation were: exclusion of all foreign subsidiaries (36 companies); geographic location of some foreign subsidiaries (70 companies); and nonhomogeneous operations of domestic subsidiaries (55 companies). The latter (55 companies) include companies with both domestic and foreign subsidiaries.

The nonhomogeneous operations of these excluded subsidiaries consist of the following: Finance 40, Real Estate 9, Insurance 8, Marketing 5, Equipment Leasing 2, Railway 2, and Baseball 1. Two companies did not disclose the nature of the nonhomogeneous operations and some companies had subsidiaries excluded for more than one reason.

Examples of some of the consolidated practices, taken from the reports of the 1965 survey companies, are set forth below.

Fully Consolidated Statements

BELL & HOWELL COMPANY
Notes to Financial Statements

Note A: *Principles of Consolidation*—The financial statements include the accounts of all subsidiaries. The net current assets and operations of foreign subsidiaries have been translated at current rates of exchange.

EVERSHARP, INC.
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include the accounts of all subsidiary companies.

GERBER PRODUCTS COMPANY
Notes to Financial Statements

Principles of Consolidation: The consolidated financial statements include the accounts of all subsidiaries, after elimination of intercompany accounts, transactions, and profits. As of April 1, 1964, the Company adopted the policy of including all subsidiaries in consolidation, and the financial statements for the preceding fiscal year have been restated accordingly; earnings retained at the beginning of the preceding fiscal year, as revised, include undistributed earnings of previously unconsolidated subsidiaries in the amount of $335,551. The accounts of the foreign subsidiaries, which were not material in relation to the consolidated amounts, have been translated into U. S. dollar equivalents at appropriate rates of exchange.

As of April 4, 1964, the Company purchased the business and operating assets of Kapart Creations, Inc. and its affiliates, and the operations of these subsidiaries have been included in consolidation from that date.

TABLE 47: CONSOLIDATION OF SUBSIDIARY COMPANIES

Consolidation Policy*	Location of Subsidiaries: Domestic Only	Domestic and Foreign	Foreign Only	Not Indicated	1965 Total Companies
A: Fully consolidated financial statements	(1) 105	(2) 148	(3) 19	5	277
B: Unconsolidated financial statements	(4) 6	(5) 2	(6) 4	—	12
Partially consolidated financial statements**	26	241	7	4	278
Total Companies having subsidiaries	137	391	30	9	567
Companies having no subsidiaries					33
Total					600

**Partially Consolidated Financial Statements—Consolidation Policy	1965 Total Companies
Companies having domestic subsidiaries only:	
C: Wholly-owned, active subsidiaries consolidated	13
D: All subsidiaries consolidated except those with nonhomogeneous operations	12
E: Basis not indicated	1
Total companies having domestic subsidiaries only	26
Companies having both domestic and foreign subsidiaries:	
All domestic subsidiaries consolidated, with following treatment of foreign subsidiaries (70 companies):	
F: Inclusion of all wholly-owned, and active	2
G: Inclusion of all significant, principal, and active	8
H: Inclusion based upon geographic location or geographic location plus other factors	30
I: Exclusion of all	27
J: Basis not indicated	3
Wholly-owned, active domestic subsidiaries consolidated, with following treatment of foreign subsidiaries (77 companies):	
K: Inclusion of all wholly-owned, and active	47
L: Inclusion based on voting control or fixed percentage of ownership	1
M: Inclusion based upon geographic location or geographic location plus other factors	22
N: Exclusion of all	6
O: Other	1
Only domestic subsidiaries with operations homogeneous to those of the parent company consolidated, with following treatment of foreign subsidiaries (43 companies):	
P: Inclusion of all significant, principal, and active with homogeneous operations	2
Q: Inclusion of all wholly-owned, and active	7
R: Inclusion of all significant, principal, and active	6
S: Inclusion based upon geographic location or geographic location plus other factors	9
T: Inclusion of all	8
U: Inclusion of all with homogeneous operations	7
V: Exclusion of all	3
W: Basis not indicated	1
Other variations (51 companies)	
X: All subsidiaries based on voting control or fixed percentage of ownership	2
Y: All significant, principal, and active subsidiaries included	23
Z: Domestic, significant subsidiaries included with some foreign subsidiaries excluded on basis of geographic location	3
a: Other basis indicated	9
b: Basis not indicated	14
Total companies having domestic and foreign subsidiaries	241
Companies having foreign subsidiaries only:	
c: Exclusion based upon geographic location or geographic location plus other factors	6
d: Other basis indicated	1
Total companies having foreign subsidiaries only	7
e. *Not indicated*	4
Total companies partially consolidating financial statements	278

See next page for Reference to Company Numbers.

THE SEEBURG CORPORATION
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The accompanying consolidated financial statements include the accounts of all subsidiaries, all of which are wholly-owned. In prior years, The Seeburg Real Estate Corporation (a wholly-owned real estate subsidiary) was not consolidated but the investment therein was carried at underlying book value. The inclusion of the real estate subsidiary in the consolidated financial statements for both 1965 and 1964 had no effect on previously reported net income or earned surplus.

Inclusion of Wholly-Owned Subsidiaries

THE GRAND UNION COMPANY
Notes to Financial Statements

Note 2: The consolidated financial statements include the accounts of all wholly owned subsidiaries. The company's investment in affiliated companies represented approximately 32% and 51%, respectively, of the outstanding common stock of Eastern Shopping Centers, Inc., and Performance Incentives Corporation. Eastern acquires, develops and operates shopping centers while PIC offers employee incentive plans for business organizations. At February 27, 1965, the company's equity in the net assets of and advances to these affiliates, based upon the most recent audited financial statements, amounted to approximately $3,183,000.

MEREDITH PUBLISHING COMPANY
Notes to Financial Statements

Principles of Consolidation: The consolidated financial statements include the accounts of Meredith Publishing Company and all wholly-owned subsidiaries. All material intercompany transactions have been eliminated.

Company Reference Numbers to Table 47

*Refer to Company Appendix Section—A(1): 3, 9, 13, 22, 25, 41, 42, 43, 45, 46, 53, 56, 66, 78, 81, 83, 93, 98, 99, 102, 104, 107, 120, 128, 137, 147, 148, 149, 154, 158, 165, 169, 171, 173, 179, 181, 188, 192, 201, 202, 203, 213, 215, 222, 228, 240, 241, 242, 250, 259, 261, 265, 268, 273, 282, 283, 319, 327, 333, 337, 346, 350, 358, 359, 360, 361, 367, 371, 380, 386, 388, 389, 392, 395, 397, 400, 401, 403, 413, 417, 423, 427, 433, 436, 438, 442, 457, 471, 476, 484, 485, 488, 490, 491, 524, 542, 545, 549, 559, 570, 571, 575, 581, 590, 593; A(2): 1, 2, 5, 7, 8, 10, 21, 28, 31, 50, 52, 60, 62, 73, 74, 84, 87, 95, 96, 109, 110, 114, 115, 117, 119, 141, 142, 143, 144, 145, 150, 151, 156, 160, 163, 164, 166, 168, 172, 175, 176, 177, 196, 209, 210, 214, 217, 218, 221, 226, 238, 244, 255, 256, 258, 260, 263, 267, 272, 281, 286, 288, 289, 292, 294, 296, 297, 300, 304, 305, 307, 310, 311, 320, 328, 331, 334, 339, 340, 341, 345, 348, 364, 374, 375, 379, 384, 385, 387, 394, 398, 402, 405, 409, 411, 430, 437, 443, 448, 449, 452, 455, 456, 458, 466, 470, 472, 481, 486, 496, 500, 501, 502, 503, 504, 505, 507, 509, 510, 514, 515, 517, 518, 519, 520, 522, 523, 530, 531, 532, 533, 540, 541, 546, 554, 557, 558, 560, 563, 564, 567, 576, 582, 583, 585, 596, 597, 600; A(3): 4, 23, 48, 49, 132, 146, 161, 191, 239, 270, 376, 393, 415, 420, 447, 461, 537, 556, 580; B(4): 225, 227, 290, 295, 406, 424; B(5): 67, 97; B(6): 94, 257, 266, 324; C: 14, 47, 63, 86, 159, 264, 332, 335, 373, 425, 492, 547, 572; D: 15, 55, 58, 138, 184, 190, 224, 271, 352, 370, 382, 428; E: 76; F: 152, 182; G: 69, 92, 237, 247, 293, 302, 529, 579; H: 33, 38, 59, 64, 106, 126, 187, 207, 233, 275, 278, 285, 299, 325, 343, 408, 418, 419, 441, 444, 453, 483, 513, 536, 538, 543, 552, 586, 594, 595; I: 61, 75, 80, 130, 131, 157, 180, 185, 193, 205, 223, 317, 347, 362, 369, 391, 404, 410, 464, 468, 469, 551, 555, 574, 577, 584, 592; J: 65, 390, 493; K: 11, 12, 24, 27, 44, 57, 77, 90, 118, 121, 133, 134, 155, 162, 178, 200, 204, 208, 219, 229, 251, 280, 306, 309, 312, 318, 321, 323, 326, 342, 366, 372, 399, 421, 426, 432, 434, 450, 459, 462, 489, 525, 534, 544, 548, 550, 599; L: 153; M: 26, 36, 82, 85, 212, 220, 243, 252, 353, 357, 439, 445, 451, 460, 479, 480, 482, 498, 512, 578, 589, 598; N: 89, 194, 314, 336, 454, 588; O: 396; P: 71, 308; Q: 18, 248, 344, 365, 467, 535, 587; R: 70, 123, 186, 254, 277, 429; S: 16, 37, 54, 101, 139, 211, 235, 355, 516; T: 32, 35, 116, 124, 174, 206, 274, 508; U: 6, 135, 232, 246, 249, 351, 591; V: 129, 363, 487; W: 315; X: 329, 494; Y: 51, 125, 136, 170, 189, 230, 262, 279, 284, 287, 381, 412, 414, 416, 431, 465, 473, 495, 499, 526, 527, 553, 569; Z: 68, 100, 474; a: 88, 195, 303, 330, 354, 497, 528, 539, 565; b: 122, 197, 234, 245, 253, 316, 368, 377, 435, 463, 478, 566, 568, 573; c: 40, 111, 112, 446, 477, 511; d: 72; e: 20, 39, 140, 422.

All Significant, Principal, and Active Subsidiaries Included

THE B. F. GOODRICH COMPANY
Notes to Financial Statements

Note A: *Principles of Consolidation*—The consolidated financial statements for 1965 include all active subsidiaries except four subsidiaries which are not significant in the aggregate. Appropriate rates of exchange have been used to convert foreign currency amounts into U.S. dollars.

The financial statements of five previously unconsolidated majority-owned foreign subsidiaries are included in the consolidated financial statements for 1965. Had the financial statements of these companies been included in 1964, consolidated net sales and net income would have been $914,333,000 and $35,889,000, respectively.

The Company's estimated equity in the net assets of Unconsolidated Subsidiary and Associate Companies (based on their book value) at December 31, 1965, exceeded the Company's investment in such companies by $38,406,000. Dividends received from these companies are included in the statement of consolidated income. Increase in the net income retained by them and not taken up in the statements for the year amounted to approximately $2,936,000.

MONSANTO COMPANY
Financial Review

The accompanying financial statements (pages 16 through 19) consolidate all active domestic and foreign subsidiaries in which Monsanto Company directly or indirectly has more than a 50 per cent interest.

Inclusion Based on Voting Control or Fixed Percentage of Ownership

KIMBERLY-CLARK CORPORATION
Notes to Financial Statements

Note 1: *Consolidation*—The accounts of all significant subsidiaries 66-2/3% or more owned are included in the consolidated financial statements.

Cash, marketable securities, receivables, and liabilities of foreign subsidiaries are stated at exchange rates in effect at the close of the fiscal year; inventories, property and equipment, and related reserves for depreciation are stated at exchange rates prevailing at dates of acquisition. Operations of foreign subsidiaries are stated at average exchange rates prevailing during the year, except that provisions for depreciation have been stated on the same basis as the related assets.

Assets of consolidated Canadian subsidiaries at April 30, 1965 and their net earnings for the year then ended were 10.2% and 8.4%, respectively, of the consolidated totals. Assets of all other consolidated foreign subsidiaries at that date and their net earnings for the year then ended were 4.1% and 3.4%, respectively, of consolidated totals.

Exclusion of Foreign Subsidiaries Based on Geographic Location

BEATRICE FOODS CO.
Notes to Financial Statements

Note 1: *Principles of Consolidation*—Wholly-owned subsidiaries operating in the United States and Europe have been included in the consolidated financial statements. Subsidiaries operating in the Caribbean area and Latin America have not been consolidated. The net assets and operations of the unconsolidated subsidiaries are not significant in relation to the consolidated figures.

BRISTOL-MYERS COMPANY
Notes to Financial Statements

Basis of Consolidation: The consolidated financial statements include Bristol-Myers Company and all subsidiaries operating in the United States and Canada. Subsidiaries operating in other countries have not been consolidated, but dividends received from such subsidiaries are included in reported net earnings.

On August 2, 1965, Bristol-Myers Company issued 2,019,047 shares of its authorized, unissued Common Stock for the net assets and business of The Drackett Company. This transaction has been accounted for in accordance with the pooling of interests principle as though the companies had been combined prior to that date. Accordingly, the accompanying consolidated financial statements include the financial data of The Drackett Company.

Subsidiaries with Nonhomogeneous Operations Excluded

AMERICAN HOSPITAL SUPPLY CORPORATION
Notes to Financial Statements

Note A: *Principles of Consolidation*—The consolidated financial statements include the accounts of the Company and all subsidiaries, except American Hospital Credit Corporation.

Current assets, current liabilities, and operating accounts of Canadian and other relatively minor foreign subsidiaries have been translated at the year-end free rates of exchange, and all other assets of these subsidiaries have been translated at approximate historical rates of exchange.

During 1965, the Company issued 107,550 shares of its previously unissued common stock in exchange for substantially all of the outstanding common stock of Texpack Limited and all of the outstanding common stock of Acme Metal Products, Inc. These transactions have been treated as poolings of interests in the accompanying financial statements.

EATON YALE & TOWNE INC.
Notes to Financial Statements

Note A: *Principles of Consolidation and Equity in Subsidiaries*—Effective January 1, 1965, the Company changed its principles of consolidation to include the accounts of certain previously unconsolidated subsidiaries. Accordingly the consolidated statements include the accounts of the Company and all subsidiaries except finance subsidiaries. This change had no material effect on net income and thus the amounts for 1964 have not been restated. Income of subsidiaries in areas subject to currency restrictions has not been included in consolidated net income.

Investments in unconsolidated finance subsidiaries are carried at equity and associate companies are carried at cost.

Financial statements of foreign divisions and subsidiaries have been translated at the appropriate rates of exchange into United States dollars, and the resulting gains or losses (which were not material in amount) were included in the income statement. Net current assets and net assets of such divisions and subsidiaries amounted to approximately $39,200,000 and $61,600,000, respectively, at December 31, 1965, and their net sales and net income for 1965 were approximately $140,400,000 and $5,800,000, respectively.

All Foreign Subsidiaries Excluded

THE CURTIS PUBLISHING COMPANY
Notes to Financial Statements

Basis of Consolidation: The financial statements include the accounts of The Curtis Publishing Company and its domestic subsidiaries, all of which are wholly owned. The accounts of two domestic subsidiaries, engaged in selling magazine subscriptions on an instalment or paid-during-service basis, are maintained on the cash receipts and disbursements method of accounting; however, memorandum entries have been applied to the cash basis accounts to place them on the accrual basis for inclusion in the consolidated financial statements. The Company's foreign subsidiary, wholly owned and situated in Canada, is Curtis Distributing Company, Ltd.

WALT DISNEY PRODUCTIONS
Noncurrent Assets

Investments in foreign subsidiaries not consolidated (Note 1)	$165,673

Note 1: *Principles of Consolidation*—The accounts of domestic subsidiaries, all wholly owned, have been consolidated in the accompanying financial statements and all significant intercompany transactions have been eliminated.

The accounts of foreign subsidiaries have not been consolidated. These companies produce and distribute pictures, carry on the company's character merchandising business and publish music in various foreign countries. At October 2, 1965 these subsidiaries had total assets of $2,265,000 and net assets of $671,000. The company's equity in these net assets exceeded the carrying value of its investments therein by approximately $505,000. During the year ended October 2, 1965 the net income of these unconsolidated subsidiaries amounted to approximately $175,000 and the dividends received from them totaled $148,000.

POST BALANCE SHEET DISCLOSURES

Events occurring or becoming known subsequent to the date of the balance sheet which may have a material effect on the related financial statements, require disclosure or adjustment to prevent such statements from becoming misleading.

The committee on auditing procedure of the American Institute of Certified Public Accountants, in Chapter 11 of *Statements on Auditing Procedure No. 33* issued in 1963, states in part:

> 1. An independent auditor's report is ordinarily rendered in connection with financial statements which purport to present financial position at a stated date and results of operations for a period ended on that date. Such financial statements are essentially historical in character. Financial statements for a given period represent one installment in the financial history of a business enterprise. They are so considered by the auditor in making his examination and in expressing his opinion with regard to the statements. However, events or transactions sometimes occur subsequent to the balance-sheet date which may have a material effect on the financial statements or which may be important in connection with consideration of the statements and, therefore, require adjustment or annotation of the statements.

Table 48 classified the significant disclosures of post balance sheet events taken from the annual reports for 1965 of the 600 companies covered by this survey.

Examples of such disclosures, with fiscal year-ends, illustrating some of the above categories as presented in the notes to financial statements or president's letter or balance sheet follow.

Capital Stock

BOND STORES, INCORPORATED
July 31, 1965
President's Letter

Accordingly, at its meeting in May of this year, your Directors unanimously authorized the company to acquire shares of its common stock on the open market, from time to time, depending upon market conditions, for acquisitions or other purposes. As of this writing, purchases of 3,000 shares have been made. We intend to continue to acquire additional shares of the company's common stock on the open market, from time to time, depending on market conditions.

PHILADELPHIA AND READING CORPORATION
December 31, 1965
Notes to Financial Statements

Note 8: A special meeting of stockholders will be held March 24, 1966 to vote on the authorization of additional shares of preferred stock. Such stock will be designated "Class A preferred stock," will have a par value of $100 per share and will be entitled to cumulative dividends at the rate of $5.00 per share per annum. The stock will be issued in an exchange to acquire the assets of Lone Star Steel Company, a subsidiary, and achieve 100% ownership of that Company. The exchange must be approved by stockholders of the subsidiary. If the transaction is consummated the maximum number of outstanding shares of Class A preferred stock would be 265,561.

CLUETT PEABODY & CO., INC.
December 31, 1965
Financial Review

Capital Stock: On November 24, 1965 the Board of Directors recommended that the Company's common stock be split on a three-for-one basis. If approved by the shareholders at the Annual Meeting on April 27, 1966, the split will be effective on May 6, 1966, and holders of record on that date will receive two additional shares for each share held.

INTERNATIONAL HARVESTER COMPANY
October 31, 1965
President's Letter

Corporate Changes Proposed: As noted in the last Quarterly Review, the Board of Directors at its December 16 meeting approved in principle a program for changes in the organization and capital structure of the Company which will be submitted to a vote of stockholders at the annual meeting next March 16.

Final details are now being developed and the complete proposal will be presented to you in the proxy statement which will be mailed to all stockholders in early February.

LITTON INDUSTRIES, INC.
July 31, 1965
Notes to Financial Statements

Note E (in part): Subsequent to July 31, 1965, the Board of Directors proposed amendments to the Certificate of Incorporation: to provide for an increase in the authorized common stock from 17,000,000 shares to 39,000,000 shares; to create a new class of voting preference stock; and to authorize the issuance of 8,000,000 of such shares.. These proposals are fully described in the proxy statement to be sent to all stockholders and will be voted upon by the stockholders at their annual meeting in December 1965.

The Board of Directors also declared a common stock dividend of 2½% payable November 5, 1965 to holders of record of such common stock at the close of business September 30, 1965 and a two-for-one split of the common stock to be distributed in January 1966. These transactions have not been reflected in the accompanying financial statements. After the stock split, each share of Series A preferred stock will be convertible into two shares of common stock.

STANDARD BRANDS INCORPORATED
December 31, 1965
President's Letter

In recognition of the continuing upward trend of the Company's business, the Board of Directors at their January, 1966, meeting proposed a 2-for-1 split of the common stock and raised the quarterly dividend on present shares from 60¢ to 65¢ per share.

Extra Distributions Declared in Cash or Stock, or Dividends Omitted

THE McKAY MACHINE COMPANY
December 31, 1965
Notes to Financial Statements

Note 5: *Capital Stock and Retained Earnings*—On October 27, 1965 the directors declared a 10% stock dividend on the Company's common stock without par value, payable January 31, 1966 to holders of record January 14, 1966, which resulted in the issuance of 22,294 additional shares of common stock on January 31, 1966. At December 31, 1965 retained earnings of $1,003,230 was appropriated for the issuance of the stock dividend and January 31, 1966 the capital stock account was credited with $1,003,230.

Financial Review

Stock Dividend: The Board of Directors during 1965 further authorized the payment of a 10% stock dividend to all shareholders as of the close of business January 14, 1966, payable January 31, 1966. This is the third stock dividend in five years. In other words, a shareholder who owned 100 shares in January of 1961 would own 133 shares on January 31, 1966.

TABLE 48: POST BALANCE SHEET DISCLOSURES*

Capital Stock:	1965
A: Stock split proposed	31
B: Changes in capital structure	13
C: Treasury stock transactions including stock acquired for redemption or conversion	2
D: Extra distributions declared in cash or stock, or dividends omitted	23
E: Issue of additional stock	3
F: Stock acquired for redemption or retirement	12
G: Stock acquired for conversion	4
	88
Employees:	
H: Welfare, pension, and stock option plans	38
I: Union negotiations	19
J: Profit-sharing or other employee benefits	5
	62
Fixed Assets:	
K: Purchased	9
L: Constructed	14
M: Sold	10
N: Catastrophe—fire, flood, etc.	2
O: Operations of a division terminated or sold	6
	41
Indebtedness:	
P: Incurred	45
Q: Reduced	14
R: Refinanced	8
	67
Subsidiary or affiliated companies:	
S: Mergers pending, proposed, or effected	29
T: Acquired or holdings increased	54
U: Sold or holdings decreased	12
	95
V: Contracts entered into or cancelled	7
W: Litigation	8
X: Various other	14
Total	382
Number of Companies:	
Referring to post balance sheet events	284
Not referring to post balance sheet events	316
Total	600

*Refer to Company Appendix Section—A: 2, 65, 67, 80, 91, 115, 142, 209, 230, 234, 243, 275, 330, 331, 344, 361, 373, 393, 407, 417, 434, 483, 487, 505, 513, 531, 540, 548, 573, 577, 600; B: 197, 248, 281, 308, 320, 328, 344, 373, 391, 564, 569, 571, 577; C: 99, 181; D: 2, 12, 29, 37, 47, 75, 84, 109, 155, 185, 193, 194, 217, 264, 300, 317, 367, 403, 424, 456, 480, 503, 527; E: 125, 433, 490; F: 16, 27, 148, 176, 275, 301, 413, 460, 481, 544, 562, 579; G: 116, 293, 297, 569; H: 25, 47, 48, 59, 81, 82, 86, 97, 107, 115, 138, 169, 188, 200, 204, 214, 239, 248, 256, 265, 291, 301, 304, 318, 349, 381, 406, 416, 462, 463, 467, 531, 560, 563, 567, 569, 590, 599; I: 2, 50, 62, 118, 124, 148, 214, 245, 253, 280, 319, 369, 414, 429, 432, 438, 464, 469, 476; J: 114, 117, 348, 402, 496; K: 14, 36, 194, 313, 394, 479, 484, 491, 538; L: 3, 9, 30, 114, 156, 193, 212, 232, 267, 284, 309, 327, 436, 568; M: 58, 77, 210, 229, 242, 304, 394, 400, 424, 447; N: 142, 315; O: 2, 58, 338, 355, 518, 528; P: 9, 12, 18, 43, 72, 76, 78, 86, 121, 122, 125, 139, 150, 175, 195, 210, 233, 274, 292, 318, 346, 354, 359, 363, 374, 385, 413, 416, 426, 429, 435, 479, 484, 490, 492, 494, 496, 535, 541, 543, 556, 561, 583, 585, 598; Q: 21, 62, 77, 110, 117, 187, 214, 270, 326, 356, 408, 446, 490, 575; R: 93, 110, 158, 328, 414, 436, 457, 583; S: 7, 14, 31, 41, 46, 170, 171, 214, 251, 276, 284, 299, 308, 315, 328, 360, 366, 400, 411, 426, 460, 465, 468, 488, 533, 534, 544, 558, 569; T: 12, 32, 35, 42, 47, 65, 67, 78, 80, 82, 85, 89, 100, 121, 124, 126, 164, 174, 182, 203, 233, 248, 252, 260, 285, 287, 302, 305, 335, 359, 372, 433, 454, 471, 476, 494, 501, 512, 513, 518, 525, 535, 541, 543, 545, 551, 555, 556, 566, 571, 577, 578, 583, 586; U: 54, 100, 114, 211, 213, 235, 300, 397, 519, 524, 568, 574; V: 43, 71, 131, 141, 152, 232, 300; W: 16, 210, 233, 250, 377, 539, 574, 588; X: 25, 122, 129, 156, 159, 322, 326, 336, 342, 421, 432, 440, 500, 576.

RANCO INCORPORATED
September 30, 1965
President's Letter

Dividends paid quarterly during the past fiscal year were at the 80 cent annual rate. At a Board of Directors' meeting on November 2, 1965, subsequent to the close of the fiscal year, an extra dividend of 10 cents per common share was declared payable December 15, 1965, to stockholders of record on November 30, 1965. This was in addition to the regular quarterly dividend of 20 cents. Fiscal 1965 was the 24th consecutive year of dividends on Ranco shares.

Stock Acquired for Redemption or Retirement and Stock Conversions

BURROUGHS CORPORATION
December 31, 1965
President's Letter

At the same meeting, the Board called for redemption on March 1, 1966, all of the outstanding 4½% Convertible Subordinated Debentures due December 1, 1981, at the redemption price of 103⅜% of the principal amount thereof, together with accrued interest to the date fixed for redemption. These Debentures were convertible into common stock of the Company at $37.42 per share. By February 14, 1966, the last date for conversion, the bulk of the Debentures had been so converted.

HOOKER CHEMICAL CORPORATION
November 30, 1965
President's Letter

To support this program, on January 6, 1966, the company filed with the Securities and Exchange Commission a Registration Statement indicating its intention to raise an additional $25 million through a public offering of sinking fund debentures due January 15, 1991. In addition, on December 29, 1965, the 5 per cent convertible subordinated debentures due 1984 were called for redemption on January 28, 1966. Any such debentures not converted into common stock by January 28, 1966, will be redeemed on that date. The debentures are convertible into common stock at the conversion price of $42.93 per share.

SCM CORPORATION
June 30, 1965
Notes to Financial Statements

Capital Stock: Preferred stock authorized is 500,000 shares, par value $50 each. At June 30, 1965, 74,121 shares of 5½% cumulative Convertible Preferred Stock were outstanding. In June, 1965, the Company announced that it would redeem all preferred stock outstanding at the close of business on July 8, 1965, and at that date the Company redeemed 2,151 shares at $52.90 per share. All other preferred shares outstanding as of June 30, 1965, were converted into 235,445 shares of common stock, resulting in the conversion to common stock of over 99% of the original 240,044 preferred shares issued.

Common stock authorized is 4,000,000 shares, par value $5 each. At June 30, 1965, 2,694,178 shares of common stock were issued and outstanding. At that date, of the authorized but unissued shares of common stock, 235,445 shares were reserved for conversion of preferred stock, 377,378 shares for possible conversion of the convertible subordinated debentures, and 135,083 shares for issuance to employees (including officers) under Stock Option Plans.

Common stock option transactions during 1965 were:

	Total Shares Reserved	Options Granted	Shares Available for Option
Balance June 30, 1964	134,240	103,013	31,227
Options granted		26,000	(26,000)
Options cancelled		(12,302)	12,302
5% stock dividend	6,537	6,048	489
Options exercised	(5,694)	(5,694)	
Balance June 30, 1965	135,083	117,065	18,018

The outstanding options for 117,065 shares were granted during the years 1956 to 1965 and are exercisable at prices ranging from $9.89 to $22.86 per share. Options granted prior to January 1, 1964, were at 95% of the fair market value of the stock on the dates granted; subsequent options were granted at the fair market value on the dates granted.

Employees

CATERPILLAR TRACTOR CO.
December 31, 1965
Financial Review

Labor Relations: In the United States settlements of new labor contracts, to run until 1968, were reached without work stoppages at the Joliet, Milwaukee and San Leandro Plants. Production continued without interruption at Aurora, Davenport, East Peoria, York and Towmotor's Cleveland operations under contracts that will not expire until October, 1967.

The Decatur, Illinois Plant was struck by the United Automobile Workers Union (UAW) for two months ending January 19, 1966 over alleged work standard and classification disputes, idling more than 3,000 employees. This resulted in some losses of sales of scrapers, motor graders and trucks.

COPPERWELD STEEL COMPANY
December 31, 1965
Financial Review

Employee Relations and Employment Costs: New labor agreements were entered into in 1965 with the respective collective bargaining agents by the Company's operating divisions at Warren and Shelby, Ohio, and Oswego, New York. At the Flexo Wire Division, a new three-year agreement, effective February 1, 1965, was entered into by the Company and the International Association of Machinists. Under this agreement wage rates were increased and additional wage increases are scheduled for February 1, 1966 and 1967; vacation and insurance benefits were liberalized; and Company contributions for the establishment of a pension program are to be initiated as of February 1, 1966.

EMHART CORPORATION
December 31, 1965
Financial Review

Labor Relations: The Company maintained harmonious relations with its employees at all Divisions during 1965. Six contracts, ranging from one to three years, were signed on mutually satisfactory terms at five plant locations. Currently, the negotiation of another agreement is progressing satisfactorily.

Effective January 1, 1966, new uniform pension, disability and group life and hospital insurance plans for domestic salaried employees were adopted.

At December 31, the Company and its subsidiaries, world-wide, employed a total of 11,072 men and women.

Fixed Assets

AMERICAN METAL PRODUCTS COMPANY
December 31, 1965
Notes to Financial Statements

Note F: Subsequent Events—On January 7, 1966, the Company entered into an agreement to acquire a plant and equipment to be financed by municipal industrial revenue bonds in the amount of $3,200,000, having a maturity date of January 1, 1986.

THE FLINTKOTE COMPANY
December 31, 1965
Notes to Financial Statements

Note 9: The Company on January 12, 1966 sold certain timberlands for a gain, after estimated taxes, of approximately $9,600,000. Such gain will be credited to earned surplus during 1966.

STUDEBAKER CORPORATION
December 31, 1965
President's Letter

After long and thorough study, the decision to discontinue automobile manufacturing in the Canadian plant at Hamilton, Ontario was reached on March 4, 1966, and Studebaker is now no longer in the automobile business. In 1963, we established a $64,000,000 reserve for the discontinuance of automotive manufacturing at South Bend. We are pleased to report that this was accomplished at a considerably lower cost, resulting in a return to income of $12,619,834 as a special credit. This is $4,619,834 more than the estimated costs of ending our Canadian automotive operations. Accordingly, the discontinuance of the auto-making business will have no adverse effect on 1966 operating results.

Indebtedness

THE RATH PACKING COMPANY
October 2, 1965
Notes to Financial Statements

Note: Rath on October 15, 1965 entered into a joint agreement with twenty-four banks throughout the country providing for a joint commitment on the part of those banks to loan up to $20,150,000 at any time from that date through December 31, 1965 at an interest rate equal to ¼ of 1% above the prime rate in Chicago at the time of the loans. Rath will pay a commitment fee of ½ of 1% per annum for funds available but not borrowed. During the term of the loans Rath agrees not to pay dividends or redeem any of its common stock or to make expenditures for fixed assets in excess of annual depreciation during the 1966 fiscal year.

UTAH-IDAHO SUGAR COMPANY
February 28, 1965
President's Letter

Short-term borrowing has been reduced by $3,600,000 since the close of the fiscal year.

Subsidiary or Affiliated Companies

THE AMERICAN TOBACCO COMPANY
December 31, 1965
President's Letter

On January 13, 1966, your Company and Sunshine Biscuits, Incorporated announced negotiations to combine on a mutually advantageous basis, and on January 25 the terms for acquisition were approved in principle by the Boards of Directors of both companies. The contemplated basis for exchange is 1.4 shares of The American Tobacco Company Common stock for each share of Sunshine Common stock. Sunshine Biscuits would add to our quality tobacco products a line of well-known food products representing a logical diversification and broadening of our business.

Financial Review

Diversification: On January 13, 1966, your Company and Sunshine Biscuits, Incorporated announced that the companies are negotiating to combine on a mutually advantageous basis.

On January 25 the Board of Directors approved in principle the terms for the acquisition, and negotiations are proceeding on the basis of 1.4 shares of American Tobacco Common stock for each share of Sunshine Common stock. The proposed combination is subject to examination of the affairs of both companies and to the taking by each of them of all action required for consummation.

Sunshine Biscuits would add to American's quality tobacco products a line of well-known food products and would represent a logical diversification and broadening of its business. The fine reputation and long-standing quality tradition of Sunshine Biscuits makes it an ideal acquisition for American Tobacco and its stockholders.

Sunshine Biscuit would operate as a separate entity under its present management and personnel, and would be represented on American's Board.

FRUEHAUF CORPORATION
December 31, 1965
President's Letter

On January 14, 1966, the Company sold its Strick Division for $39 million in cash, resulting in a profit of $17 million. It is expected that the long term rate of growth in sales and earnings of the Company will not be retarded by the loss of sales resulting from this transaction. The Federal Trade Commission litigation, commenced in August, 1956, was terminated with dismissal of the divestiture order as to the Hobbs Division and approval of the sale of the Strick Division.

Notes to Financial Statements

Note 1: *Sale of the Strick Division*—As of January 1, 1966, the net assets of the Strick Division were sold for approximately $39,000,000 in cash. Effective with this sale the litigation by the Federal Trade Commission in 1956 was terminated. The net assets of the Strick Division amounted to approximately $22,000,000 at December 31, 1965. Information with respect to approximate sales and earnings of the Division for 1965 and 1964 is as follows:

	1965	1964
Net sales	$71,400,000	$53,500,000
Net earnings	4,410,000	2,970,000

THE MAY DEPARTMENT STORES COMPANY
January 31, 1965
President's Letter

Proposed Merger with Meier & Frank Company, Inc.: As previously announced, the company has entered into a merger agreement with Meier & Frank Company, Inc., subject to the approval of the stockholders of both companies. The merger would be accomplished, under the agreement, by the exchange of each share of Meier & Frank common stock (Meier & Frank has 919,640 common shares outstanding) for one share of new preference stock of May. The new preference stock would be entitled to an annual dividend of $1.80 a share cumulatively, would be convertible into ¾ of a share of May common stock until September 30, 1968 and into ⅝ of a share from October 1, 1968 until September 30, 1975, and would be callable at the option of the company at $50 a share after September 30, 1970.

The May company has also entered into an agreement with holders of approximately 500,000 shares of Meier & Frank common stock at $56 a share and May has the right to purchase their stock at $56 a share if the proposed merger or other tax free exchange for preference stock is not consummated by September 30, 1966.

The Meier & Frank Company, Inc. operates the leading department store in Portland, Oregon with one major branch in Portland and an additional branch store in Salem, Oregon. Meier & Frank had sales of $71,100,000 in the year ended January 31, 1965.

Notes to Financial Statements

Note H: *Proposed Merger*—Reference is made to Page 3 for information with respect to the proposed merger with Meier & Frank Company, Inc. and the possible stock purchase commitment should such merger not be consummated by September 30, 1966.

Contracts Entered Into or Cancelled

THE AMERICAN SHIP BUILDING COMPANY
June 30, 1965
President's Letter

On June 15, 1965 a contract was awarded to us by the U.S. Coast Guard providing for construction of five 210-foot medium endurance Coast Guard Cutters for the sum of $13,174,584. On July 22, 1965 a contract for two additional Cutters was awarded in the amount of $4,902,123.

Litigation

MINNESOTA MINING AND MANUFACTURING COMPANY
December 31, 1965
Financial Review

Patents and Litigation: Mention has been made in previous reports regarding the nine-count antitrust indictment against the Company returned in December, 1961. On January 5, 1966, on advice of counsel, the Company entered nolo contendere pleas to five of the nine counts in the belief that it was in the best interest of the Company to finally dispose of this long-pending litigation at that time and in that manner. The Government did not oppose entry of the nolo pleas, and fines totaling $190,000 were imposed by the court. The four remaining counts were dismissed on motion by the Government. The counts which were dismissed related to the same products and alleged course of conduct referred to in the five other counts.

A number of other legal proceedings, including patent litigation, continue at this time, but are incident to the Company's normal operation.

UNIVERSAL MATCH CORPORATION
December 31, 1965
President's Letter

On January 10, 1966, nine match manufacturers, including UMC, and four individuals, none of whom is or has been connected with UMC, were indicted in one count for conspiracy to fix resale match prices, and those manufacturers were also cited in a civil antitrust suit seeking an injunction under the Sherman Act. We feel sure that our stockholders will be interested to know that any activities such as those alleged are contrary to our corporate policy and that in our opinion, the results of these proceedings will have no material adverse effect on UMC's earnings or financial position.

Section 3 INCOME STATEMENT

SOME CHANGES AND TRENDS IN 1965 REPORTS

		Table or Page Number
NEW—	*Depreciation Methods* — text was expanded to present increasing diversity of methods described in the 600 companies' 1965 reports	pp. 196, 197
NEW—	*Income Tax Adjustments, Allocations and Deferments Table* and *Extraordinary Items Table* have been expanded to show debit and credit items separately	Tables 9 and 11
NEW—	*Earnings Per Share Table* was expanded to include effect of stock conversions, exercise of stock options and treasury stock on companies reporting earnings per share	Table 14
NEW—	A table showing *Materiality of Adjustments to Earnings Per Share* has been added	Table 15
TREND—	*Funds Statements.* 458 companies presented statements of Source and Application of Funds and/or Working Capital changes in their 1965 reports versus 387 in 1964; also more companies presented comparative information	pp. 238, 239

TERMINOLOGY

There is a wide variety of terms used as captions for the items within the income statements, as indicated by a review of the 1965 reports of the 600 survey companies. The committee on terminology of the American Institute of Certified Public Accountants has issued *Accounting Terminology Bulletin No. 2—Proceeds, Revenue, Income, Profit, and Earnings*† and *Bulletin No. 4—Cost, Expense, and Loss*† to promote uniformity of usage of terms which refer to closely related concepts. The committee in its examination of the usage of these terms, found that the lack of uniformity was confusing and has therefore given definitions and recommendations for the use of such terms in connection with business operations and financial statements.

The title and form of the income statement in general is discussed in Section 1.

SALES—PRESENTATION

The various methods of presenting income from sales and services employed by the 600 survey companies in their 1965 annual reports are summarized in Table 1. This comparative table discloses that *net sales* continues to be the term presented by the majority of the companies in their 1965 annual reports—363 companies. Thirty-five companies used *net sales and operating revenue*. The term *sales* was used by 87 companies while 49 companies used *sales and revenues* or *sales and operating revenue*. Other income statement presentations in this connection are indicated in Table 1, together with complete references in each case.

Examples

As previously stated, in connection with the excerpts from financial statements presented herein as examples, it should be noted that, for the most part, the statements from which they are taken were prepared in comparative (two-year) form; but because of space limitations, etc., only the current year's figures are used. Hence, since it is our endeavor to present these excerpts without change, certain parts may not be applicable. The notes or other references cited are reproduced only when they are pertinent to the subject or topic under review.

Examples of various methods and terminology used to present sales and revenues in the 1965 reports follow.

†Included in *Accounting Research and Terminology Bulletins, Final Edition*, 1961.

TABLE 1: SALES

	Income Statement shows*	1965	1960	1955	1950
	Net Sales:				
A:	Net Sales	363	382	347	307
B:	Net Sales and operating revenue	35	—	—	—
C:	Net Sales after deducting discounts, returns, etc.	4	4	10	12
D:	Sales less discounts, returns, etc.	20	48	43	50
E:	Gross Sales less discounts, returns, etc.	9	15	28	46
F:	Both Gross and Net Sales	9	8	12	17
G:	Gross Sales	6	10	21	28
H:	Sales	87	97	105	97
I:	Sales and operating revenue	49	—	—	—
J:	Revenue or Gross Operating Income	16	25	7	2
K:	Revenues (less returns and allowances)	1	—	—	—
	No "sales"—initial item is:				
L:	Gross Profit	1	5	14	23
	Operating Profit	—	5	11	15
	No income statement	—	1	2	3
	Total	600	600	600	600

*Refer to Company Appendix Section—A: All 600 companies not specifically listed below under other captions; B: 2, 5, 9, 12, 18, 45, 57, 75, 89, 95, 110, 120, 137, 149, 156, 159, 162, 197, 237, 244, 285, 302, 318, 336, 377, 384, 399, 400, 402, 412, 437, 443, 481, 581, 592; C: 91, 262, 282, 510; D: 17, 25, 59, 93, 291, 295, 304, 335, 342, 347, 361, 376, 420, 463, 465, 470, 480, 559, 577, 585; E: 310, 370, 466, 499, 504, 527, 580, 582, 599; F: 29, 31, 37, 222, 247, 386, 397, 518, 533; G: 234, 238, 283, 307, 406, 539; H: 3, 7, 10, 16, 19, 21, 23, 24, 33, 35, 40, 44, 47, 50, 55, 58, 66, 70, 72, 73, 80, 87, 97, 98, 99, 124, 129, 138, 148, 150, 163, 168, 174, 181, 187, 192, 193, 205, 217, 219, 221, 227, 229, 232, 239, 240, 248, 255, 266, 267, 271, 276, 308, 317, 326, 331, 332, 337, 345, 372, 389, 401, 410, 424, 425, 438, 439, 440, 453, 454, 457, 476, 477, 482, 495, 555, 558, 561, 562, 568, 569, 575, 576, 587, 588, 589, 594; I: 20, 51, 60, 63, 68, 69, 74, 79, 94, 116, 117, 136, 140, 164, 191, 209, 228, 230, 246, 272, 292, 339, 344, 350, 354, 363, 385, 391, 405, 414, 422, 432, 450, 492, 496, 500, 502, 505, 515, 516, 517, 531, 535, 538, 544, 553, 554, 573, 584; J: 373; K: 43, 54, 56, 173, 180, 196, 274, 366, 374, 418, 435, 532, 534, 545, 550, 563; L: 270.

Net Sales

AMERICAN POTASH & CHEMICAL CORPORATION

Net Sales	$55,040,132
Cost of Products Sold	40,102,180
Gross Profit	$14,937,952

FOOTE MINERAL COMPANY

Income:	
Net sales	$23,693,628
Interest, net, royalties and other income	65,792
	$23,759,420

THE GREAT WESTERN SUGAR COMPANY

Net sales refined products	$130,726,279
Railroad revenue and other income	2,820,411
Total	$133,546,690

KELLOGG COMPANY

Net Sales	$366,000,060
Interest and Other Income	2,658,301
	$368,658,361

THE MOHAWK RUBBER COMPANY

Net sales	$46,301,924
Cost of products sold	35,848,845
	$10,453,079

STANDARD PACKAGING CORPORATION

Net Sales	$148,628,867

VEEDER-ROOT INCORPORATED

Revenues:	
Net Sales	$46,954,701
Other	53,347
Total Revenues	$47,008,048

Net Sales and Operating Revenue

GARLOCK INC.

Net Sales and Operating Revenues	$48,811,817

GENERAL CIGAR CO., INC.

Net sales and other revenue (Note 1)	$213,416,000
Cost of goods sold	173,519,000
Gross Profit	$ 39,897,000

Note 1: Net Sales and Other Revenue—Other revenue includes royalties of $1,226,000 in 1965 and $1,468,000 in 1964.

MINNESOTA MINING AND MANUFACTURING COMPANY

Sales and Other Income:	
Net sales and other operating revenue	$1,000,261,000
Investment, royalty and other income	6,378,000
Total	$1,006,639,000

NATIONAL STEEL CORPORATION

Net sales and other operating revenue	$1,107,227,053
Other income:	
Dividends received	9,476,643
Interest and miscellaneous	7,076,893
	$1,123,780,589

THE NATIONAL SUGAR REFINING COMPANY

Net Sales and Other Operating Revenue	$113,429,900
Other Income	429,023
Total	$113,858,923

Net Sales After Deducting Discounts, Returns, etc.

BIGELOW-SANFORD, INC.

Net Sales (After Cash and Other Discounts)	$96,263,272

HAT CORPORATION OF AMERICA

Net Sales, after deducting returns, discounts and allowances	$36,606,233
Cost of Sales	26,727,807
Gross Profit	$ 9,878,426

SPRAGUE ELECTRIC COMPANY

Net Sales after deducting cash discounts of $1,100,269	$107,077,249
Costs and Expenses:	
Cost of goods sold	80,015,402
Selling, general and administrative expenses	12,660,009
Research and development expenses	8,042,441
	100,717,852
Operating Income	$ 6,359,397

Sales, Less Discounts, Returns, Allowances, etc.

THE BLACKSTONE CIGAR COMPANY

Sales of cigars and leaf tobacco, less discounts, returns and allowances	$4,091,407
Cost of goods sold	3,595,356
Gross Profit	$ 496,051

INLAND STEEL COMPANY

Sales and Other Revenues:	
Sales after deducting cash discounts, returns and allowances	$967,562
Interest, dividends, etc.	7,137
	$974,699

SCHENLEY INDUSTRIES, INC.

Income:	
Sales, less returns and allowances	$460,762,963
Other income—net	713,777
	$461,476,740

UNITED-GREENFIELD CORPORATION

Sales, less returns and allowances	$70,107,000

VASCO METALS CORPORATION

Revenue:	
Sales, less discounts, returns, and allowances	$43,382,195
Dividend and interest income	139,113
Miscellaneous	208,302
	$43,729,610

Gross Sales, Less Discounts, Returns, etc.

SIMONDS SAW AND STEEL COMPANY

Gross sales less discounts, returns and allowances	$78,590,293
Cost of goods sold	56,089,624
Gross Profit	$22,500,669

STRUTHERS WELLS CORPORATION

Gross Sales, Less Discounts and Allowances	$26,745,937
License Fees	373,829
	$27,119,766

WALWORTH COMPANY

Gross Sales, Less Returns and Allowances	$48,219,000

THE YOUNGSTOWN SHEET AND TUBE COMPANY

Sales and Other Revenues:	
Gross sales, less discounts, returns and allowances	$768,935,161
Dividends, interest and other income	16,819,577
Total	$785,754,738

Gross and Net Sales

FALSTAFF BREWING CORPORATION

Sales	$228,150,782
Less Federal and State Excise Taxes	77,178,362
Net Sales	150,972,420
Cost of Goods Sold	102,107,356
Gross Profit	48,865,064
Selling and Delivery Expenses	31,190,066
Administrative and General Expenses	7,419,286
Total	$ 38,609,352

GENERAL FOODS CORPORATION

	(In thousands)
Gross Sales	$1,597,303
Less: Allowances, Outbound Transportation, Warehousing, and Discounts	119,244
Net Sales	1,478,059
Other Income (net)	1,538
	$1,479,597

MOUNT VERNON MILLS, INC.

Gross Sales	$51,999,384
Less—Cash discounts and freight outward	822,320
Net Sales	51,177,064
Cost of Goods Sold	42,870,331
Gross Profit from Manufacturing	8,306,733
Gross Profit from Trading, Commissions, etc.	857,287
Total	$ 9,164,020

THE STANDARD OIL COMPANY, AN OHIO CORPORATION

Sales and operating revenue	$668,316,023
Less gasoline and oil excise taxes	137,012,288
Net sales and operating revenue	531,303,735
Sales of purchased crude oil	50,344,585
Dividends, interest and miscellaneous income	7,080,010
	$588,728,330

SUNSHINE BISCUITS, INC.

Gross Sales	$209,586,024
Less discounts and allowances	8,577,836
Net Sales	201,008,188
Cost of Sales	130,141,696
Gross Profit	$ 70,866,492

Gross Sales (Including Gross Income, etc.)

FREEPORT SULPHUR COMPANY

Gross sales	$106,752,445
Other income, net (Note 1)	4,268,819
	$111,021,264

Note 1: Other income in 1965 includes (a) investment income of $2,824,374 compared with $2,425,599 in 1964 and (b) dividend and interest income from National Potash Company of $1,162,925 compared with $662,925 in 1964.

GENERAL AMERICAN TRANSPORTATION CORPORATION

Gross Income:	
From manufacturing	$201,885,269
From services—operation of distribution and terminal facilities	140,340,706
Dividends and interest	2,200,026
Other income	923,899
	$345,349,900

HAZELTINE CORPORATION

Gross income	$37,565,123
Deduct costs and expenses:	
Costs applied to gross income (Note 3)	34,222,593
General and administrative expenses	2,474,064
	36,696,657
	$ 868,466

INTERNATIONAL BUSINESS MACHINES CORPORATION

Gross Income from Sales, Service and Rentals	$3,572,824,719

TEXAS GULF SULPHUR COMPANY

Gross Revenue from Sales	$ 98,981,161
Royalties, Interest and Other Income	3,301,263
	$102,282,424

Sales

BAUSCH & LOMB INCORPORATED

Income:	
Products sold	$88,339,946
Other income	812,314
	$89,152,260

EVANS PRODUCTS COMPANY

Revenues:	
Sales and rentals	$246,941,000
Dividends and other income	1,674,000
Total Revenues	$248,615,000

MERCK & CO., INC.

Sales of products	$331,961,755
Royalties received	4,603,049
Other income	5,562,822
	$342,127,626

NATIONAL TEA CO.

Sales	$1,161,948,193

UNITED FRUIT COMPANY

	(In Thousands)
Sales of Products and Services to Customers	$381,533

WEYERHAEUSER COMPANY

Income:	
Sales	$721,398,451
Other income (net)	12,869,557
	$734,268,008

Sales and Operating Revenue

BAKER OIL TOOLS, INC.

Revenues:	
Sales and services (net)	$45,824,403
Other	256,504
Total	$46,080,907

HONEYWELL INC.

Sales and Other Income:	
Sales, service and rental income	$700,357,590
Other income (less miscellaneous income charges)	1,085,026
Total	$701,442,616

THE MACKE COMPANY

Income:	
Sales and other operating income	$58,045,996
Other income	204,017
Total	$58,250,013

SIGNODE CORPORATION

Income:	
Operating Revenues:	
Sales	$106,291,868
Revenues from leased equipment	4,136,968
	110,428,836
Other Income	358,173
	$110,787,009

STANDARD OIL COMPANY (NEW JERSEY)

Sales and other operating revenue	$12,493,031,000
Dividends, interest, and other revenue .	250,870,000
	$12,743,901,000

UNION TANK CAR COMPANY

Income from Sales and Services (Including $4,584,858 and $4,433,938 margin from foreign trading in 1965 and 1964, respectively)	$120,065,843

Revenue or Gross Operating Income

APCO OIL CORPORATION

Income:	
Gross operating income	$59,585,781
Other income	313,161
	$59,898,942

HALLIBURTON COMPANY

Net Revenues	$532,756,175

McGRAW-HILL, INC.

Operating Revenue:	
Magazines and newspapers	$ 97,883,705
Books and related products	84,432,463
Information services	33,881,499
	$216,197,667

SUNRAY DX OIL COMPANY

Gross Income:	
Gross operating income	$482,569,000
Dividends, interest and other	5,044,000
	$487,613,000

THE SUPERIOR OIL COMPANY

Income:	
Gross operating income	$103,170,385
Dividends	5,032,542
Other income	2,027,667
	$110,230,594

UNITED SHOE MACHINERY CORPORATION

Gross Operating Income:	
Machine and merchandise sales and other operating income	$184,604,451
Leased machinery revenues	44,519,220
	$229,123,671

Gross Profit as Initial Item

GRUEN INDUSTRIES, INC.

Gross profit on sales	$3,948,720
Selling, advertising, administrative, and general expenses	2,577,332
Operating profit	$1,371,388

Revenues (Less Returns and Allowances)

MEREDITH PUBLISHING COMPANY

Revenues (less returns and allowances)	$89,829,223

COST OF GOODS SOLD AND GROSS PROFIT—PRESENTATION

The trend toward the use of the single-step form of income statement (with all income items shown above one total, and expense items grouped together as an offset) as referred to in Section 1, Table 6, results in the presentation of cost of goods sold as a separate caption and amount, though in many instances the various elements of cost are shown. Although 435 companies in the current survey of the 1965 annual reports disclosed a separate caption and amount for either cost of goods sold or cost of manufacturing, only 116 companies applied the amount directly against sales income, resulting in a subtotal either labeled as or identifiable as "gross profit." A substantial number of companies (133) combined the cost of goods sold with other costs in many different ways. A common presentation was the inclusion of the cost of goods sold with other costs in a single total amount. Another method was the arrangement of total expenses, segregated as to basic nature, such as: employment costs, materials and services, local taxes, depreciation, etc.

The survey companies seldom present the opening and closing inventories or net changes in inventories in their annual reports, as noted in comments in this section under "Cost of Materials—Presentation."

Table 2 summarizes the various presentations of cost of goods sold and gross profit as shown by the survey of the 1965 annual reports.

Examples illustrating some of the methods used are as follows (including variation of terms employed such as "cost of sales," "cost of products sold," etc.):

Cost of Goods Sold Presented as a Separate Single Total Amount

THE BORDEN COMPANY

Net Sales	$1,385,518,426
Other Income (Includes interest and dividends—1965, $6,632,488; 1964, $7,146,501)	8,459,788
Total	1,393,978,214
Less:	
Cost of goods sold	1,155,816,470
Selling, general and administrative expenses and other charges	146,897,147
Interest expense	4,266,530
Provision for U.S. and Canadian federal income taxes	36,085,703
Total	$1,343,065,850

HOWMET CORPORATION

Net sales	$124,338,567
Operating costs and expenses:	
Cost of sales	97,419,226
Selling, general and administrative expenses	15,189,500

TABLE 2: COST OF GOODS SOLD AND GROSS PROFIT

Cost of Goods Sold*	1965	1960	1955	1950
Income Statement Presentation—				
Single total amount for:				
A: Cost of goods sold	416	359	318	354
B: Cost of goods sold together with other expenses	133	187	226	175
C: Manufacturing cost of goods sold	19	14	22	15
Cost of goods sold shown in:				
D: Separate elements of cost	27	27	5	13
E: Detailed section therefor	4	1	2	2
	599	588	573	559
Not shown in statement—				
Initial item is:				
F: Gross profit	1	5	14	23
Operating profit	—	6	11	15
No income statement	—	1	2	3
Total	600	600	600	600

Gross Profit*	1965	1960	1955	1950
Income Statement Presentation—				
G: As initial item of gross profit	1	5	14	23
With single total amount:				
H: Designated "gross profit"	89	90	110	123
I: Identifiable as "gross profit"	27	29	26	25
	117	124	150	171
J: Not shown in statement	483	470	437	411
Initial item is operating profit, etc.	—	5	11	15
No income statement	—	1	2	3
Total	600	600	600	600

*Refer to Company Appendix Section—A: 11, 63, 101, 185, 230, 278, 315, 353, 446, 488, 528, 579; B: 33, 79, 136, 190, 251, 295, 352, 363, 406, 479, 538, 586; C: 28, 84, 189, 202, 294, 347, 391, 421, 463, 498, 584; D: 9, 24, 176, 193, 272, 304, 366, 436, 471, 502, 532, 569; E: 50, 124, 367, 564; F: 270; G: 270; H: 14, 93, 143, 196, 243, 289, 334, 387, 414, 443, 525, 560; I: 32, 66, 132, 167, 215, 245, 300, 371, 403, 466, 522, 574; J: 18, 51, 171, 200, 242, 276, 320, 348, 425, 470, 547, 575.

ELTRA CORPORATION

Sales and Other Income:	
Net sales	$254,666,845
Dividends, interest and other income	2,717,044
	257,383,889
Costs and Expenses (including depreciation of $5,888,059 in 1965 and $5,877,335 in 1964):	
Cost of sales	206,403,918
Selling, general and administrative expenses	24,885,076
Interest and other expenses	3,127,492
Taxes on income (Note 7)	10,700,000
	$245,116,486

INTERLAKE STEEL CORPORATION

Sales and Revenues:	
Net sales	$262,363,243
Other revenues	3,463,477
	265,826,720
Costs and Expenses:	
Cost of products sold	200,416,809
Depreciation, depletion and amortization	12,871,294
Selling and administrative expenses	23,855,417
State, local and miscellaneous taxes	5,098,937
Interest and other costs on long-term debt	1,546,801
U. S. and foreign income taxes	8,176,000
	$251,965,258

THE PILLSBURY COMPANY

Income:	
Net sales of products and services	$443,445,119
Interest and miscellaneous income	1,542,600
	444,987,719
Costs and Expenses:	
Cost of products and services sold	334,656,077
Selling, general, and administrative expenses	85,080,272
Interest and debt expense	2,934,174
Miscellaneous deductions	1,160,599
	$423,831,122

THE SHERWIN-WILLIAMS COMPANY

Net sales	$344,783,077
Dividends received from The Sherwin-Williams Company of Canada, Limited—Note A	262,613
Interest income	200,024
Miscellaneous	681,430
	345,927,144
Deductions from income:	
Cost of products sold	205,618,940
Selling, general, and administrative expenses	100,398,730
Pensions	2,421,264
Interest expense	81,259
Miscellaneous	647,502
	$309,167,695

Cost of Goods Sold and Gross Profit

CANADA DRY CORPORATION

Net Sales	$146,684,069
Cost of Goods Sold	75,726,911
Gross Profit on Sales	$ 70,957,158

NATIONAL PRESTO INDUSTRIES, INC.

Gross sales	$43,234,556
Less excise taxes, freight, discounts, etc.	1,348,860
Net sales	41,885,696
Cost of sales	27,081,964
Gross profit	$14,803,732

PIPER AIRCRAFT CORPORATION

Sales	$69,086,308
Cost of sales	51,567,828
Gross profit from sales	$17,518,480

SIMMONS COMPANY

Net sales	$171,926,541
Cost of sales	127,728,341
Gross profit	$ 44,198,200

STANDARD BRANDS INCORPORATED

Net Sales	$727,801,679
Cost of Products Sold	526,383,033
Gross Profit	$201,418,646

Cost of Goods Sold Included in Costs and Expenses

ALLIED CHEMICAL CORPORATION

Net sales and operating revenues	$1,121,289,349
Cost of goods sold and operating expenses	755,422,680
Depreciation, depletion, and amortization	93,162,226
Selling, general and administrative expenses	116,197,979
Pension costs	23,366,691
	$988,149,576

EVERSHARP, INC.

Net Sales	$53,424,708
Costs and expenses [including depreciation and amortization of $1,419,584 (1965) and $1,342,519 (1964)]:	
Cost of sales, research and development expenses	23,490,438
Selling, general and administrative expenses	22,822,357
Other—principally interest, net	443,857
	46,756,652
	$ 6,668,056

MONTGOMERY WARD & CO., INCORPORATED

Net Sales	$1,697,390,884
Costs and Expenses:	
Cost of merchandise sold, including net buying, operating, selling and administrative expenses other than itemized herein	1,580,987,245
Rents	29,477,533
Maintenance and repairs	7,021,536
Depreciation and amortization	16,018,750
Contribution to employees' savings and retirement plans	5,120,954
Property, social security and state taxes	31,003,929
Provision for Federal taxes on income	11,700,000
Total Costs and Expenses	$1,681,329,947

NEPTUNE METER COMPANY

Net Sales of Manufactured Products and Other Operating Revenues	$42,833,045
Operating Costs and Expenses (including depreciation—1965, $1,055,968; 1964, $1,086,972):	
Cost of goods sold and other operating costs	28,396,783
Selling and general administrative expenses	8,573,787
	36,970,570
Operating Income	$ 5,862,475

Manufacturing Cost of Goods Sold

OWENS-ILLINOIS, INC.

Net sales	$825,754,916
Costs and expenses:	
Manufacturing, shipping and delivery costs	642,877,252
Research and engineering expenses	22,876,930
Selling and administrative expenses	72,966,712
	$738,720,894

AMERICAN CYANAMID COMPANY

Net Sales	$862,964,625
Dividends from associated companies, 40% to 50% owned	6,990,648
Interest	3,827,400
Royalties and licenses	7,413,960
Other income—net	539,243
	881,735,876
Deduct:	
Manufacturing cost of sales—less depreciation and depletion	417,920,727
Selling and advertising expenses	148,171,382
Administrative and general expenses	50,540,769
Depreciation, amortization and depletion	42,628,061
Research and process development expenses	41,374,297
Interest charges on funded and other debt	4,611,071
Employees' pension and group insurance plans	13,935,456
	$719,181,763

THE EAGLE-PICHER COMPANY

Income:	
Net sales	$164,155,507
Other income	394,788
	164,550,295
Costs and Expenses:	
Manufacturing and production costs	135,758,261
Selling and administrative expenses	14,282,820
Depreciation, depletion and amortization	4,001,465
Taxes on income	3,900,000
Interest	829,966
	$158,772,512

THE HOOVER COMPANY

Net sales	$243,825,113
Interest and other income	4,057,539
	247,882,652
Deductions:	
Manufacturing costs	140,716,978
Merchandising, general, and administrative expenses	62,184,483
Depreciation charges	7,860,266
Other charges	2,689,561
	$213,451,288

LONE STAR CEMENT CORPORATION

Income:	
Billings, less discounts	$194,331,355
Dividends from Latin American subsidiaries realized in U. S. dollars	907,279
Miscellaneous income and expense (net)	1,536,895
	196,775,529
Costs and Expenses:	
Manufacturing, packing and loading costs, exclusive of depreciation and depletion	109,275,668
Freight on shipments	23,600,138
Provision for depreciation and depletion	13,294,623
Selling and administrative expenses	16,371,882
Tax expense, other than income taxes shown below and taxes which are charged directly to costs or other accounts	1,639,082
Interest expense	3,221,059
Retirement pension and group insurance expense	3,822,896
	171,225,348
	$ 25,550,181

THE NATIONAL CASH REGISTER COMPANY

Income:	
Income from sales, services and equipment rentals	$736,848,697
Other income	15,206,842
	752,055,539
Costs and Expenses:	
Manufacturing	334,032,351
Selling, general and administrative	272,360,512
Research and development	25,289,418
Depreciation	50,176,854
Interest	10,042,664
Income taxes:	
United States	11,100,000
Foreign	17,800,000
	720,801,799
	$ 31,253,740

Cost of Goods Sold Shown in Separate Elements of Cost

ALAN WOOD STEEL COMPANY

Revenues:	
Net sales and operating revenues	$89,054,268
Other	320,397
	89,374,665
Costs and Expenses (Note 1):	
Employment costs:	
Wages and salaries	28,110,795
Pension, group insurance and other employee benefits (Note 6)	3,215,365
Social security taxes	1,215,714
	32,541,874
Materials and services	43,627,023
Depreciation	6,050,148
Gain on property sold or retired	(225,152)
Miscellaneous taxes	679,396
Interest and debt expense	1,876,569
	$84,549,858

Note 1: Costs and Expenses—Cost of goods sold and operating expenses, exclusive of provision for depreciation, included in Costs and Expenses was $71,213,718 in 1965 and $64,312,534 in 1964. Inventories used in the computation of cost of goods sold were as follows:

Ores	$ 2,354,678
Other manufacturing materials and supplies	3,074,768
Finished and semi-finished products	8,004,880
	$13,434,326

The inventories are valued at the lower of cost or market. Inventories for which the last-in, first-out (LIFO) method was used in determining cost represent approximately 75% of the total inventories at December 31, 1965. The remainder of the inventories is substantially at average cost.

CRUCIBLE STEEL COMPANY OF AMERICA

Net sales	$313,471,000
Employment costs:	
Wages and salaries	100,505,000
Social security taxes	4,624,000
Pension and retirement plans	3,138,000
Other employe benefits	8,768,000
Total	117,035,000
Raw materials, supplies, services, etc.	156,611,000
Depreciation	12,839,000
Interest and debt expense	3,145,000
State, local and miscellaneous taxes	3,087,000
Federal and foreign income taxes	10,060,000
Total	$302,777,000

JONES & LAUGHLIN STEEL CORPORATION

Revenues:	
Net sales and other operating revenues	$992,731,000
Interest and other income	6,828,000
	999,559,000
Costs and expenses (Note I):	
Employment costs:	
Wages and salaries	305,110,000
Employee benefits (Note F)	56,758,000
	361,868,000
Materials, supplies, freight and other services	460,037,000
Depreciation and depletion	72,611,000
Interest and long-term debt expense	5,942,000
State, local and miscellaneous taxes	17,517,000
Federal income taxes, less investment tax credit of $3,360,000 in 1965 and $7,235,000 in 1964 (Note G)	28,314,000
	$946,289,000

Note I: Costs and Expenses—Cost of sales and operating expenses of $776,908,000 and selling, administrative and general expenses of $44,997,000 are included in the consolidated statement of income as "Employment costs" and "Materials, supplies, freight and other services." Repair and maintenance expenses included in these categories amounted to $113,575,000.

LUKENS STEEL COMPANY

Revenues:	
Net Sales	$137,457,643
Other	980,836
Total Revenues	138,438,479
Costs and Expenses:	
Employment:	
Wages and salaries	38,046,891
Vacation, holiday and shift pay	4,619,723
Insurance, pensions and other benefits (Note 1)	5,179,251
Payroll taxes	1,709,451
Total employment costs	49,555,316
Materials, services and other	65,580,240
Depreciation	4,693,474
Rentals on U. S. Government facilities	318,867
Interest expense	164,816
State, local and miscellaneous taxes	976,191
Provision for income taxes	7,815,000
Total Costs and Expenses (Notes 2 and 3)	$129,103,904

Note 2: Inventories and Cost of Goods Sold—Inventories, which are stated at the lower of cost (part at last-in, first-out, and part at average) or market, were composed of—

Goods finished and in process	$10,739,712
Raw materials	4,356,186
Supplies, molds, etc.	3,168,031
	$18,263,929

Cost of goods sold amounted to $113,349,450 in 1965 and $100,640,794 in 1964.

Gross Profit Presented with a Single Total Amount Identifiable as "Gross Profit"

ANCHOR POST PRODUCTS, INC.

Net sales	$24,803,669
Cost of products sold	19,463,206
	5,340,463
Selling and administrative expenses	3,879,395
Operating Income	$ 1,461,068

DAN RIVER MILLS, INCORPORATED

Net sales	$246,290,826
Cost of sales	202,610,003
	$ 43,680,823

WALTER KIDDE & COMPANY, INC.

Net sales	$109,494,246
Cost of sales	87,547,228
	21,947,018
Selling, general and administrative expenses	16,520,511
Income from Operations	$ 5,426,507

MELVILLE SHOE CORPORATION

Net sales	$203,545,124
Cost of goods sold, buying and warehousing costs	118,975,373
	84,569,751
Store operating, selling, general and administrative expenses	67,232,720
Depreciation and amortization	3,147,900
Interest charges	647,231
	$ 71,027,851

UNIVERSAL MATCH CORPORATION

Net Sales	$104,742,426
Cost of Goods Sold	74,756,217
	29,986,209
Operating Expenses:	
Selling and distribution	10,191,340
General and administrative	8,805,597
	18,996,937
Earnings from Operations	$ 10,989,272

Cost of Goods Sold Shown in Detail in Section Therefor

UNITED STATES GYPSUM COMPANY

Income:	
Net sales	$304,151,505
Interest and dividend income	2,715,649
Royalties and miscellaneous income (net)	1,064,508
Total income	307,931,662
Costs and Expenses:	
Cost of products sold:	
Plant wages and salaries	61,863,958
Materials, services and other costs	127,611,413
Provision for depletion and plant depreciation	10,736,889
Total	200,212,260
Selling, general and administrative expenses	43,980,366
Total Costs and Expenses	$244,192,626

COST OF MATERIALS—PRESENTATION

The trend over the past ten years indicates a decrease in the number of survey companies presenting cost of materials in their annual reports. This year, however, two companies more than in 1964, presented cost of materials.

TABLE 3: COST OF MATERIALS

Presentation in Income Statement*	1965	1960	1955	1950
With single total amount for—				
A: Materials and services purchased	6	13	23	15
B: Materials purchased	7	5	6	6
Materials used	—	3	5	3
C: Materials, together with other costs	30	31	22	22
	43	52	56	46
Disclosed Elsewhere in Report*				
D: In letter to stockholders	2	1	1	2
E: In supplementary statements or schedules	50	53	66	91
	52	54	67	93
In Graphic Presentation*				
F: With dollar amount shown therein	11	13	20	18
G: With dollar amount not shown therein	54	58	51	66
	65	71	71	84
Number of Companies				
Referring to material costs	160	177	194	223
Not referring to material costs	440	423	406	377
Total	600	600	600	600

*Refer to Company Appendix Section—A: 9, 176, 276, 318, 517, 569; B: 272, 354, 367, 492, 502, 532, 573; C: 10, 16, 22, 24, 50, 73, 84, 124, 183, 189, 246, 251, 265, 271, 304, 322, 349, 372, 436, 455, 471, 505, 516, 518, 536, 537, 553, 559, 564, 596; D: 85, 409; E: 11, 18, 31, 42, 52, 55, 59, 60, 72, 89, 90, 96, 101, 114, 135, 159, 161, 165, 169, 187, 188, 200, 226, 253, 266, 280, 311, 317, 319, 330, 335, 336, 371, 373, 381, 390, 395, 419, 435, 454, 458, 462, 466, 475, 484, 491, 510, 523, 542, 577; F: 61, 64, 74, 131, 214, 232, 249, 340, 343, 501, 551; G: 3, 8, 12, 26, 32, 38, 46, 51, 53, 82, 98, 100, 157, 195, 198, 205, 219, 229, 230, 248, 263, 289, 305, 313, 348, 353, 378, 389, 401, 416, 420, 428, 431, 437, 439, 441, 453, 459, 463, 479, 482, 493, 497, 504, 508, 512, 513, 521, 524, 531, 535, 547, 552, 579.

Of the 600 companies covered by this survey, 160 referred to the cost of materials in their 1965 reports. The methods of presentation used by the survey companies to show the cost of materials are summarized in Table 3. Only three of the companies referred to the inventory figures in their income statements. Companies *50 and *124 presented the opening and closing inventory figures on the income statement and company *246 listed the increase in inventories during the year among its costs.

Examples

Examples illustrating the various methods of presentation of cost of materials in the income statement are shown below. These examples in addition to those shown under "Employment Costs" provide further illustrations of sales presentation, etc.

*Refer to Company Appendix Section.

Single Amount for Materials and Services Purchased

HARBISON-WALKER REFRACTORIES COMPANY

Revenues:	
Products and services sold	$124,693,649
Dividends, interest and other income	1,417,393
	126,111,042
Costs:	
Employment (page 4):	
Wages and salaries	36,010,120
Social security taxes	1,524,300
Pensions, insurance and other fringes	3,392,587
	40,927,007
Materials, supplies and services purchased (page 4)	49,903,524
Depreciation and depletion	6,442,208
Interest expensed	704,872
Minority shareholders' interest in subsidiaries' income	1,396,368
Taxes, other than payroll and income taxes	1,432,592
Federal, foreign and state income taxes provided (page 4)	11,897,300
	$112,703,871

UNITED STATES STEEL CORPORATION

Products and Services Sold	$4,464,976,150
Costs:	
Employment costs:	
Wages and salaries	1,630,239,551
Employe benefits (see page 18)	233,554,686
	1,863,794,237
Products and services bought	1,624,784,711
Wear and exhaustion of facilities	324,501,064
Interest and other costs on long-term debt	30,885,379
State, local and miscellaneous taxes	110,534,703
Estimated United States and foreign taxes on income	235,000,000
Total	$4,189,500,094

Single Amount for Materials Purchased

MARATHON OIL COMPANY

Income:	
Revenues:	
Sales and other operating revenues	$645,842,000
Less consumer taxes collected for governments—Note E	96,440,000
Net Sales	549,402,000
Dividends, interest and other income	9,656,000
Total Revenues	559,058,000
Costs and Expenses:	
Purchased crude oil, petroleum products and merchandise	237,582,000
Operating and general expenses	138,548,000
Taxes, including taxes on income — Note E	51,341,000
Depletion and depreciation	31,893,000
Lease amortization	10,385,000
Exploration, lease rentals and non-productive well costs	22,961,000
Interest and debt expense	6,277,000
Total Costs and Expenses	498,987,000
Net Income	$ 60,071,000

GULF OIL CORPORATION

Revenues:	
Sales and other operating revenues	$4,185,253,373
Dividends, interest, and other revenues	47,813,775
	4,233,067,148
Deductions:	
Purchased crude oil, products, and merchandise	1,070,418,682
Operating, selling, and administrative expenses	1,251,557,756
Taxes on income and general taxes	1,149,846,045
Depreciation, depletion, amortization and retirements	306,090,823
Interest on long-term debt	14,695,137
Income applicable to minority interests in subsidiaries consolidated	13,225,378
	3,805,833,821
Net Income	$ 427,233,327

Single Amount for Materials, Together with Other Costs

CYCLOPS CORPORATION

Net Sales	$174,327,970
Costs and Expenses:	
Employment costs:	
Wages and salaries	45,482,460
Employee benefits	7,122,941
	52,605,401
Materials, services and other costs	91,487,785
Depreciation	9,445,190
Taxes, other than payroll and income taxes	2,185,123
Interest expense, net	1,444,029
	$157,167,528

GRANITE CITY STEEL COMPANY

Net sales	$166,551,196
Costs and expenses:	
Cost of products sold, including materials, wages and salaries, property taxes, and other manufacturing expenses	126,395,728
Provision for depreciation	10,689,318
Selling, administrative, and general expenses	6,072,692
Interest expense	4,536,227
Interest income	(1,623,231)
	$146,070,734

SOCONY MOBIL OIL COMPANY, INC.

Revenues:	
Sales and services (including excise and state gasoline taxes: 1965 — $504,306,000; 1964 — $481,610,000)	$5,411,810,000
Dividends and interest	105,616,000
	5,517,426,000
Costs and Expenses:	
Crude oil, products, materials, and operating expenses	2,628,991,000
Exploration expenses, including non-productive wells	94,840,000
Selling and general expenses	648,782,000
Depreciation, depletion, and amortization	282,455,000
Interest and debt discount expense	30,887,000
Taxes and other payments to governments	1,511,355,000
	$5,197,310,000

GRUMMAN AIRCRAFT ENGINEERING CORPORATION

Sales, including costs and fees under cost-reimbursement type contracts (Note 3)	$852,032,800
Other income	68,152
	852,100,952
Costs and expenses:	
Wages, salaries, materials, and other costs and expenses	806,044,453
Interest	3,495,435
Provision for Federal taxes on income, and renegotiation (Notes 3 and 5)	21,625,000
	$831,164,888

RALSTON PURINA COMPANY

Sales of Products and Other Income:	
Net sales	$954,770,923
Other income, net	3,918,409
	958,689,332
Costs, Expenses, and Other Charges:	
Materials and operating expenses	780,150,478
Administrative, research, distribution, and general expenses	101,790,692
Depreciation	15,942,973
Interest	5,435,406
	$903,319,549

SYMINGTON WAYNE CORPORATION

Net sales	$93,445,302
Costs and expenses:	
Material, labor and other product costs	69,319,340
Marketing	6,473,169
Engineering and research	2,009,834
General and administrative	6,744,567
Interest	440,823
Royalty and other income (deduct)	(991,202)
Plant relocations	761,370
	$84,757,901

In Supplementary Statements or Schedules

E. I. du PONT de NEMOURS & COMPANY
Simplified Operating Statement

	Millions of Dollars	Cents—per Dollar of Gross Receipts
Gross Receipts from Operations:		
The company billed to customers for products and services which they purchased	$3,021	100.0¢
Where They Went:		
The Company:		
Paid for materials and services purchased, and for miscellaneous items	$1,056	35.0¢
Paid employees for wages and salaries — and paid or set aside for employees' benefit	874	28.9
Set aside for "B" Bonus for employees	51	1.7
Set aside for depreciation and obsolescence of plants and equipment	242	8.0
Set aside for applicable taxes	413	13.7
Paid to stockholders as dividends	264	8.7
Retained for the needs of the business	121	4.0
	$3,021	100.0¢

JOSLYN MFG. AND SUPPLY CO.
Facts in Brief

	Amount	Per Cent of Net Sales
Net Sales	$93,485,000	100.0
Material and Services	58,141,000	62.2
Payroll and Employee Benefits	24,190,000	25.9
Taxes	4,588,000	4.9
Depreciation	2,022,000	2.1
Total Expenses	$88,941,000	95.1

LEHIGH PORTLAND CEMENT COMPANY
Ten Year Financial Summary

	(In thousands)
Operations:	
Revenues	$98,247
Deductions from revenues:	
Wages, salaries and employee benefits	24,147
Cost of materials, freight and other services	50,432
Depreciation, etc.	10,686
Interest	2,339
Taxes	4,853
Earnings	$ 5,790

LESLIE SALT CO.
Six Year Comparison of Statement of Operations

Net Sales and other income amounted to	$17,838,121
We expended for payroll, employee benefits, materials and services a total of	(13,496,263)
Other deductions were for:	
Depreciation provided on assets employed	(1,012,823)
State, local and sundry Federal taxes	(1,335,983)
Interest and charges on funded debt	(364,017)
Provision for Federal income taxes	(697,939)
The remainder represents income before equity in earnings of nonconsolidated subsidiaries and affiliates	931,096
Equity in earnings of nonconsolidated subsidiaries and affiliates	98,103
Net Income	$ 1,029,199

MONSANTO COMPANY
Financial Highlights

	(In millions)
Income:	
Net sales	$1,468.1
Interest, dividends, etc.	16.1
	1,484.2
Costs of Doing Business:	
Raw materials, fuel, supplies, etc.	751.4
Wages and salaries to employes	343.9
Depreciation, depletion, etc.	133.5
Taxes (income, property, etc.)	111.4
Interest expense	18.9
Minority interests in subsidiaries	2.1
	1,361.2
Net Income	$ 123.0

UNION BAG-CAMP PAPER CORPORATION
Distribution of the Sales Dollar

Materials & Supplies	$88,144,651	31¢
All Taxes	24,629,332	9¢
Delivery Expense	24,274,688	9¢
Other Expenses	20,775,148	7¢
Earnings Retained	12,676,195	4¢
Stockholders' Dividends	11,367,253	4¢
Depreciation and Depletion	18,264,980	6¢
Employee Payrolls	83,471,508	30¢

EMPLOYMENT COSTS—PRESENTATION

Employment costs, including salaries and wages, were presented in the income statements by only 37 of the 600 survey companies in their annual reports for 1965. Thirteen companies, which indicated such costs in their income statements, also included pension or retirement costs (*9, 10, 22, 50, 176, 246, 261, 276, 295, 304, 349, 436, 596).

Employment costs were presented by 218 other companies either in the letter to stockholders, in supplementary financial statements, or in schedules, graphs, etc.

In addition to the pension or retirement plans mentioned above, many companies referred to other employee welfare plans. These plans included the following: employee insurance plans, profit sharing plans, incentive compensation plans, savings plans, bonus plans, disability benefit plans, plans referred to only as fringe benefits, scholarship funds, contingent compensation plans, social insurance plans, and deferred compensation plans. Nineteen companies (*10, 59, 89, 111, 135, 148, 169, 188, 249, 263, 304, 349, 367, 376, 490, 546, 557, 569, 599) referred to supplemental unemployment benefit plans.

The various methods of presentation of employment costs used by the survey companies in their 1965 annual reports are summarized in Table 4.

TABLE 4: EMPLOYMENT COSTS

Presentation in Income Statement*	1965	1960	1955	1950
With single total amount for—				
A: Wages and salaries	5	6	10	13
B: Wages, salaries, and employee benefits	8	19	16	13
C: Wages and salaries together with certain unrelated costs	13	13	15	10
D: In separate section detailing employee costs	11	10	11	6
	37	48	52	42
Disclosed Elsewhere in Report*				
In notes to financial statements	—	—	3	3
E: In supplementary statements or schedules	150	154	154	151
F: In letter to stockholders	29	29	17	25
	179	183	174	179
In Graphic Presentation*				
G: With dollar amount shown	5	8	23	17
H: With dollar amount not shown	34	32	30	54
	39	40	53	71
Number of Companies				
Showing employment costs	255	271	279	292
Not showing employment costs	345	329	321	308
Total	600	600	600	600

*Refer to Company Appendix Section—A: 264, 322, 367, 537, 564; B: 50, 124, 246, 261, 471, 517, 518, 553; C: 3, 16, 22, 24, 73, 84, 189, 251, 265, 271, 536, 559, 596; D: 9, 10, 176, 183, 276, 295, 304, 318, 349, 436, 569; E: 11, 12, 17, 18, 23, 26, 30, 31, 33, 37, 40, 41, 42, 52, 53, 57, 59, 60, 68, 69, 72, 79, 87, 89, 90, 96, 97, 100, 101, 114, 117, 121, 130, 135, 139, 148, 159, 161, 162, 164, 165, 166, 169, 175, 186, 187, 188, 194, 195, 198, 200, 205, 212, 219, 220, 222, 226, 231, 232, 237, 239, 245, 247, 248, 249, 253, 256, 257, 262, 263, 266, 269, 272, 274, 280, 285, 310, 311, 316, 317, 319, 329, 330, 331, 335, 336, 343, 345, 354, 361, 362, 366, 371, 373, 381, 384, 389, 390, 393, 395, 399, 409, 416, 419, 435, 438, 439, 441, 442, 444, 445, 454, 455, 458, 459, 460, 462, 466, 467, 469, 475, 476, 478, 479, 484, 491, 492, 500, 502, 503, 510, 512, 516, 523, 531, 532, 535, 538, 541, 542, 547, 551, 552, 555, 567, 577, 586, 589, 598, 599; F: 47, 55, 85, 107, 111, 122, 140, 142, 153, 170, 260, 292, 298, 338, 344, 377, 414, 415, 440, 463, 474, 490, 501, 525, 544, 548, 557, 587, 590; G: 61, 74, 131, 214, 340; H: 8, 32, 38, 46, 51, 64, 82, 98, 157, 229, 230, 289, 305, 313, 347, 348, 353, 372, 378, 401, 420, 428, 431, 437, 453, 482, 493, 497, 504, 508, 513, 521, 524, 579.

Examples

The following examples illustrate the various presentations of employment costs found in the annual reports for 1965. Additional examples will be found immediately above, under the caption "Cost of Materials—Presentation."

Income Statement Presentation
Single Amount for Wages and Salaries

THE GRAND UNION COMPANY

Net sales	$740,039,690
Cost of sales	576,414,365
Gross profit	163,625,325
Operating and general expenses:	
Salaries and wages to employees in the sales department	67,082,269
Other selling, administrative and general expenses	76,489,625
	$143,571,894

UNITED STATES GYPSUM COMPANY

Costs and Expenses:	
Cost of products sold:	
Plant wages and salaries	$ 61,863,958
Materials, services and other costs	127,611,413
Provision for depletion and plant depreciation	10,736,889
Total	200,212,260
Selling, general and administrative expenses	43,980,366
Total Costs and Expenses	$244,192,626

*Refer to Company Appendix Section.

With Single Amount for Wages, Salaries and Employee Benefits

AMSTED INDUSTRIES INCORPORATED

Costs:	
Inventories at beginning of year	$ 24,226,541
Add—Costs incurred during year:	
Materials, supplies, services purchased, etc.	88,273,562
Wages, salaries, and company contributions for group insurance, retirement plans, unemployment insurance, old age benefits, etc.	71,503,615
Portion of cost of buildings, machinery, and equipment allocated to current operations	7,323,871
Provision for Federal taxes on income	11,000,000
Total costs incurred during year	178,101,048
	202,327,589
Deduct—Inventories at end of year	26,247,820
Costs Allocated to Year	$176,079,769

CATERPILLAR TRACTOR CO.

	(In millions)
Costs:	
Inventories brought forward from previous year	$ 319.7
Materials, supplies, services purchased, etc.	705.5
Wages, salaries and contributions for employee benefits	408.2
Depreciation (portion of original cost of buildings, machinery and equipment allocated to operations)	46.2
Interest on borrowed funds	7.2
United States and foreign taxes based on income	130.3
	1,617.1
Deduct: Inventories carried forward to following year	370.0
Costs allocated to year (1)	1,247.1
	$ 158.2

THE STANDARD OIL COMPANY (AN OHIO CORPORATION)

Costs and Expenses:	
Materials, merchandise, operating and other expenses	$368,286,565
Salaries, wages, and employee benefits	82,741,155
Taxes and other payments to governments (See page 19)	48,038,839
Depreciation of facilities	24,602,628
Depletion of oil and gas producing properties	7,049,939
Nonproductive wells and surrendered mineral leases	4,510,370
Interest expense	3,787,159
	$539,016,655

With Amount for Wages Together with Unrelated Costs

ACME MARKETS, INC.

Cost of sales and operating expenses:	
Cost of merchandise sold, including warehousing and transportation expenses	$ 924,654,622
Wages, rents, advertising, administrative and other operating expenses	200,307,298
Depreciation and amortization	11,834,037
	$1,136,795,957

DIAMOND INTERNATIONAL CORPORATION

Costs and Expenses:	
Manufacturing wages, materials, and other costs	$246,263,000
Selling and administrative expenses	30,385,000
Depreciation (Note 2)	11,425,000
Depletion	227,000
Taxes, other than income taxes	8,375,000
Interest	1,052,000
Total Costs and Expenses	$297,727,000

In Separate Section Detailing Employment Costs

CRUCIBLE STEEL COMPANY OF AMERICA

Net sales	$313,471,000
Employment costs:	
Wages and salaries	100,505,000
Social security taxes	4,624,000
Pension and retirement plans	3,138,000
Other employe benefits	8,768,000
Total	117,035,000
Raw materials, supplies, services, etc.	156,611,000
Depreciation	12,839,000
Interest and debt expense	3,145,000
State, local and miscellaneous taxes	3,087,000
Federal and foreign income taxes	10,060,000
Total	$302,777,000

GEO. A. HORMEL & COMPANY

Costs, Expenses and Taxes ($389,374,823 applicable to cost of products sold):	
Cost of products sold, selling, delivery, administrative and general expenses, exclusive of items shown separately	$350,682,928
Wage costs:	
Wages and salaries including joint earnings	70,315,470
Pension trust contributions (unfunded past service cost estimated at $26,620,000 over the next 22 years)	3,460,000
Federal and state unemployment and old age contributions	1,703,640
Group life, hospitalization and sick leave	3,138,468
	$ 78,617,578

Set Forth in Supplementary Statements or Schedules

BAKER OIL TOOLS, INC.

Distribution of the Income Dollar

$46,080,907	$1.00	Total Income
		Applied to:
18,823,545	.41	Wages, Salaries and Employee Benefits
5,959,674	.13	Materials used in products and rental services
4,187,532	.09	Supplies and Expense — Manufacturing
7,569,853	.16	Supplies and Expense — Sales and General
1,248,837	.03	Depreciation
4,514,399	.10	Taxes
1,747,110	.04	Dividends
$ 2,029,957	.04	Left to be retained in business

WEYERHAEUSER COMPANY

Highlights

Sales	$721,398,451
Net Income	$ 83,399,780
Per share	2.72*
Ratio of net income to shareholders' interest	13.2%
Dividends	$ 38,333,071
Per share	1.25
Income retained in the business	45,066,709
Depreciation and depletion	38,948,802
Additions to plants, equipment and roads	115,057,214
Purchases of timber and timberlands	7,447,247
Taxes	49,763,771
Wages and salaries, including vacations and holiday pay	225,742,974
Pensions, employe insurance and social security taxes	26,109,169

PENSION AND RETIREMENT PLANS

In 1956 the committee on accounting procedure of the American Institute of Certified Public Accountants issued *Bulletin No. 47—Accounting for Costs of Pension Plans*† in which the following discussion appears:

> 5. In the view of many, the accrual of costs under a pension plan should not necessarily be dependent on the funding arrangements provided for in the plan or governed by a strict legal interpretation of the obligations under the plan. They feel that because of the widespread adoption of pension plans and their importance as part of compensation structures, a provision for cancellation or the existence of a terminal date for a plan should not be the controlling factor in accounting for pension costs, and that for accounting purposes it is reasonable to assume in most cases that a plan, though modified or renewed (because of terminal dates) from time to time, will continue for an indefinite period. According to this view, costs based on current and future services should be systematically accrued during the expected period of active service of the covered employees, generally upon the basis of actuarial calculations. Such calculations may be made as to each employee, or as to categories of employees (by age, length of service, or rate of pay, for example), or they may be based upon an average of the expected service lives of all covered employees. These calculations, although made primarily for funding purposes, may be used also for accounting purposes. They should, of course, be revised at intervals. Also according to this view, costs based on past services should be charged off over some reasonable period, provided the allocation is made on a systematic and rational basis and does not cause distortion of the operating results in any one year.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

The 600 survey companies included 404 which indicated that there were pension or retirement plans in operation during 1965. The remaining 196 companies made no reference to the existence of such plans. Eight of the survey companies stated in their 1965 reports that they had adopted new pension plans during the year (*166, 199, 222, 428, 524, 531, 537, 566), and 54 companies stated that they had amended existing plans (*40, 80, 163, 298, 332, 394, 499, 523, 588, 596).

Twenty-seven of the companies that had referred to pension plans in their 1964 reports made no reference to such plans in their 1965 reports. Approximately 65 per cent of the plans mentioned in the 1965 reports were described as being funded or partially funded. Approximately 7 per cent of the plans were stated to be unfunded; the remaining 28 per cent gave no descriptive information.

It appears that detailed information concerning a plan is usually given by the company in the year in which the plan was originally adopted or in a year in which the plan was materially modified; however, in subsequent years the amount of such information is apt to be substantially reduced. It is for this reason that statistical comparisons between years, based upon the varying degree of disclosure of data in annual reports, would appear to be of little value, and they have therefore been omitted. Table 5 summarizes the information contained in the annual reports for 1965 with regard to the funding of pension and retirement plans by the survey companies. This tabulation also shows the manner in which the companies presented the related "current" service, "past" service, or other "pension" costs in their 1965 reports. Twenty-six per cent of the companies referring to pension or retirement plans failed to disclose the related costs in their annual reports. Eight of the companies noted that no provisions were deemed necessary in the current year due to actuarially determined estimates and/or past contributions to the funds (147, 163, 210, 215, 319, 476, 481, 560). References are given at the foot of the table to companies presenting information relating to pension plans.

Examples

The following examples illustrate the various presentations and data supplied by the survey companies in their 1965 annual reports concerning pension and retirement plans.

*Refer to Company Appendix Section.

TABLE 5: PENSION AND RETIREMENT PLANS

	†Charge to Income Set Forth for:						
	Current and Past Service Costs						
Funded or Partially Funded Plans*	Shown Combined	Shown** Separately	Current Service Costs	Pension Costs	Pension Costs With Other Expenses	Charges Not Set Forth	Total 1965 Plans
A: Current funding of current service costs with installment funding of past service costs	85	32	2	2	2	20	143
B: Current funding of current service costs with interest on past service liability	22	2	1	1	—	1	27
C: Current funding of current service costs with funding completed for past service costs	2	—	7	4	1	4	18
D: Current funding of current service costs with past service costs not to be funded or not completely funded	3	—	1	1	—	2	7
E: Basis of funding not disclosed	11	4	3	61	5	20	104
	123	38	14	69	8	47	299
F: *Unfunded plans* with related costs to be absorbed at time of retirements or as benefits are paid	4	—	2	15	3	8	32
Unidentified plans with no reference made to funding or nonfunding of related costs	—	—	—	65	17	50	132
	127	38	16	149	28	105	463
†Charge to Income Set Forth in*:							
G: Statement of income	12	2	—	36	8	—	58
H: Notes to financial statements	98	31	17	92	6	—	244
I: Supplementary schedules	—	1	—	3	4	—	8
J: Letter to stockholders or financial review	15	4	1	19	9	—	48
Charges Not Set Forth for:							
Funded pension or retirement plans	—	—	—	—	—	47	47
Unfunded pension or retirement plans	—	—	—	—	—	8	8
Unidentified pension or retirement plans	—	—	—	—	—	50	50
Total	125	38	18	150	27	105	463

Number of Companies	1965
Referring to pension or retirement plans:	
Disclosing related costs	291
Not disclosing related costs	105
Disclosing related costs of some, but not all	8
	404
Not referring to pension or retirement plans	196
Total	600

Number of Pension or Retirement Plans	1965
Adopted during year	8
Amended during year	54
Report refers to more than one plan	53
Continued as adopted in prior years	348
Total	463

*Refer to Company Appendix Section—A: 9, 12, 16, 17, 25, 33, 36, 38, 41, 43, 45, 47, 49, 63, 64, 67, 70, 71, 76, 80, 82, 84, 85, 86, 89, 92, 95, 98, 100, 109, 110, 115, 116, 122, 125, 127, 129, 131, 135, 136, 139, 141, 147, 154, 163, 177, 193, 194, 197, 203, 206, 207, 208, 211, 212, 216, 217, 223, 224, 232, 244, 245, 248, 249, 252, 257, 262, 275, 284, 285, 287, 289, 293, 295, 296, 305, 308, 310, 318, 321, 324, 327, 330, 335, 336, 342, 345, 351, 365, 369, 371, 375, 383, 386, 391, 393, 395, 405, 407, 409, 411, 425, 436, 437, 438, 440, 456, 457, 461, 478, 479, 483, 491, 495, 499, 501, 503, 505, 511, 520, 524, 527, 531, 537, 544, 546, 547, 551, 552, 559, 566, 569, 572, 589, 590, 591, 593, 594, 595; B: 2, 10, 38, 51, 77, 148, 154, 169, 188, 204, 236, 251, 265, 276, 306, 313, 318, 349, 382, 394, 416, 450, 469, 483, 484, 490, 588; C: 23, 180, 193, 237, 241, 256, 258, 267, 275, 294, 394, 402, 412, 432, 444, 535, 552, 565; D: 16, 186, 199, 438, 457, 489; E: 11, 21, 22, 23, 40, 42, 59, 62, 69, 90, 96, 104, 111, 113, 118, 119, 124, 130, 148, 149, 150, 155, 162, 165, 166, 167, 172, 176, 183, 187, 200, 201, 205, 210, 214, 215, 219, 220, 221, 239, 246, 247, 254, 260, 266, 272, 278, 300, 301, 304, 314, 319, 323, 325, 326, 329, 338, 341, 352, 353, 355, 356, 357, 359, 367, 380, 388, 404, 414, 420, 428, 441, 442, 446, 451, 458, 462, 463, 467, 476, 480, 481, 510, 515, 517, 521, 523, 530, 533, 536, 542, 543, 549, 557, 563, 567, 568, 570, 574, 577, 583, 587, 596; F: 3, 51, 62, 99, 100, 138, 145, 216, 251, 259, 301, 308, 326, 327, 336, 349, 405, 432, 443, 458, 467, 483, 484, 505, 507, 512, 548, 559, 567, 572, 577, 594; G: 47, 50, 111, 195, 212, 232, 361, 389, 439, 493, 581, 600; H: 10, 90, 100, 130, 201, 293, 324, 345, 440, 484, 546, 595; I: 121, 164, 253, 266, 310, 362, 390, 518; J: 31, 55, 149, 162, 305, 391, 412, 462, 567, 589.

**Includes those in which the past service costs are shown somewhere in the report even though the combined cost may have appeared in the income statement.

FUNDED OR PARTIALLY FUNDED PLANS

Current Funding of Current Service Costs with Installment Funding of Past Service Costs

BEATRICE FOODS CO.
Notes to Financial Statements

Note 7: *Pension Plans*—The amounts charged to earnings under the retirement income program for salaried employees and other company pension plans totaled $1,392,177.85 during the year ended February 28, 1965, and $1,233,721.95 for the preceding fiscal year. Such amounts include contributions applicable to past services. The past service liability not funded or otherwise provided for in the accounts is estimated to be approximately $5,700,000.00 at February 28, 1965. It is expected that the major portion of this liability will be paid, or provided for over a period of approximately twenty years.

H. C. BOHACK CO. INC.
Notes to Financial Statements

Note 6: Effective February 1, 1960, H. C. Bohack Co., Inc. adopted . . ., a non-contributory retirement plan for those eligible employees not covered by various union plans at a cost for the current year of approximately $105,000. The unfunded past service liability at January 30, 1965, was estimated by the insurance company at approximately $1,380,877 and it is believed this amount will be amortized in 90 years. Costs for the year for union plans amounted to approximately $589,000 based on agreed rates as specified in applicable labor agreements.

ELASTIC STOP NUT CORPORATION OF AMERICA
Notes to Financial Statements

Note 6: *Retirement Plans*—The Company has qualified pension plans covering employees of the Company and its consolidated subsidiaries.

At November 30, 1965, the amount of unfunded past service benefits amounted to about $183,180. The cost of the Retirement Plans for the year then ended was $677,178.

THE HOBART MANUFACTURING COMPANY
Notes to Financial Statements

Note 2: The liability for the unfunded past service costs of pension plans, on a continuing basis, was computed from estimates by actuaries to be $3,200,000 at December 31, 1965; and the minimum annual contribution, before allowance for excess contributions, for past and current service combined is estimated at $815,000.

KAISER ALUMINUM & CHEMICAL CORPORATION
Notes to Financial Statements

Note 7: *Commitments and Contingencies*—Costs of various voluntary and negotiated (contributory and non-contributory) retirement plans for salaried and hourly employees have been charged to operations. The Corporation has funded or is funding past-service costs of retirement plans over twenty-year periods. The unfunded portion of past-service benefits, as computed by actuaries, was $16,000,000 at December 31, 1965.

LESLIE SALT CO.
Notes to Financial Statements

Note 7: The single sum liability for past-service costs under the retirement plan was estimated by consulting actuaries to be $652,597 as of June 30, 1965. The Company is funding these costs over a period of approximately thirty years. The plan may be modified or terminated at any time at the option of the Company. In addition to contributions to the funded retirement plan, the Company makes payments to certain retired employees under informal retirement arrangements or employment agreements.

THE NEW YORK AIR BRAKE COMPANY
Notes to Financial Statements

Note B: Charges to income for costs incurred under approved pension plans (modified in 1965 to provide increased coverage and benefits) for salaried and certain union employees amounted to $975,266 for 1965 and $678,656 for 1964, of which $475,000 and $267,000 respectively were applicable to past service cost. At December 31, 1965 the unfunded past service cost of these plans actuarially computed was approximately $9,100,000, which is being amortized over 30 years from the effective dates of the plans.

Current Funding of Current Service Costs with Interest on Past Service Liability

AMERICAN OPTICAL COMPANY
Notes to Financial Statements

Note 7: *Pension Plans*—Pension plan costs charged to 1965 operations amounted to $2,370,112. The trusteed contributory pension plan for salaried employees provides for complete funding of benefits by the employee's normal retirement date. The cost of the partially funded plan for weekly payroll employees includes the full cost of current service and 3½% interest on the unfunded past service liability. Past service costs charged to operations in 1964 and 1965 amounted to $400,000 and $600,000 respectively. Unfunded past service liability is estimated to be $6,500,000.

BASIC PRODUCTS CORPORATION
Notes to Financial Statements

Note 5: Contributions to the employee pension plans have been charged to income as follows: 1965, $639,469; 1964, $667,050. The contribution in 1965 is based on an actuarial computation to provide for current service costs plus interest on past service costs. In 1964 the contribution was on the same basis except that a $100,000 prepayment was applied to reduce unfunded past service costs, although the Corporation is not committed to a prepayment of such costs. Based on an actuarial computation, the unfunded past service costs at July 31, 1965 approximate $5,300,000.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION
Notes to Financial Statements

Note 6: *Pension Plans*—The Company and its subsidiaries contributed $3,374,000 in 1965 and $4,051,000 in 1964 to their several domestic pension plan funds. These amounts were sufficient to cover current service costs (except for one plan which was fully funded) and interest on any unfunded past service costs, all as determined by an independent actuary. Unfunded past service costs amounted to approximately $19,800,000 at December 31, 1965. The reduction in amounts contributed in 1965 results primarily from the sale of a division and changes in actuarial assumptions to approximate more closely actual experience in the funds, offset in part by liberalization of benefits under certain of the plans.

PULLMAN INCORPORATED
Notes to Financial Statements

Note 5: *Funded Pension Plans*—Costs of funded pension plans for 1965 and 1964 include provisions for contributions to pension trusts for current service costs and for interest on unfunded past service costs, plus $500,000 each year toward funding past service liabilities (estimated by the actuary to be $17,800,000 at December 31, 1965).

WEST VIRGINIA PULP AND PAPER COMPANY
Notes to Financial Statements

Note F: Employee retirement benefits are provided for under funded salaried and hourly-paid retirement plans. During 1965 benefits under certain plans were increased and as a result the actuarially estimated unfunded past service costs of the Company's retirement plans at October 31, 1965 increased to $2,727,000. The cost of these plans for the year was $1,693,000 (1964—$1,484,000) which amount represents principally the actuarially computed current costs of the plans and interest on past service costs.

Current Funding of Current Service Costs with Funding Completed for Past Service Costs

OLIN MATHIESON CHEMICAL CORPORATION
Financial Review

Pension and Retirement Plans: During the year we arranged for an extensive actuarial review of our non-contributory pension and retirement plans. The actuaries advised that changes in actuarial assumption were warranted. A revision in the valuation interest assumption had the effect of eliminating the separate recognition of past service liability. Contributions charged to income in 1965 for current service costs were $6,720,000, compared with $7,643,000 in 1964 for current service costs and interest on unfunded past service costs. To date funds of approximately $145,000,000 have been accumulated with independent trustees.

GENERAL BOX COMPANY
Notes to Financial Statements

Note 3: *Pensions*—Contributions are made annually under the Company's formal pension plan in amounts sufficient to fund all current costs and all past service costs have been fully funded. The Company also makes supplementary payments to certain pensioners which are charged against income as paid. The net cost after income taxes of such payments was approximately $25,600 in 1965, and $22,700 in 1964.

PHELPS DODGE CORPORATION
Notes to Financial Statements

Note D: *Retirement and Pension, Etc., Plans*—The Corporation has certain retirement, pension, and supplemental benefit plans for its employees. Most of the plans are fully funded in trust funds from which benefits are paid. The benefits under one plan are paid directly by the Corporation and the unaccrued balance of past service cost at December 31, 1965, net of the related estimated future income tax benefits, amounted to $1,145,000.

There has been charged against income $4,400,000 in 1965 and $3,940,000 in 1964 for these plans.

U. S. INDUSTRIES, INC.
Notes to Financial Statements

Note 1: *Pension and Retirement Plans*—The Company has several pension and retirement plans under which the majority of the employees of its several divisions are entitled to benefits. Most of the plans provide for contributions by employees and contributions by the Company are in part based upon profits. The amount charged to income in respect of all plans during the year ended December 31, 1965, was approximately $474,000. There was no material amount of unfunded past service costs at December 31, 1965.

Current Funding of Current Service Costs with Past Service Costs Not to Be Funded or Not Completely Funded

DEERE & COMPANY
Operations Review

Employment (in part): Employees in the United States and Canada are covered by a noncontributory pension plan first adopted in 1908. Approximately 3,500 of the 5,800 employees who have retired under the plan still are receiving pensions. Past service costs of this plan which have not been funded or provided for in the reserve for pensions were approximately $42.7 million on October 31, 1965, and $43.4 million on October 31, 1964. All contractual funding requirements have been fulfilled. Under this plan $15.2 million and $16.3 million were paid to pension trusts and pensioned employees in 1965 and 1964 respectively.

Pension plans, either government or private, also are in effect for employees in other countries.

THE DUPLAN CORPORATION
Notes to Financial Statements

Note 6: In fiscal 1965, the Company adopted a new group retirement annuity plan and extended benefits under an existing plan. At September 30, 1965, the two plans, which provide for the purchase of annuities for participants at their retirement date, were unfunded as to past service costs of approximately $130,000. Because of substantial actuarial gains, no contributions had been required for the old plan for several years. At September 30, 1965, accumulated fund credits of $160,000 were available to be applied towards the cost of funding both plans. Present service costs of the plans approximate $62,000.

THE RATH PACKING COMPANY
Notes to Financial Statements

Net costs charged to operations for pension plans of the Company for the year 1964 are after credits availed of for excess contributions to the Plans in prior years and for 1965 are after an adjustment to adopt the level cost method of reporting pension plan costs and to record liabilities under such method for fiscal 1965. Current level costs under present agreements covering the Plans before credits for actuarial gains and charges for amortization of the unfunded liability of the retirement plan are estimated to approximate $1,717,000. Actuarial gains taken into account in 1965 were $162,000.

Unfunded Plans

THE ANACONDA COMPANY
Notes to Financial Statements

Note 1: *Retirement Plans*—Employee retirement benefits are provided for under funded noncontributory retirement plans. In 1965 the cost of these plans, which represents principally the actuarially computed current costs of the plans and interest on past service costs, together with unfunded payments to other employees not covered by the plans, amounted to $13,295,890. Unfunded past service costs of the plans at December 31, 1965 approximated $115,000,000.

GENERAL REFRACTORIES COMPANY
Notes to Financial Statements

Note 6: *Retirement Plans*—Unfunded past service costs under the parent company's retirement plans for eligible salaried and hourly rated employees were actuarially determined to be approximately $9,700,000 at December 31, 1965. The amount of pension costs incurred under these plans, and charged to income for the years 1965 and 1964 aggregated $748,800 and $477,300, respectively, which is substantially equivalent to current service costs and, for the year 1965, certain past service costs. No charge to income was made for past service costs except as mentioned above and for interest thereon paid through application of actuarial credits.

Various retirement plans are also in effect for employees of certain foreign subsidiaries. Except for the Canadian subsidiary, none of these plans is funded, but provision is made annually for estimated current and past service liabilities. The amount of pension costs incurred under the plans of such foreign companies and charged against income, amounted to $846,600 in 1965 and $921,500 in 1964.

GIMBEL BROTHERS, INC.
Notes to Financial Statements

Note 6: The Company has a non-contributory pension plan. The financial statements reflect accruals equal to the present worth, net of taxes, of its existing pension commitments. The total charge for the year ended January 31, 1965 was $255,000 after giving effect to applicable tax credits. The Company is not making any provision for insuring or funding the plan or any benefits thereunder but it may at its option make such arrangements in the future. The total amount which would have been necessary to fund the plan as of February 1, 1965 with respect to past services is estimated at $11,000,000, and the estimated cost for current services for the year ended January 31, 1965 would have been, on an actuarial basis, $375,000 net of taxes. The Company reserves the right to amend, modify or terminate the plan.

REYNOLDS METALS COMPANY
Notes to Financial Statements

Note E: *Retirement and Pension Plans*—The Company has retirement plans for salaried employees which may be amended or terminated at any time, and if terminated no contributions will thereafter be required. The cost of the plans charged against 1965 consolidated income was approximately $3,100,000. Based on actuarial estimates, the unfunded liability for past service benefits was approximately $19,300,000 at December 31, 1965.

Under current agreements, the Company also has pension plans for hourly employees which are not being funded; however, the actuarially computed liability to employees who have retired or who were eligible to retire as of December 31, 1965, in the amount of $14,177,250 has been recognized in the accounts. The cost of the plans charged against 1965 consolidated income was approximately $4,700,000. Based on actuarial estimates, the cost of funding past service benefits at December 31, 1965, would have amounted to approximately $52,500,000, including the aforementioned $14,177,250.

No Provision Deemed Necessary in the Current Year

COLONIAL STORES INCORPORATED
Notes to Financial Statements

Note 6: *Retirement Plan for Employees*—The company has in effect a non-contributory pension plan for the benefit of eligible employees. At January 1, 1966 all past and current service liabilities, determined on an actuarial basis, were fully funded by assets in a trust fund. In 1965, as in the prior year, no contribution or charge to operating expenses was made because the contribution requirements were offset by gains of the trust and by realized experience.

DEPLETION

Annual Charge

An annual charge for depletion was disclosed by 116 of the survey companies in their 1965 reports. An additional 4 companies presented accumulated depletion accounts in their balance sheets but made no reference to an annual depletion charge in the income statements (*9, 90, 241, 449). The most common presentation by those companies which revealed an annual charge for depletion in the income statement was to show it in combination with depreciation or with depreciation and amortization. See this section, Table 6.

TABLE 6: DEPLETION—ANNUAL CHARGE

Presentation in Income Statement*	1965	1960	1955	1950
Listed among other costs with single total amount for—				
A: Depletion	9	13	16	24
B: Depletion and depreciation	44	39	32	35
C: Depletion, amortization, and depreciation	23	30	30	12
Depletion and amortization	—	1	4	4
D: *Combined with other costs or expenses*	11	6	1	—
E: *Disclosed within income statement in note or schedule*	3	7	6	2
F: *Disclosed at foot of income statement* in note or schedule	10	13	13	14
	100	109	102	91
Disclosed Elsewhere in Annual Report*				
G: In notes to financial statements**	6	9	5	12
H: In letter to stockholders, financial review, or supplementary schedules	8	—	1	1
I: *Depletion not deducted from net income*	2	2	2	2
	16	11	8	15
Number of Companies Referring to				
Annual depletion charge	116	120	110	106
Accumulated depletion but not referring to annual depletion charge	4	6	7	8
Not referring to depletion	480	474	483	486
Total	600	600	600	600

*Refer to Company Appendix Section—A: 44, 118, 159, 173, 189, 309, 432, 478, 518; B: 17, 18, 35, 47, 56, 75, 76, 140, 148, 162, 180, 195, 217, 251, 255, 268, 276, 310, 318, 321, 330, 335, 347, 354, 370, 399, 417, 422, 441, 453, 463, 471, 475, 495, 519, 532, 544, 551, 552, 564, 569, 588, 589, 599; C: 12, 28, 125, 153, 164, 202, 296, 304, 306, 315, 357, 396, 412, 443, 490, 500, 502, 505, 515, 534, 538, 553, 568; D: 20, 26, 65, 68, 136, 272, 435, 492, 516, 517, 531; E: 291, 395, 447; F: 175, 229, 260, 338, 433, 459, 467, 479, 482, 566; G: 51, 100, 245, 298, 316, 329; H: 63, 130, 160, 230, 358, 381, 416, 545; I: 326, 561.
**Includes one company (*51) with depletion of timberlands and phosphate and gravel deposits, but no depletion of metal mines.

Method

Of the companies which disclosed either an annual charge for depletion or accumulated depletion, 113 companies made no reference to the method or basis used in the determination of the amount provided. Seven companies disclosed both basis and method used for computing depletion, of which three companies indicated use of the unit-of-production method (*118, 432, 544), while three companies indicated use of the cost method (*51, 335, 531), and one used the cost method on properties located in one area and the unit-of-production method on all other productive properties (*20).

Eleven companies indicated use of the percentage method for tax purposes (*17, 51, 231, 251, 309, 318, 326, 396, 432, 443, 531).

Three companies (*51, 326, 561) reported net income for the year for financial statement purposes, "without deduction for depletion" of metal mines.

The treatment of intangible drilling and/or development costs, or exploration costs, was discussed by approximately 28 per cent of the survey companies which referred to depletion in their reports. Examples of capitalization of such costs are cited in connection with Intangible Assets in Section 2, Table 23.

Examples

Examples showing the charges to income are included among those shown below which illustrate the methods used to disclose depletion in the accounts.

Presentation in the Income Statement

BARBER OIL CORPORATION

Costs and Expenses:	
Operating expenses	$ 6,881,959
Cost of sales	962,320
Administrative and general expenses	1,588,539
Interest on ship mortgages payable	414,527
Provision for depreciation and depletion	1,745,341
	$11,592,686

COMMERCIAL SOLVENTS CORPORATION

Costs and Expenses:	
Cost of sales	$63,082,474
Selling, research and administrative expenses	11,074,222
Depreciation, depletion and amortization	5,122,853
Interest on borrowings	997,753
	$80,277,302

*Refer to Company Appendix Section.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

Operating Costs and Expenses:	
Cost of goods sold	$175,338,780
Depreciation	11,891,791
Depletion	1,186,868
Selling and administrative expenses	45,848,600
	$234,266,039

JIM WALTER CORPORATION

Costs and Expenses:	
Cost of sales	$108,421,521
Depreciation, depletion and amortization	5,263,674
Selling, general and administrative	24,773,646
Provision for possible losses	1,575,543
Interest	8,960,275
	$148,994,659

NATIONAL GYPSUM COMPANY

Deductions from Income (Including depreciation and depletion: 1965, $17,762,491; 1964, $17,001,596):	
Cost of products sold	$190,557,402
Selling, administrative and general expenses	35,025,985
Interest on long-term debt	788,747
Sundry	1,406,170
	$227,778,304

PEABODY COAL COMPANY

Income Before Depreciation, Depletion and Income Taxes	$51,156,968
Provision for depreciation and depletion	19,195,264
Income Before Income Taxes	31,961,704
Provision for income taxes (Note 1)	9,461,000
Net Income	$22,500,704

PHILLIPS PETROLEUM COMPANY

Costs and Expenses:	
Cost of sales and services	$ 942,320,000
Selling, general, and administrative expense	166,863,000
Depreciation, depletion, and retirements	140,883,000
Interest and expense on indebtedness	15,014,000
Taxes other than income taxes	33,754,000
Provision for income taxes	38,160,000
	$1,336,994,000

Presentation at Foot of Income Statement

PHILADELPHIA AND READING CORPORATION

Depreciation, depletion and amortization charged to costs and expenses amounted to $6,174,000 in 1965 and $3,143,000 in 1964.

UNITED STATES PLYWOOD CORPORATION

Costs and expenses above include depreciation and depletion of $20,547,292 in 1965 and $13,028,965 in 1964.

Set Forth in Notes to Financial Statements

KIMBERLY-CLARK CORPORATION

Note 6: Depreciation, Depletion, and Deferred Income Taxes—Provisions for depreciation and depletion charged against earnings during the years ended April 30, 1965 and 1964 were $20,811,000 and $20,810,000, respectively. Additional depreciation based on different methods and rates is claimed for income tax purposes. Reductions in current income tax liabilities resulting from the net excess of tax over book depreciation are charged against earnings and credited to deferred income taxes.

GENERAL DYNAMICS CORPORATION

Note 6: Properties—Property, plant and equipment at December 31, 1965, includes land of $28,675,067. The provisions for depreciation, amortization and depletion charged to cost aggregated $30,711,981 in 1965 and $32,162,020 in 1964.

Set Forth in Financial Review or Elsewhere in Report

CONTAINER CORPORATION OF AMERICA
Source and Application of Funds

Funds were provided from the following sources:	
Earnings for the year	$27,301,000
Provision for depreciation and depletion	18,454,000
Increase in deferred income taxes and other liabilities	4,027,000
Increase in long-term debt	1,744,000
Proceeds from exercise of stock options	1,400,000
Other	1,346,000
Total Funds Provided	$54,272,000

MONSANTO COMPANY
Financial Review

Charges against income for depreciation, obsolescence and depletion amounted to $133,485,000, of which $129,644,000 was depreciation and obsolescence and $3,841,000 depletion. In 1964, such charges were $116,596,000 and $3,672,000.

Depletion on Certain Properties Not Deducted from Net Income

THE ANACONDA COMPANY
Notes to Financial Statements

Note E: Property, Plant and Equipment—The Company and its subsidiaries have consistently followed the practice of publishing their accounts without deduction for depletion of metal mines, and no such deduction is included in these financial statements. The Company is advised by counsel that such procedure is in accordance with legal requirements. Statutory depletion is deducted in arriving at income subject to taxation.

Depletion based on cost of timberlands and phosphate and gravel deposits has been deducted from income and also from the cost basis shown in the financial statements.

DEPRECIATION

Annual Charge

Depreciation was disclosed by all 600 survey companies. However, three companies (*192, 213, 423) made this disclosure only to the extent that the report showed accumulated depreciation in the balance sheet or in a supplementary schedule. Of the remaining 597 companies, 453 presented the annual charge for depreciation in the income statement, and 144 companies indicated the annual charge for depreciation either in the notes to financial statements or in the letter to the stockholders.

Table 7 summarizes the manner in which the annual charge for depreciation was treated by the survey companies in their 1965 published reports.

*Refer to Company Appendix Section.

TABLE 7: DEPRECIATION—ANNUAL CHARGE

Presentation in Income Statement*	1965	1960	1955	1950
Listed among other costs with single total amount for—				
A: Depreciation	140	145	159	237
B: Depreciation and amortization	79	105	124	68
C: Depreciation, amortization, and depletion	23	30	30	12
D: Depreciation and depletion	44	39	32	35
E: Depreciation and related costs	16	7	3	2
F: *Segregated within income statement* in note or schedule	50	57	38	18
G: *Presented at foot of income statement* in note or schedule	101	107	92	114
	453	490	478	486
Disclosed Elsewhere in Annual Report*				
H: In notes to financial statements or in supplementary schedules	136	89	82	66
I: In letter to stockholders	8	9	15	17
	144	98	97	83
Number of Companies Referring to				
Annual depreciation charge	597	588	575	569
Accumulated depreciation but not referring to annual depreciation charge	3	12	25	31
Total	600	600	600	600

*Refer to Company Appendix Section—A: 7, 70, 135, 183, 232, 273, 337, 384, 442, 485, 571, 592; B: 15, 38, 127, 190, 240, 293, 346, 360, 427, 488, 550, 583; C: 12, 28, 125, 164, 202, 296, 304, 396, 443, 490, 500, 515; D: 17, 76, 148, 180, 251, 276, 321, 370, 422, 475, 532, 589; E: 20, 65, 136, 200, 249, 272, 322, 435, 463, 508, 531; F: 19, 87, 150, 177, 257, 284, 345, 377, 395, 402, 447, 543, 580; G: 6, 92, 117, 167, 223, 289, 336, 379, 419, 481, 522, 579; H: 57, 96, 126, 154, 234, 258, 316, 374, 444, 497, 504, 574; I: 53, 230, 308, 367, 381, 440, 501, 576.

Method

The Internal Revenue Code of 1954 permits corporate taxpayers under certain circumstances to use as alternatives to straight-line depreciation other methods of depreciation such as:

1. Double declining-balance depreciation,
2. The sum-of-the-years-digits method, or
3. Any other consistent depreciation method which would not give an aggregate depreciation write-off at the end of the first 2/3rds of the useful life of the property any larger than under the double declining-balance method.

The taxpayer may use different methods, provided he is consistent, for different assets or classes of assets. The alternative methods apply to property additions after December 31, 1953.

In July, 1958, the committee on accounting procedure of the American Institute of Certified Public Accountants issued *Accounting Research Bulletin No. 44 (Revised)—Declining-balance Depreciation*† which discusses the problems to be considered and the need for accounting recognition for such changes in methods. Among other things this bulletin states in part:

> When a change to the declining-balance method is made for general accounting purposes, and depreciation is a significant factor in the determination of net income, the change in method, including the effect thereof, should be disclosed in the year in which the change is made.
>
> There may be situations in which the declining-balance method is adopted for income-tax purposes but other appropriate methods are used for financial accounting purposes. In such cases, accounting recognition should be given to deferred income taxes if the amounts thereof are material. . . .
>
> Where it may reasonably be presumed that the accumulative difference between taxable income and financial income will continue for a long or indefinite period, it is alternatively appropriate, instead of crediting a deferred tax account, to recognize the related tax effect as additional amortization or depreciation applicable to such assets in recognition of the loss of future deductibility for income tax purposes.

Of the 600 survey companies, 180 described in their 1965 reports the method of depreciation used, including, after 1961, the use of guideline lives. This information is presented in the adjoining tabulation.

Company Reference Numbers to Adjoining Tabulation

*Refer to Company Appendix Section—A-1: 18, 102, 125, 142, 229, 248, 467; A-2: 181; A-3: 80; B: 51, 544; C-1: 432, 561; C-2: 218; D-1: 338; D-2: 129, 198, 303, 342; D-3: 227; D-4: 3, 69; D-5: 187, 273, 305; E-1: 124, 230; E-2: 156; F-1: 487; F-2: 522; F-3: 304; F-4: 107, 364; G-1: 34, 193, 590; G-2: 114, 135, 197, 212, 302, 337, 357, 430; G-3: 7, 8, 23, 43, 47, 109, 131, 222, 233, 239, 243, 260, 291, 298, 331, 360, 519, 585, 597; G-4: 319; G-5: 14, 15, 23, 33, 40, 48, 57, 67, 70, 100, 121, 134, 138, 184, 238, 245, 251, 259, 285, 293, 297, 352, 371, 382, 387, 403, 453, 455, 459, 488, 490, 506, 542, 562, 581, 595; G-6: 45, 77, 98, 130, 166, 171, 228, 244, 254, 269, 366, 405, 416, 474, 549, 551; G-7: 78, 122, 162, 189, 266, 394, 412, 449, 465, 475, 567, 575, 588, 594; G-8: 343; G-9: 508; G-10: 89, 349, 458, 523, 569, 599; G-11: 17, 55, 85, 112, 113, 139, 140, 157, 159, 169, 176, 201, 211, 246, 249, 313, 330, 395, 396, 422, 433, 568; G-12: 321; G-13: 370; G-14: 381; G-15: 576; G-16: 147; G-17: 207; G-18: 265; G-19: 454; G-20: 20, 531, 536, 589; G-21: 118; G-22: 91; G-23: 414; G-24: 478; G-25: 479; G-26: 556; G-27: 471.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

DEPRECIATION METHODS

Method Adopted*	Number of Companies
A: Straight-line methods (9 companies):	
1: Straight-line method for book purposes—other methods for tax purposes	7
2: Straight-line composite method used for tax purposes—straight-line year-of-acquisition method used for book purposes	1
3: Straight-line method for book purposes—guideline lives for tax purposes	1
B: Unit-of-production method used for book and tax purposes	2
C: Straight-line and other methods (3 companies):	
1: Straight-line and unit-of-production methods used for tax purposes	2
2: Straight-line and declining-balance methods used subsequent to 1962 for book purposes—methods used for tax purposes not disclosed	1
D: Accelerated methods (11 companies):	
1: Normal and accelerated depreciation separately stated	1
2: Accelerated methods (not disclosed) and guideline lives used for book and tax purposes	4
3: Depreciation related to rental value on applicable properties used for book purposes in addition to tax depreciation allowed	1
4: Accelerated methods (not disclosed) used for tax purposes—other methods (principally straight-line) used for book purposes	2
5: Accelerated methods and shorter lives used for tax purposes—methods used for book purposes not disclosed	3
E: Sum-of-the-years-digits method (3 companies):	
1: Used in conjunction with guideline lives for book and tax purposes	2
2: Used for book and tax purposes	1
F: Straight-line method used on assets acquired prior to January 1, 1954; on assets acquired thereafter (5 companies):	
1: Straight-line method on used assets—sum-of-the-years-digits method and guideline lives on new assets used for book and tax purposes	1
2: Straight-line and declining balance methods used for book and tax purposes	1
3: Used guideline lives on assets acquired during 1962 and subsequent years and accelerated methods for property additions since 1958 and straight-line method on a sliding scale for assets acquired prior to 1954	1
4: Declining-balance method and guideline lives used for tax purposes—straight-line method for book purposes	2
G: Other methods (147 companies):	
1: Double-declining balance method for tax purposes—straight-line method for book purposes	3
2: Accelerated methods (not disclosed) used for book and tax purposes	8
3: Accelerated methods (not disclosed) and guideline lives used for tax purposes—method not disclosed for book purposes	19
4: Declining-balance method used for book and tax purposes	1
5: Accelerated methods used for tax purposes—methods used for book purposes not disclosed	37
6: Straight-line method used for book purposes—accelerated methods (not disclosed) used for tax purposes	16
7: Straight-line method used for book purposes—guideline lives and accelerated methods used for tax purposes	14
8: Class-composite method for tax purposes—other methods (not disclosed) used for book purposes	1
9: Five-year sum-of-the-years-digits method used for new rental equipment for both tax and book purposes	1
10: Guideline lives used for book and tax purposes	6
11: Guideline lives used for tax purposes only	22
12: For book purposes, double-declining balance and straight-line methods for 1965 property acquisitions at rates based upon estimated useful lives—for tax purposes amortization of assets acquired under certificates of necessity and depreciation on property by methods and class lives established by U.S. Treasury Department	1
13: Sum-of-the-years-digits method used for book purposes—other methods (not disclosed) used for tax purposes	1
14: Sum-of-the-years-digits method used on most new assets acquired since 1954 for book and tax purposes—guideline lives adopted for tax purposes only in 1962	1
15: Sum-of-the-years-digits or equivalent accelerated methods used for book and tax purposes	1
16: Straight-line method used since 1954 for book purposes—accelerated methods used for tax purposes	1
17: After December 31, 1953, double-declining balance and straight-line methods used for book and tax purposes—guideline lives used beginning in 1962 for tax purposes only	1
18: Extra depreciation or obsolescence charges in addition to normal depreciation charge	1
19: Straight-line method used on plant and equipment acquired prior to 1954 and standard manufacturing facilities acquired in 1954 and subsequent years—depreciation of other more specialized facilities acquired since 1953 computed on accelerated methods—guideline lives used for tax purposes only	1
20: Straight-line method used for book and tax purposes	4
21: Unit-of-production method used for mining equipment and related facilities and straight-line method for other plant and equipment for book purposes—method used for tax purposes not disclosed, but differs, resulting in income taxes deferred	1
22: Straight-line and 150% declining-balance methods used for book purposes—accelerated methods and guideline lives for tax purposes	1
23: Straight-line method used for book purposes—accelerated methods (not disclosed) used by a subsidiary	1
24: Partly, declining balance method used for tax purposes—straight-line method used for book purposes	1
25: Since 1954, sum-of-the-years-digits method and, since 1961, guideline lives used for tax purposes and also for book purposes until 1965 when straight-line method and shorter lives were adopted for book purposes	1
26: Straight-line method used prior to 1954, and accelerated methods used since 1953 using composite rates based on guideline lives since 1961, used for book and tax purposes	1
27: Straight-line method used for book purposes; Double-declining balance method and guideline lives for tax purposes	1
Total number of disclosures of depreciation methods in 1965 annual reports	180

*See preceding page for Reference to Company Numbers.

Yearly comparisons as to the number of companies using certain methods of depreciation could not be made as it appears that companies often disclose new methods adopted during the year but thereafter make no further reference thereto.

Selected examples from current annual reports of the various depreciation methods used are given below. Refer also to the comments later in this section under the caption "Allocation of Income Taxes," and to examples given in Section 2 in connection with "Tax Reserves."

Straight-Line Method for Book Purposes, Accelerated Methods for Tax Purposes

ALUMINUM COMPANY OF AMERICA
Notes to Financial Statements

Note C: The sum-of-the-years-digits depreciation method has generally been used since January 1, 1954. Effective January 1, 1965, the Company adopted for accounting purposes, the straight-line method of computing depreciation for the majority of 1965 additions to properties, plants and equipment. This change had no material effect on net income for 1965.

Straight-Line Composite Method Used for Tax Purposes, Straight-Line Year-of-Acquisition Method Used for Book Purposes

CURTISS-WRIGHT CORPORATION
Notes to Financial Statements

Note 4: In 1965, for financial reporting purposes, the Corporation retroactively changed its method of computing depreciation on certain categories of plant and equipment from a straight-line composite basis to a straight-line year of acquisition basis while retaining the straight-line composite basis for income tax purposes, and made provision at current rates for the related deferred federal income taxes. These changes had the effect of increasing net income for the year ended December 31, 1965 by approximately $365,000. The effect of such changes applicable to the years 1964 and 1963 is shown as a special credit in the consolidated statement of income for the year ended December 31, 1965.

Unit-of-Production Method for Book and Tax Purposes

TIDEWATER OIL COMPANY
Notes to Financial Statements

Depreciation and depletion of the cost of developed oil properties, including intangible drilling costs, are provided for on a unit of production basis. Exploration and dry-hole costs are charged currently against income.

Straight-Line and Unit-of-Production Methods Used for Book and Tax Purposes

UNITED PARK CITY MINES COMPANY
Notes to Financial Statements

Note A (in part): Depreciation of mine and mill buildings, equipment and office furniture and equipment is calculated on the unit-of-production method, by which method the cost of these depreciable mining assets is written off over the calculated productive life of the mine.

Depreciation of recreational resort buildings and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

Normal and Accelerated Depreciation Separately Stated

LIBBEY-OWENS-FORD GLASS COMPANY
The Year's Review

Plants: Normal depreciation charged against earnings during the year amounted to $9,213,831 and accelerated depreciation for the first nine months of the year amounted to $5,787,517, for a total of $15,001,348. Effective October 1, 1965, the Company's directors terminated the policy of charging special accelerated depreciation against earnings. This had been at the rate of 10 percent per year for the first four years of an asset life. The elimination of accelerated depreciation for the period October 1 to December 31, 1965, increased profits by approximately 18¢ per share.

For tax purposes the Company, beginning in 1962, adopted the new depreciation rules permitted by the Internal Revenue Service. The 1965 depreciation for tax purposes was approximately $1,750,000 greater than the depreciation charged against published earnings and such greater amount is the equivalent of 17¢ per share.

Notes to Financial Statements

Note A: *Accelerated Depreciation Policy*—Commencing October 1, 1965, the Company discontinued its policy of providing accelerated depreciation on new facilities. The effect of this change was to increase net earnings for the year by $1,923,219.41.

Accelerated Methods (Not Disclosed) and Guideline Lives Used for Book and Tax Purposes

DREXEL ENTERPRISES, INC.
Financial Review

Depreciation recorded on the records of the Company both for purposes of determining operating results and taxable income represents the maximum allowable deduction as provided under existing Federal Income Tax Laws. All assets acquired after 1953 have been depreciated using accelerated rates, and beginning in 1962 the Company has availed itself of the shorter guideline lives permitted for machinery and equipment.

Accelerated Methods Not Disclosed Used for Tax Purposes, Other Methods (Principally Straight-Line) Used for Book Purposes

ACME MARKETS, INC.
Notes to Financial Statements

Note 3: *Deferred Income Taxes*—Depreciation charged to earnings for financial statement purposes is generally computed using the straight-line method applied to individual property items; however, for income tax purposes depreciation claimed is substantially greater as it is computed by accelerated methods applied to composite groupings of assets. Provision has been made for deferred income taxes ($1,786,400 in 1965 and $1,378,749 in 1964) which will be payable when depreciation for financial statement purposes exceeds depreciation deductible for income tax purposes.

Straight-Line Method Used on Pre-January 1, 1954 Acquired Assets, On Post-January 1, 1954 Acquired Assets: Straight-Line and Declining-Balance Methods Used for Book and Tax Purposes

STANRAY CORPORATION
Notes to Financial Statements

Note A: *Change in Method of Accounting for Depreciation*—Prior to 1965, the Company recorded depreciation on equipment additions since 1954 on the double-declining method except at the Stanray Pacific division where the straight-line method was followed.

In 1965, the Company adopted the straight-line method of depreciation for all equipment additions. The effect of the change in accounting for depreciation increased net earnings $70,000 for the year ended December 31, 1965.

Accelerated Methods and Shorter Lives Used for Tax Purposes, Methods Used for Book Purposes Not Disclosed

DENNISON MANUFACTURING COMPANY
Notes to Financial Statements

Note D: United States Taxes on Income—The Company and one of its subsidiaries have used somewhat shorter lives and, where appropriate, adopted the composite method in the determination of the depreciation deduction for United States income tax purposes only. During the year, the amount of taxes deferred to future years as a result of this practice increased $120,000 representing the current year's provision ($17,000) and the amount ($103,000) provided by Dunn Paper Company prior to its acquisition.

Sum-of-the-Years-Digits Method

FMC CORPORATION
Financial Review

Depreciation: Depreciation, depletion, and amortization totaled $37.3 million, slightly higher than the $36.6 million recorded in 1964. Depreciation is recorded in the accounts using lives which approximate those permitted by the 1962 Internal Revenue guideline regulations and, with minor exceptions, using sum-of-the-years-digits method of computation for new facilities acquired subsequent to 1953.

Double-Declining-Balance Method for Tax Purposes, Straight-Line Method for Book Purposes

AMERICAN MAIZE-PRODUCTS COMPANY
Notes to Financial Statements

Note B: Commencing in 1954, for tax and financial reporting purposes, depreciation on plant and equipment additions has been provided principally using the accelerated double-declining balance method. Effective January 1, 1965, solely for financial reporting purposes, the Company adopted the straight-line method of depreciation on new additions to plant and equipment. This change in method had no material effect on the 1965 financial statements.

Accelerated Methods Used for Book and Tax Purposes

MARTIN MARIETTA CORPORATION
Financial Review

Depreciation, Depletion and Amortization: Charges for depreciation, depletion and amortization during the year amounted to $27,789,063, the decrease of $1,196,736 from the amount charged in 1964 being primarily attributable to a reduced base for computing depreciation as a result of changes in Internal Revenue regulations. The amounts shown in the financial statements are substantially the same as those used for determining Federal income taxes. It is the present practice of the Corporation to use accelerated depreciation rates in amortizing its investments in plants and equipment.

Accelerated Methods (Not Disclosed) and Guideline Lives Used for Tax Purposes, Method Not Disclosed Used for Book Purposes

WARNER-LAMBERT PHARMACEUTICAL COMPANY
Notes to Financial Statements

Note 2: Federal Income Taxes—The Company and its domestic subsidiaries use accelerated methods and treasury guideline rates of depreciation for federal income tax purposes but not for financial statement purposes. Provisions for deferred taxes are made in amounts equal to the postponement of tax payments resulting from this procedure. Accordingly, the use of accelerated methods and guideline rates of depreciation has no effect on net income.

Declining-Balance Method and Guideline Lives Used for Tax Purposes, Straight-Line Method Used for Book Purposes

BROCKWAY GLASS COMPANY, INC.
Notes to Financial Statements

Note 4: Reserve for Future Income Taxes—The reserve for future income taxes shown on the consolidated balance sheet provides for deferred income taxes which will be payable in future years as annual depreciation for tax purposes is less than that provided in the financial statements.

The Company used, for income tax purposes only, the declining balance method of computing depreciation with respect to certain assets as permitted under the Internal Revenue Code of 1954. The Company also used, for income tax purposes only, with respect to certain assets, depreciation procedures permitted by Revenue Procedure 62-21. In its financial statements depreciation is computed by the straight line method over estimated useful lives.

During the current year, the reserve has been increased by $1,400,000 to reflect income taxes payable for the current and future years which result from the amortization, for tax purposes only, of the sum of $2,800,000 paid by Continental Can Company, Inc. to cover anticipated losses (Note 5).

The reserve has also been increased by $349,600 representing the income tax on the net excess of tax depreciation over depreciation used in the financial statements.

Declining-Balance Method Used for Book and Tax Purposes, Guideline Rates Used for Tax Purposes Only

JOSLYN MFG. AND SUPPLY CO.
Financial and Operating Review

Depreciation on new depreciable assets acquired since December 31, 1953 was computed primarily on the double declining-balance method. Guideline rates and rules for depreciation are used for tax purposes but have not been adopted for the financial statements.

Accelerated Methods for Tax Purposes, Methods Used for Book Purposes Not Disclosed

ALLIED STORES CORPORATION
Notes to Financial Statements

Note C: Depreciation for tax purposes using accelerated methods exceeded depreciation for financial reporting purposes. The related federal income taxes of $546,000 deferred to future years have been included in the provision for federal income taxes for the year ended January 31, 1965 ($473,000 in the year ended January 31, 1964).

THATCHER GLASS MANUFACTURING COMPANY, INC.
Balance Sheet Liabilities

Deferred Federal Income Taxes (arising principally from use of accelerated depreciation and amortization methods for tax purposes)	$4,466,702

WORTHINGTON CORPORATION
Statement of Income

Income Before Income Taxes	$15,970,209
Federal and Canadian Income Taxes:	
Current year—reflecting application of investment credit of $382,000 and $280,000, respectively	5,145,000
Deferred—due to utilization of accelerated depreciation for tax purposes	1,255,000
	6,400,000
Net Income	$ 9,570,209

THE BORDEN COMPANY
Notes to Financial Statements

Deferred Federal Taxes on Income: The Company provides out of income amounts equal to the reduction in federal income tax resulting from the use, for income tax reporting only, of accelerated methods of depreciation. The amount so provided in 1965 and included in the reserve for deferred federal taxes on income amounted to $3,763,465.

Straight-Line Method Used for Book Purposes, Accelerated Methods (Not Disclosed) Used for Tax Purposes

CONTROL DATA CORPORATION
Notes to Financial Statements

Note 2: *Changes in Accounting Practices*—As of January 1, 1965, the Company changed from an accelerated method of recording depreciation of computing systems and related equipment to the straight line method with no change in estimated lives of the assets. This change in method resulted in an increase of $1,210,000 in net earnings ($0.16 per share) for the year ended June 30, 1965. Had this change in depreciation method been made as of January 1, 1964, it would have resulted in an increase of approximately $980,000 in net earnings ($0.14 per share) for the year ended June 30, 1964.

In the case of both of the foregoing changes, the former methods of accounting or computation will continue to be used for income tax purposes. Accordingly, appropriate provisions have been made for related income tax deferments which will be charged with the increase in income taxes in future years when amounts charged against earnings in the accounts exceed amounts deductible for tax purposes.

UNION BAG-CAMP PAPER CORPORATION
Notes to Financial Statements

Note 3: Depreciation provided in the financial statements has been based, since 1962, upon the guidelines suggested by the U.S. Treasury Department. However, in computing federal income taxes, the company continues to claim accelerated depreciation while using the straight-line method for accounting purposes. In 1965 this resulted in estimated savings of taxes payable in future years of $800,000. This amount has been charged against income and credited to deferred federal income taxes. Similar prior years' provisions have not been adjusted to reflect the lower current tax rate.

Straight-Line Method Used for Book Purposes, Guideline Lives and Accelerated Methods Used for Tax Purposes

THE PROCTER & GAMBLE COMPANY
Notes to Financial Statements

Note 4: *Deferred Income Taxes and Depreciation*—Depreciation on the straight-line basis was $31,863,652 for 1965 and $31,020,470 for 1964. The tax reduction which arose in 1965 resulting from the use of accelerated methods of depreciation and guideline lives for tax purposes has been offset by an additional provision for taxes on income. Deferred income taxes, as shown in the balance sheet, reflects the cumulative tax reduction to date and will be held for possible use in future years when depreciation charges for tax purposes may be lower than the straight-line charges made on the books.

Five-Year Sum-of-the-Years-Digits Method Used for New Rental Equipment for Both Book and Tax Purposes

SPERRY RAND CORPORATION
Notes to Financial Statements

Note D: As of April 1, 1964, the basis for capitalizing data-processing equipment was modified to include certain costs previously charged off as incurred, and in addition, an accelerated method of depreciation (five-year sum of the years'-digits) was adopted with respect to new data-processing rental equipment. The effect of these accounting changes on the income for the year ended March 31, 1965, was not material.

Letter to Stockholders

During the year the Company undertook a careful study of the effect of highly competitive and rapidly changing developments in the computer industry. As a result of this study, it was decided to change to an accelerated basis of depreciation on all rental machines produced after April 1, 1964. This will result in the absorption within three years of 80 per cent of the cost of rental machines. Returns for the first two years of equipment life will be lower, but exposure to sudden write-offs such as have been experienced will be reduced.

Financial Review

In addition, the method of depreciating Univac rental equipment was changed, retroactive to April 1, 1964, from a five-year straight-line basis to an accelerated (five-year sum of the years'-digits) basis with respect to new rental equipment.

Guideline Lives Used for Book and Tax Purposes

UNITED STATES STEEL CORPORATION
Notes to Financial Statements

Wear and Exhaustion of Facilities: For the most part, wear and exhaustion of facilities is related to U. S. Steel's rate of operations within the guidelines established in 1962 by the Internal Revenue Service.

Guideline Lives Used for Tax Purposes Only

GENERAL ELECTRIC COMPANY
Financial Review

Depreciation was $188.4 million in 1965, compared with $170.3 in 1964.

For most facilities in the United States, "guideline lives" published by the Internal Revenue Service were adopted in computing depreciation allowable for U.S. tax purposes beginning with the 1962 tax return. This change has resulted in higher tax than book depreciation in the years since adoption. This change has had no effect on net earnings, however, because the provision for U.S. income taxes includes an amount for taxes payable in the future, when tax depreciation will be less than book depreciation.

INTERSTATE BAKERIES CORPORATION
Notes to Financial Statements

Depreciation for income tax purposes, computed in accordance with guidelines issued by the U. S. Internal Revenue Service, exceeds the depreciation for financial accounting purposes computed under the Company's regular methods. As a result, the payment of $82,708 and $904,430 of income taxes charged against 1965 and 1964 earnings respectively has been deferred to future years when deductions allowable for federal income tax purposes will be less than the amounts then chargeable to operations.

Sum-of-the-Years-Digits or Equivalent Accelerated Methods Used for Book and Tax Purposes

VARIAN ASSOCIATES
Notes to Financial Statements

Note 5: *Change in Depreciation Method*—The Company has depreciated the major portion of its assets using sum-of-the-year's digits or equivalent accelerated methods. Effective October 1, 1965, the Company elected to depreciate all of its assets on a uniform basis, utilizing straight-line depreciation for its financial statements and various accelerated methods where appropriate in preparation of its tax returns. Had the Company utilized straight-line depreciation for the year ended September 30, 1965, net income would have been increased $380,000 or $.07 per share.

Straight-Line Method Used for Book and Tax Purposes

SUN OIL COMPANY
Accounting and Financial Notes

Depreciation: Depreciation policy, for accounting and tax purposes, is designed to recover on a straight-line basis the cost of properties, plants and equipment during their estimated useful lives. Experience is reviewed from time to time and rates are revised when necessary.

WEYERHAEUSER COMPANY
Notes to Financial Statements

Note 3: Effective January 1, 1965, the company changed its method of recording depreciation from accelerated to the more suitable straight-line method for all plants and equipment. This change had the effect of increasing net income for 1965 by approximately $6,500,000, or $.21 per share, after considering the related income tax effect.

Extra Depreciation or Obsolescence Charges in Addition to Normal Depreciation Charges

GRANITE CITY STEEL COMPANY
Notes to Financial Statements

Note 1: *Extraordinary Obsolescence*—In connection with the current plant improvement program, provision is being made for the retirement of certain properties upon the completion of the new facilities. This extraordinary provision amounted to $1,500,000 in 1965 and is expected to result in a charge against income after taxes of approximately $1,500,000 in each of the years 1966 and 1967 and $500,000 in 1968.

Since 1954, Sum-of-the-Years-Digits Methods and Since 1961, Guideline Lives Used for Tax Purposes and Also for Book Purposes Until 1965 When Straight-Line Method Adopted for Book Purposes

ST. REGIS PAPER COMPANY
Notes to Financial Statements

Note 3: *Property, Plant, and Equipment*—Commencing January 1, 1965, the companies have computed depreciation on the straight-line method for financial reporting purposes. Formerly, depreciation computations relating to certain properties were on an accelerated method for both financial reporting and tax purposes. The use of an accelerated method of computing depreciation for tax purposes only has resulted in tax deferrals in 1965 which have been included in deferred Federal income taxes. If the depreciation method previously used for financial reporting purposes had been continued in 1965, the 1965 provision for depreciation would have been approximately $8,927,000 more, and the net earnings for the year approximately $4,642,000 less, than as shown in the accompanying summary of consolidated earnings.

Letter to Stockholders

Change in Depreciation Policy: Depreciation, amortization, and depletion charges, as reported herein, were $25,651,808, compared with $33,805,357 in 1964.

In 1965, depreciation alone was $23,862,499, or $1.87 per share, in contrast with $32,271,351 in 1964, or $2.57 per share. The decrease resulted principally from a change in the company's method of computing depreciation.

Beginning in 1954, St. Regis availed itself of new legislation permitting accelerated depreciation on machinery, equipment, and other depreciable property for Federal tax purposes as well as for reporting to stockholders. Depreciation was computed on that basis each year by a formula known as sum-of-the-years-digits. Then during 1962, the taxing authorities shortened the schedules for the useful lives of different types of industrial equipment, resulting in greater permissible depreciation charges. St. Regis also adopted this optional depreciation method for both public reporting and tax purposes. These changes increased the depreciation charges against income and led to substantially lower reported net earnings than would have been the case had depreciation charges been computed by means of the straight-line method.

During the same period, however, most companies in the pulp and paper industry either retained or reverted to straight-line depreciation, and their earnings were not readily comparable with those of St. Regis. Therefore, to be consistent with the industry's general practice, St. Regis' Board of Directors voted to resume computing depreciation by the straight-line method, effective January 1, 1965, for its published reports. By this change in policy, the depreciation charge for 1965 was reduced $8,927,088, equal to 36 cents per share after taxes. The 1962 schedule of shorter useful lives is being continued in use.

Straight-Line Method Used Prior to 1954, Accelerated Methods Used Since 1953, Using Composite Rates Based on Guideline Lives for Both Book and Tax Purposes

UNITED ELASTIC CORPORATION
Letter to Stockholders

Provision for depreciation and obsolescence over the estimated useful lives of the depreciable assets or asset groups by the application of composite rates based on guidelines published by the Internal Revenue Service has been consistently followed. The corporation's plant and equipment acquisitions prior to 1954 are depreciated on the straight-line method. Accelerated methods have been used to compute depreciation on major portions of the additions subsequent to 1953. Differences between the depreciation expenses reflected in the accompanying financial statements, and the amounts that are deducted for income tax purposes are not material.

USEFUL LIVES—DEPRECIATION GUIDELINES AND RULES

In November, 1962, the accounting principles board of the American Institute of Certified Public Accountants issued *Interpretive Opinions No. 1* in connection with *Depreciation Guidelines and Rules* issued by the United States Treasury Department Internal Revenue Service as Revenue Procedure 62-21, effective July 12, 1962, from which the following informative quotation is taken:

> 2. The service lives suggested in the Guidelines for broad classes of depreciable assets are, in general, appreciably shorter than the individual lives given in Bulletin "F," which was previously used as a guide in the determination of deductible depreciation for income-tax purposes. The Guidelines purport to bring the lives used for income-tax purposes into line with the actual experience of taxpayers, and thereby reduce the areas of controversy as to the amount of deductible depreciation, but not to provide another type of accelerated depreciation.
>
> 4. A taxpayer should carefully review the estimates of useful life of depreciable property adopted for financial accounting purposes, with the objective of conforming them with Guideline lives to the extent that the latter fall within a reasonable range of estimated useful lives applicable in his business.
>
> 5. . . . net income for the period should not be *increased* as the result of the adoption of Guideline lives for income-tax purposes only. Accordingly, where Guideline lives shorter than the lives used for financial accounting purposes are adopted for income-tax purposes, and there is an excess of tax-return depreciation over book depreciation, provision for deferred income taxes should be made with respect to the adoption of Guideline lives, in the same manner as provided by *Accounting Research Bulletin No. 44 (Revised)*, "Declining-balance Depreciation," for liberalized depreciation under the Internal Revenue Code of 1954.

The following tabulation shows that 88 of the 600 survey companies indicated in their 1965 reports the adoption (in part or in full) of the new guideline rules. An additional 26 companies did not refer to guideline rules in their current reports, but either adopted or referred to them in a prior year.

Adoption of Guidelines:*	Number of Companies
A: For tax purposes only	68
B: For both book and tax purposes	19
C: Adopted in part only (for tax purposes)	1
Total	88
D: Guidelines referred to in prior year's report but not in current year's report	26
E: Not referring to Guidelines rules	486
Total	600

*Refer to Company Appendix Section—A: 7, 8, 17, 22, 43, 47, 55, 78, 80, 85, 91, 107, 109, 112, 113, 122, 131, 139, 140, 157, 159, 162, 169, 176, 187, 189, 201, 207, 211, 222, 233, 239, 243, 246, 249, 260, 266, 273, 291, 298, 305, 313, 319, 321, 330, 331, 338, 360, 364, 381, 394, 395, 396, 412, 422, 449, 454, 465, 471, 475, 519, 567, 568, 575, 585, 588, 594, 597; B: 89, 124, 129, 198, 230, 269, 303, 304, 342, 349, 458, 479, 487, 523, 551, 556, 569, 590, 599; C: 433; D: 2, 18, 30, 48, 59, 70, 83, 142, 153, 184, 205, 238, 267, 308, 318, 326, 386, 399, 408, 416, 417, 431, 447, 453, 457, 503; E: All 600 companies not specifically listed above under other captions.

Examples

Examples illustrating the various presentations of depreciation guidelines taken from the 1965 annual reports may be found under the immediately preceding subject, "Depreciation."

CHARITABLE FOUNDATIONS AND CORPORATE CONTRIBUTIONS

Charitable foundations have been established by various companies included in the survey to serve as a medium for making contributions to charitable, educational, scientific, welfare, civic, and similar organizations for various purposes, including scholarships for children of corporate employees and other persons selected in accordance with established procedures. Contributions were made also to educational institutions matching those made within specified limits by corporate employees. In some reports the companies indicated that the corporate contributions to the company-related foundations were made in accordance with the level of company earnings while expenditures by the foundations are programmed to provide sustained support to the recipient organization on a nonfluctuating basis.

Other corporations reported making direct contributions from corporate funds for charitable and similar purposes either in place of or in addition to contributions made through the related foundations.

Eleven companies which referred to the existence of charitable foundations in 1964 made no mention of such foundations in their 1965 reports nor did they indicate whether such foundations had been dissolved.

Presentations of information were made by 58 companies in their 1965 annual reports which are summarized as follows:

A: Contributions to charitable foundations:		
1. Disclosed in notes to financial statements	4	
2. Disclosed in letter to stockholders	13	17
B: Financial aid to education disclosed in president's letter:		
1. Scholarships and fellowships and corporate matching of employees' gifts to educational institutions	30	
2. Direct assistance to students	25	55
C: Contributions to hospital and other community organizations — disclosed in president's letter		8
Total number of disclosures in company reports concerning charitable foundations and corporate contributions		80

*Refer to Company Appendix Section—A-1: 55, 211, 298, 466; A-2: 45, 122, 125, 135, 140, 151, 160, 178, 232, 304, 431, 569, 597; B-1: 24, 28, 44, 47, 59, 98, 125, 134, 151, 178, 195, 200, 232, 246, 248, 249, 366, 412, 431, 439, 453, 473, 480, 515, 518, 531, 532, 538, 551, 598; B-2: 10, 28, 38, 89, 94, 135, 169, 196, 205, 222, 232, 249, 276, 316, 353, 366, 381, 426, 460, 502, 518, 521, 531, 551, 587; C: 64, 135, 178, 196, 222, 439, 521, 598.

Examples

Examples from the 1965 annual reports illustrating the nature of the disclosures given with regard to charitable foundations and direct contributions from corporate funds follow:

In Notes to Financial Statements

ANHEUSER-BUSCH, INCORPORATED
Notes to Financial Statements

Note 1: Civic Center Redevelopment Corporation—In 1965, the Directors authorized a contribution of the company's investment of $4,950,000 in the income debentures of Civic Center Redevelopment Corporation to the Anheuser-Busch Charitable Trust. The company has not authorized a contribution of its $50,000 investment in the capital stock of Civic Center Redevelopment Corporation. The contribution will be made in annual amounts of $1,237,500, 1965 through 1968. The closing agreement with the Internal Revenue Service stipulates that the company will be entitled to a tax deduction equal to the face value of the income debentures which are contributed in 1965 and at any time prior to December 31, 1968. The contribution will be deferred for book purposes and written off over a 10 year period commencing in 1965.

In President's Letter or Financial or Operations Review

ARMCO STEEL CORPORATION
Operations Review

Activities in the Public Interest Grow: Armco management has traditionally encouraged individual and corporate support of activities in the public interest. The value of the time, talent and energy contributed by Armco men and women to charitable, character-building and community welfare activities cannot be calculated. Some idea of the scope of such interest can be gained, however, from the fact that during 1965 individual and company contributions for United Fund-Community Chest campaigns alone were in excess of $1,000,000.

Through the Armco Foundation the company also provides financial assistance for other philanthropic and educational activities which offer benefits to the company and its employees. Foundation grants are for both non-recurring capital improvements (such as new buildings) and for programs needing continuity of support (such as scholarships). Expenditures for 1965 were divided this way: all education, including scholarships, fellowships and capital improvements, 44 per cent; hospitals and medical research, 22 per cent; youth programs, 18 per cent; civic, social welfare and miscellaneous programs, 16 per cent.

The company has further encouraged individual financial support of higher education through a special Matching Gift Plan whereby the Armco Foundation matches any gifts between $25 and $1,000 made by an employee to colleges or universities within the United States. Last year, 225 Armco men and women contributed $23,619.-37 to 134 schools through this plan.

CARRIER CORPORATION
Financial Review

In 1965 the Corporation gave $750,000 to The Carrier Foundation, Inc., whose contributions totaled $339,000 during the year. Of the latter, approximately 66% was to educational institutions, 30% to health and social welfare organizations and the remainder to other qualified recipients. During the four years 1961-1964 contributions made by the Foundation had exceeded its income, including the amounts received from the Corporation, by $441,000.

DRAVO CORPORATION
Operations Review

The tuition refund plan provided assistance to 125 employees in the first full year of a program to encourage further education and improvement of job-related skills. Eight scholarships were awarded to children of employees by the Dravo Corporation and Subsidiaries Trust Fund.

The college recruiting program was expanded and now includes contacts with 26 schools. Other employee procurement efforts also were stepped up to meet increased manpower needs.

The company and its employees participated in activities of many community and civic groups such as hospitals, youth organizations, United Fund and Community Chest agencies, and industrial development groups.

XEROX CORPORATION
Operations Review

Xerox Charitable Contributions Increase: Our interest in attracting and retaining outstanding people is a continuing one. We believe that Rochester must offer a stimulating academic atmosphere. The contributions of Xerox to education and general welfare reached $1,632,548 in 1965, an increase of 47% over 1964's $1,112,587. Principal recipients, as in 1964, were The University of Rochester ($375,000), The Rochester Community Chest ($210,-000), and Rochester Institute of Technology ($87,000).

Of our total contributions, 54% were in support of education, primarily at the college and graduate levels. Our aid to education included research, capital and unrestricted grants, scholarships and fellowships, as well as matching gifts under our program for employees. The balance, most of which was contributed to United Fund campaigns, was for general welfare purposes.

INCOME TAXES—CURRENT ESTIMATE

Table 8 summarizes the income statement presentation of the current estimates for Federal, state, foreign, and other income taxes as shown in the 1965 survey reports. Of the 600 survey companies, 569 presented estimated income taxes. Of these, 155 included the estimates among other costs, while 414 companies presented such estimates in a separate last section of their income statements.

Eighteen companies reported that net operating loss carry-forward or carry-back laws eliminated the estimate for income taxes either in whole or in part. The presentation of these items is discussed in succeeding subdivisions of this section.

Examples illustrating the presentation of the current estimate for income taxes (including deferred federal income taxes) in the income statement follow.

Presentation of Federal Income Taxes

Listed Among Other Costs

EASTERN STAINLESS STEEL CORPORATION

Costs and Expenses:	
Cost of goods sold	$54,026,000
Selling, administrative and general	4,548,000
Depreciation	1,621,000
Interest and amortization of debenture expense	278,000
Federal and state taxes on income—Note 5	1,356,000
	$61,829,000

Note 5: Federal Taxes on Income—The investment tax credits available for 1965 and 1964 ($149,000 and $125,000, respectively) have been applied in full to reduce the provision for Federal taxes on income in the year in which the credit arose.

GEO. A. HORMEL & COMPANY

Costs, Expenses and Taxes ($389,374,823 applicable to cost of products sold)	
Cost of products sold, selling, delivery, administrative and general expenses, exclusive of items shown separately	$350,682,928
Wage costs:	
Wages and salaries including joint earnings	70,315,470
Pension trust contributions (unfunded past service cost estimated at $26,620,000 over the next 22 years)	3,460,000
Federal and state unemployment and old age contributions	1,703,640
Group life, hospitalization and sick lease	3,138,468
	78,617,578
Provision for depreciation	2,902,454
Interest	177,935
Taxes:	
State income, property and other taxes	1,824,687
Federal taxes on income	3,125,000
	4,949,687
	$437,330,582

TABLE 8: CURRENT ESTIMATE FOR FEDERAL AND OTHER INCOME TAXES

Income Statement Designation*	Listed among Other Costs	Set forth in Last Section	1965 Total
Shown with single amount for:			
A: Federal income taxes	40	129	169
B: Federal and state income taxes	13	23	36
C: Federal and foreign income taxes	34	96	130
D: Federal, state, and foreign income taxes	7	24	31
E: Federal, state, and other income taxes	—	2	2
F: Federal, foreign, and other income taxes	1	1	2
G: Federal income and various other income taxes	6	10	16
H: Income taxes not further designated	39	77	116
I: State income taxes	—	3	3
J: State and foreign income taxes	1	1	2
K: Foreign income taxes	1	1	2
L: Foreign and other income taxes	1	1	2
M: Other	2	1	3
	145	369	514
Shown with separate amounts for:			
N: Federal and state income taxes	1	12	13
O: Federal and foreign income taxes	3	18	21
P: Federal and various other income taxes	6	15	21
	10	45	55
	155	414	569
Not shown or not required:			
Q: No provision for income taxes although income statement shows profit			1
R: Operating loss carry-forward or carry-back eliminates estimate			18
S: Operating loss shown in statement			12
			31
			600

*Refer to Company Appendix Section—A: 2, 95, 129, 185, 238, 371, 462, 469, 480, 506, 549, 599; B: 19, 53, 84, 109, 127, 204, 231, 358, 362, 397, 405, 468, 490, 575, 581; C: 71, 100, 124, 195, 253, 263, 302, 351, 441, 460, 533, 564; D: 6, 59, 112, 166, 251, 276, 329, 398, 421, 458, 520, 570; E: 155, 426; F: 477, 518; G: 26, 46, 114, 130, 134, 194, 197, 446, 492, 505, 515, 516; H: 56, 68, 135, 186, 202, 277, 309, 395, 402, 498, 504, 591; I: 216, 392, 527; J: 123, 250; K: 62, 583; L: 226, 596; M: 234, 246, 534; N: 9, 94, 105, 184, 286, 291, 295, 378, 438, 471, 524, 551, 577; O: 5, 72, 119, 132, 207, 278, 331, 341, 391, 420, 507, 550; P: 21, 83, 121, 164, 214, 274, 348, 370, 447, 479, 546, 557; Q: 81; R: 41, 75, 148, 215, 236, 242, 270, 290, 436, 528, 565, 582; S: 93, 110, 158, 210, 240, 300, 301, 346, 457, 561, 590.

CONSOLIDATION COAL COMPANY

Deduct:	
Cost of goods sold and operating expenses	$238,630,926
Selling, general and administrative expenses	19,680,960
Provision for depreciation	15,398,594
Provision for depletion	1,985,458
Interest	653,783
Supplemental retirement fund payment—Note J	200,000
Provision for taxes on income—Note F	10,585,000
	$287,134,721

Note F: Taxes on Income—The provision for taxes on income for 1965 includes (a) federal ($5,186,000) and other income taxes ($580,000) currently payable (b) federal and other income taxes ($3,532,000) applicable to production payments deferred in 1964 and liquidated in 1965 and (c) deferred federal and state taxes on income ($1,287,000) resulting principally from depreciation deductions claimed for income tax purposes over amounts recorded for financial reporting purposes.

Investment credits on property additions amounted to $2,415,000 in 1965 and $914,000 in 1964.

LIGGETT & MYERS TOBACCO COMPANY

Costs and Expenses:	
Cost of goods sold	$364,679,242
Selling, administrative, and general expenses	73,117,111
Interest on long-term debt	1,411,936
Other	14,993
Provision for Federal income tax	18,291,151
Provision for state income and franchise taxes (1965 includes credit of $690,793 resulting from settlement of a tax claim)	1,254,725

WILSON & CO., INC.

Less:	
Cost of goods sold including outgoing freight but excluding items below	$739,997,479
Selling, general and administrative expenses	48,747,682
Depreciation	3,734,806
Taxes (other than federal taxes on income)	5,799,924
Interest charges	921,452
Provision for federal taxes on income	7,500,000

KIMBERLY-CLARK CORPORATION

Deduct:	
Cost of sales	$420,999,000
Distribution, marketing, and general expenses	96,344,000
Provisions for Federal, state, and foreign income taxes (Note 7):	
Current	20,384,000
Deferred	4,632,000
Interest	3,348,000
Other charges	475,000
Portion of earnings applicable to minority interests	376,000
Total	$546,558,000

Note 7: Investment Tax Credits—Investment tax credits applied as reductions in current provisions for Federal income taxes during the years ended April 30, 1965 and 1964 were $3,005,000 and $1,800,000 respectively.

Set Forth in Last Section

ACF INDUSTRIES, INCORPORATED

Income before federal income taxes	$41,950,000
Estimated federal income taxes:	
Current—Note 5	17,371,000
Deferred	2,489,000
	19,860,000
Net Income	$22,090,000

Note 5: Investment Credit—For federal income taxes the Company is entitled to an investment credit based on capital assets acquired during the year. The amount of the credit included in income was not material since most of such credit was passed on to lessees of the Company's railroad cars.

AMERICAN METAL PRODUCTS COMPANY

Earnings Before Income Taxes	$8,524,493
Federal, state, and foreign income taxes	4,265,000
Net Earnings	$4,259,493

E. J. BRACH & SONS

Income Before Income Taxes	$13,362,725
Federal income taxes	6,550,000
Net Income for the Year	$ 6,812,725

BRIGGS & STRATTON CORPORATION

Income before provision for income taxes	$22,810,638
Provision for Income Taxes:	
Federal	10,360,000
State	1,290,000
	11,650,000
Net income transferred to earned surplus	$11,160,638

OXFORD PAPER COMPANY

Income from operations before income taxes	$6,256,823
United States and foreign income taxes (Note 5)	2,560,000
Net Income for the Year	$3,696,823

Note 5: United States and Foreign Income Taxes—The company provides deferred income taxes in amounts equivalent to reductions in taxes currently payable which result from the net excess of tax depreciation over book depreciation. Investment tax credits are reflected as an increase in income in the year the tax benefit is realized.

The current year's provision for United States and foreign income taxes is determined as follows:

Payable current year, net of investment credit realized of $292,000	$1,120,000
Deferred tax arising from tax depreciation	1,440,000
	$2,560,000

FOOTE MINERAL COMPANY

Earnings before income taxes	$2,487,100
Federal and State income taxes (Note 2)	990,000
Net Earnings	$1,497,100

Note 2: Deferred Income—In 1964 the company received an advance payment in connection with a long-term contract to supply spodumene concentrates. The advance payment has been deferred in the accounts and is being taken into income as a predetermined number of units of lithium oxide are shipped.

The company's Federal income taxes payable for 1965 will be reduced by approximately $80,000 under the investment credit provisions of the Revenue Act of 1964. This credit has been deferred in the accounts and is being amortized over the productive life of the related assets acquired.

KOPPERS COMPANY, INC.

Income before provision for income taxes	$19,390,457
Provision for income taxes:	
Federal (Note 3)	6,568,376
State and foreign	770,554
	7,338,930
Net income for the year	$12,051,527

Note 3: Income Taxes—The Company provides deferred income taxes for the excess of guidelines depreciation claimed for tax purposes over book depreciation, estimated taxes payable upon eventual transfer of earnings of consolidated foreign subsidiaries to the parent company, and deferred compensation. In the balance sheet the provisions for the first two items are included in deferred taxes and the provision for the latter item is netted against the related liability account.

MEDUSA PORTLAND CEMENT COMPANY

Income Before Income Taxes	$8,027,136
Income taxes—estimated:	
Federal:	
Payable currently	2,767,000
Deferment attributable to additional depreciation to be claimed for tax purposes only	404,000
Deferment of investment credit	69,000
State and Canadian	272,000
	3,512,000
Net Income	$4,515,136

ST. REGIS PAPER COMPANY

Earnings Before Provision for Taxes	$53,627,555
Provision for Taxes on Earnings:	
Federal and state	17,196,119
Foreign	565,438
	17,761,557
Net Earnings (Note 3)	$35,865,998

Presentation of Income Taxes Other than Federal Income Taxes

Listed Among Other Costs

WARD FOODS, INC.

Costs and Expenses:	
Cost of sales	$120,002,194
Selling, delivery, and general expenses	47,950,818
Depreciation and amortization	2,530,263
Interest on debt	488,771
Other expense	119,116
Foreign income tax, less reduction in deferred federal income tax	95,477
Minority interest	30,054
Total	$171,216,693

J. I. CASE COMPANY

Income from Operations	$19,565,858
Other (charges) and credits:	
Finance and other charges, less in 1964 interest received—J. I. Case Credit Corporation	(10,626,692)
Interest expense	(4,486,582)
Income of J. I. Case Credit Corporation before taxes on income	6,046,116
Interest income	892,891
Provision for state and foreign taxes on income, including $230,000 and $875,-000, respectively, applicable to J. I. Case Credit Corporation (Note 9)	(440,479)
Miscellaneous—net	(209,672)
	(8,824,418)
Net Income for the Year	$10,741,440

Note 9: Federal Taxes on Income—Because of the net operating loss carry-overs from 1960 through 1962 no federal taxes on income are payable for the year ended October 31, 1965. Remaining loss carry-overs of approximately $21,000,000 are available to reduce 1966 and 1967 taxable income. Of this amount $14,000,000 expires in 1966 and $7,000,000 expires in 1967.

Federal income taxes in the years 1966 through 1970 may be reduced by investment credit carry-overs of approximately $1,200,-000. The effects of such credits will not be included in results of operations until realized as a reduction of federal taxes on income.

The Company is contesting certain adjustments proposed by the Internal Revenue Service applicable to examination of the years 1957 through 1960. Final settlements have been made for all years prior to 1957. It is not anticipated that any significant assessments of additional federal taxes on income for these years will be payable.

Set Forth in Last Section

ART METAL, INC.

Income before income taxes and minority interests	$2,406,122
Income taxes—foreign (Note 7)	316,175
Minority interests	3,927
Net Income	$2,086,020

Note 7: Income Taxes—No provision for U. S. income taxes was necessary for the years ended May 31, 1964 or 1965 due to the application of net operating losses from prior years. At May 31, 1965 the unused net operating losses available for application against future taxable income was approximately $2,300,000, which gives effect to matters discussed in Note 2. Included in this amount is approximately $1,008,000, which represents the loss from the disposition of the Avenel, N. J. plant that was charged to retained earnings in 1963. When this portion of the carry-forward losses is utilized, the related tax saving will be credited directly to retained earnings.

ERIE FORGE & STEEL CORPORATION

Income Before Taxes on Income	$572,342.07
Taxes on income—estimated:	
State income taxes	40,000.00
Adjustment of prior year's tax provision	1,339.76
	41,339.76
Net Income—Note I	$531,002.31

Note I: Federal Income Tax—No provision for federal taxes on income is necessary because of operating loss carry-forward.

GENERAL PLYWOOD CORPORATION

Operating Profit	$972,450
Other income less other deductions	21,244
	993,694
Interest and loan expense, less interest income	245,253
	748,441
Provision for state and foreign taxes on income (Note 8)	43,000
Net Income for the Year	$705,441

Note 8: No provision for Federal taxes on income was required in 1964 and 1965 because of prior years' losses. For 1965, the amount of taxes thus eliminated was approximately $295,000. As of October 31, 1965, there remained approximately $4,000,000 of prior years' losses available to reduce taxable income in 1966-1969.

NATIONAL COMPANY INC.

Net income before provision for taxes	$122,615
Provision for federal and state taxes on income	9,400
Net Income	$113,215

Notes to Financial Statements

Note 1: Federal income tax returns of the parent company have been examined through December 31, 1964 and resulting minor adjustments have been reflected herein. The parent company has made no provision for federal income taxes for 1965 because of the loss carry-forward from 1963 and has approximately $525,000 additional carry-forward available against taxable income of future years.

In February, 1966, in connection with an examination of federal income tax returns of National Radio Company, Inc. for the years ended February 28, 1963 and February 29, 1964, the examining agent proposed disallowance of net operating loss carry-forward deductions. If this proposal is sustained, the resulting federal income tax would be $138,000, which has been provided for in the accompanying statements. The company does not agree with this proposal and will contest any claim arising therefrom.

Renegotiation clearance has been received for all years through 1964 and the company believes that no renegotiation liability exists for 1965.

STRUTHERS WELLS CORPORATION

Net income before taxes on income	$1,766,455
Provision for Taxes on Income:	
Federal—applicable to certain subsidiaries in 1964 (Note 3)	—
State	73,055
	73,055
Net Income	$1,693,400

Note 3: Federal Income Taxes—Federal income tax returns of the Corporation are under examination by the Internal Revenue Service for the fiscal years ended November 30, 1960 and 1961.

The Corporation will file a consolidated Federal income tax return for the year ended November 30, 1965. No tax liability is anticipated because of the application of prior years' operating losses carried forward.

Income Taxes Not Further Designated

ABBOTT LABORATORIES

Earnings Before Income Taxes	$45,673,000
Taxes on earnings	21,010,000
Net Earnings	$24,663,000

EATON YALE & TOWNE INC.

Less:	
Cost of products sold	$535,434,312
Selling, administrative, research and development expenses	75,737,705
Interest expense	3,487,988
Other expenses	1,552,891
Provision for restricted currency income, exchange losses and interests of minority shareholders	5,428,727
Provision for income taxes	41,572,000
	663,213,623
Net Income	$ 43,759,924

EVANS PRODUCTS COMPANY

Earnings Before Taxes	$13,904,000
Taxes on Income	5,500,000
Net Earnings	$ 8,404,000

HART SCHAFFNER & MARX

Income before taxes	$15,234,615
Taxes on income	7,110,451
Net Income for the Year	$ 8,124,164

LUKENS STEEL COMPANY

Costs and Expenses:	
Employment:	
Wages and salaries	$ 38,046,891
Vacation, holiday and shift pay	4,619,723
Insurance, pensions and other benefits (Note 1)	5,179,251
Payroll taxes	1,709,451
Total employment costs	49,555,316
Materials, services and other	65,580,240
Depreciation	4,693,474
Rentals on U. S. Government facilities	318,867
Interest expense	164,816
State, local and miscellaneous taxes	976,191
Provision for income taxes	7,815,000
Total costs and expenses (Notes 2 and 3)	129,103,904
Net Earnings	$ 9,334,575

Note 3: Investment Credit—The 1965 investment credit reduced costs and expenses and increased net earnings by $746,000. In 1964, because of changes in the income tax laws, the Company recorded investment credits totaling $718,000, including amounts for 1962 and 1963. In 1964, the Company also adopted the guideline depreciation procedures issued by the Internal Revenue Service in 1962, and recorded additional depreciation expense for 1962, 1963 and 1964 which reduced net earnings by $398,000. Together, these adjustments benefited 1964 net earnings by $320,000.

NORTH AMERICAN SUGAR INDUSTRIES INCORPORATED

Expenses:	
Cost of refined sugar and molasses sold	$56,902,335
Selling, general and administrative	3,304,282
Depreciation	912,465
Interest	206,567
	61,325,649
	671,998
Income taxes (Note 3)	160,261
Net Income for the Year	$ 511,737

Note 3: The federal income tax provision for 1965 has been reduced $141,067 by the investment credit arising from qualified property additions during the year.

REX CHAINBELT INC.

Other Income and (Charges):	
Interest and discount earned	$ 886,608
Interest expense	(501,520)
Miscellaneous—net	82,906
	467,994
	16,118,367
Provision for Estimated Taxes on Income	8,098,000
Income for the Year	$ 8,020,367

Notes to Financial Statements

Note 3: Deferred Federal Taxes on Income—For federal income tax purposes, depreciation, certain other expenses and income on installment sales are reported in amounts which differ from the amounts used for financial operations. The taxes applicable to such differences have been credited in the balance sheet to deferred federal taxes on income; these taxes will be payable in future years.

ADJUSTMENTS FOR PRIOR YEAR INCOME TAXES

Accounting Research and Terminology Bulletins, Final Edition, published in 1961, by the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants, in discussing adjustments of provisions for income taxes of prior periods (Chapter 10, Section B, Paragraph 15), states that such adjustments, as well as any refunds and any assessments of additional amounts, "should be included in the income statement unless they are so material as to have a distorting effect on net income; in such event they may be charged or credited to surplus with indication as to the period to which they relate."

Presentation of Income Tax Adjustments

Seventy-four of the 600 survey companies presented a total of 85 income tax adjustment items in their 1965 annual reports. Table 9 summarizes the various methods of presentation of the tax adjustments as shown by the survey companies. Of the 85 income tax adjustments, 14 items were set forth in the income statement; 53 were disclosed either in the footnotes, president's letter to the stockholders, or in the "funds" statement, parenthetically in the balance sheet; the remaining 18 items were shown in the retained earnings statement. The table, this year, for the first time, shows debits and credits separately. The report presentation of income tax adjustments reflected in the income account is illustrated in the examples which follow. These illustrations refer to prior year income taxes, assessments, refunds, carry-backs and carry-forwards of losses, and the return to income of previously deferred 1962 to 1964 U. S. investment tax credits, either as a direct credit to income or as a reduction of current year's depreciation or income tax expense.

Deferments of income taxes due to use of accelerated depreciation methods, guidelines, etc., are included under a separate heading in Table 9 and therefore are not included under *Nature of Income Tax Adjustments.*

Examples of similar adjustments reflected by the survey companies in their surplus accounts during 1965 are set forth in Section 4 under "Appropriation or Reserves," "Extraordinary Losses and Gains," and "Prior Year Adjustments—Taxes."

Materiality of Income Tax Adjustments

With regard to the income tax adjustments presented by 74 of the 600 survey companies in their 1965 reports, the percentages of materiality and the accounts adjusted for such items are summarized in Table 10.

TABLE 9: INCOME TAX ADJUSTMENTS, ALLOCATIONS, AND DEFERMENTS—1965

	Presentation in Report**								
	Before Net Income						After Net Income		
	Income Statement								
	Among Other Income or Cost Items		In Last Section						
Nature of Income Tax Adjustments:*	With tax estimate	Special item	With tax estimate	Special item	Shown elsewhere in footnotes, funds statement, etc.	Total	In Special Section of Income or Combined† Statement	In Retained Earnings Statement	1965 Total Items
DEBITS									
A: Prior year tax accrual adjustment	—	3	—	1	—	4	—	3	7
B: Additional tax assessment or payment	—	—	—	—	2	2	—	2	4
D: Interest expense on assessments	—	—	—	—	1	1	—	1	2
Adjustments—Total Debits	—	3	—	1	3	7	—	6	13
CREDITS									
F: Prior year tax accrual adjustment	1	—	1	2	1	5	—	4	9
G: Carry-back: Operating loss	—	—	—	1	3	4	1	—	5
H: Carry-forward: Operating loss	—	—	—	3	36	39	2	—	41
I: Interest received on tax refund	—	—	—	—	1	1	—	—	1
J: Tax adjustments not identified	—	1	—	—	—	1	—	—	1
K: Tax adjustment—other items	—	—	—	1	4	5	—	3***	8
L: Prior year investment credit returned to income	—	—	—	—	5	5	—	2	7
Adjustments—Total Credits	1	1	1	7	50	60	3	9	72
Adjustments—Total Debits and Credits	1	4	1	8	53	67	3	15	85
Allocation of Current Income Taxes, with:*									
DEBITS									
M: Extraordinary items shown net of related tax	—	2	—	9	—	11	9	17	37
N: Extraordinary items shown in full amount	1	25	—	7	5	38	6	10	54
Allocations—Total Debits	1	27	—	16	5	49	15	27	91
CREDITS									
O: Extraordinary items shown net of related tax	—	2	—	11	3	16	18	6	40
P: Extraordinary items shown in full amount	1	35	—	2	2	40	13	9	62
Q: Only tax effect of extraordinary items shown	—	—	—	—	1	1	—	1	2
Allocations—Total Credits	1	37	—	13	6	57	31	16	104
Allocations—Total Debits and Credits	2	64	—	29	11	106	46	43	195
Deferments:*									
DEBITS									
R: Deferment of income taxes	7	9	25	64	140	245	—	—	245
Deferments—Total Debits	7	9	25	64	140	245	—	—	245
CREDITS									
T: Reduction of deferred income taxes	1	—	2	2	8	13	—	1	14
Deferments—Total Credits	1	—	2	2	8	13	—	1	14
Deferments—Total Debits and Credits	8	9	27	66	148	258	—	1	259
Total	11	77	28	103	212	431	49	59	539

(TABLE 9 continued on next page)

TABLE 9: INCOME TAX ADJUSTMENTS, ALLOCATIONS, AND DEFERMENTS—1965

(TABLE 9 continued from previous page)

Number of Companies Presenting Special:*	1965
Income tax adjustment items only	31
Income tax allocation items only	66
Deferment items only	179
Combinations of adjustment, allocation, and deferment items	98
	374
Number of Companies Not Presenting Special Items	226
Total	600

**See Table 10 for Percentage of Materiality.
See Tables 11 and 12 for Extraordinary Items.

*Refer to Company Appendix Section—A: 29, 62, 216, 392, 499, 508, 577; B: 138, 195, 503, 573; D: 251, 508; F: 89, 138, 171, 179, 283, 340, 344, 423, 462; G: 20, 110, 199, 560, 590; H: 20, 41, 75, 88, 99, 113, 118, 123, 132, 134, 148, 150, 154, 185, 215, 216, 234, 236, 240, 242, 250, 270, 288, 290, 328, 337, 355, 387, 392, 436, 457, 485, 489, 503, 527, 528, 550, 560, 565, 582, 583; I: 551; J: 81; K: 8, 194, 199, 285, 423, 551, 552, 573; L: 19, 21, 38, 268, 275, 309, 421; M: 21, 22, 24, 25, 60, 66, 78, 81, 130, 141, 182, 202, 214, 240, 248, 265, 275, 277, 326, 333, 335, 349, 351, 355, 406, 478, 485, 519, 543, 558, 580, 586, 587, 596; N: 31, 54, 72, 93, 110, 138, 149, 158, 170, 173, 174, 175, 177, 192, 199, 206, 207, 210, 216, 218, 226, 242, 300, 302, 313, 331, 341, 359, 388, 399, 412, 414, 440, 447, 450, 462, 471, 477, 528, 536, 558, 561, 565, 571, 575, 583; O: 17, 44, 45, 46, 54, 70, 89, 107, 131, 141, 156, 159, 166, 179, 181, 182, 186, 190, 217, 233, 277, 285, 301, 306, 331, 336, 339, 342, 345, 416, 418, 478, 479, 480, 533, 544, 545; P: 9, 12, 18, 20, 22, 57, 63, 68, 75, 87, 102, 118, 119, 138, 158, 159, 180, 196, 199, 214, 215, 227, 228, 257, 279, 282, 291, 296, 300, 310, 330, 337, 408, 416, 436, 450, 465, 476, 479, 485, 499, 522, 528, 534, 553, 563, 568, 570, 573, 584, 586; Q: 234, 251; R: 12, 52, 127, 142, 200, 249, 335, 366, 422, 467, 539, 598; T: 7, 28, 29, 59, 182, 188, 190, 294, 308, 318, 334, 421, 583, 599.

†Combined income and retained earnings statement.

***Includes one entry to capital surplus.

The percentage of materiality of income tax adjustments was determined by the ratio of such items to 1965 net income, computed without regard for either income tax adjustments or extraordinary items.

Examples

The following examples, taken from the 1965 reports, illustrate the presentation and treatment of adjustments in connection with prior year income taxes.

Adjustments for Prior Year Income Taxes

HAZELTINE CORPORATION

Net income before other credits	$222,878
Other credits—Adjustments resulting from determination of prior years' federal income taxes and elimination of provisions no longer required	235,640
Net Income	$458,518

LIGGETT & MYERS TOBACCO COMPANY

Costs and Expenses:	
Cost of goods sold	$364,679,242
Selling, administrative, and general expenses	73,117,111
Interest on long-term debt	1,411,936
Other	14,993
Provision for Federal income tax	18,291,151
Provision for state income and franchise taxes (1965 includes credit of $690,793 resulting from settlement of a tax claim)	1,254,725
Total Costs and Expenses	$458,769,158

THE CUNEO PRESS, INC.

Loss before Federal income tax credit	$(198,402)
Federal income tax credit (including, in 1965, a refund of prior year's taxes of $32,920)	(132,000)
Net loss from operations	$ (66,402)

LITTON INDUSTRIES, INC.

Statement of Earnings Retained in the Business

Deduct (add):	
Premium on redemption of convertible subordinated debentures	$ 803,603
Cash dividends on preferred stock—$3 a share	2,060,887
Market value of 2½% stock dividend	16,507,948
Reduction in federal taxes applicable to prior year charges to earnings retained in the business	(1,883,426)
	$17,489,012

VASCO METALS CORPORATION

Costs and Expenses:	
Cost of goods sold	$30,932,056
Selling, administrative, and general expense	4,664,196
Additional compensation to directors, officers, and employees	1,222,209
Interest paid	178,608
Prior years' tax adjustments	12,592
Net loss (gain) on disposal of fixed assets	735
	37,010,396
Net Income Before Taxes on Income	6,719,214
Provisions for Taxes on Income:	
Current:	
Federal	3,064,000
State	236,000
Deferred	6,000
	3,306,000
Net Income	$ 3,413,214

Tax Assessments, Refunds, and Refundable Taxes

CITY STORES COMPANY

Charges and Credits (net of applicable federal income taxes):

Recovery of prior year's federal income taxes less additional assessment and interest thereon	$1,416,773

THE DOW CHEMICAL COMPANY

Costs and Other Charges:

Provision for United States and foreign taxes on income (Note E)	$73,500,000

Note E: Commitments and Contingent Liabilities—There was no settlement during 1965 of the Federal income tax issues for the years 1956 through 1960 which have been in dispute. It now appears that litigation will be required to settle the potential liability of approximately $14,000,000. At December 31, 1965 the Company had provided approximately $7,300,000 for this contingent liability of which $3,300,000 was charged to 1965 operations. In the opinion of the Company such provision should be adequate to cover any settlement.

Other contingent liabilities at December 31, 1965 were approximately $23,500,000 and consisted principally of guarantees of loans to associated and other companies.

A. O. SMITH CORPORATION
Financial Review

Net Earnings: Net earnings rose to $8,709,000 in 1965, from $1,893,000 in the previous year. Net earnings amounted to $4.05 per share in 1965, compared with 88¢ per share in 1964 based on shares outstanding at the end of the year. The earnings were higher than any previous year since 1959. The increase reflects the improved performance in practically every area of the Company's operations. Net earnings were improved by $750,000 resulting from a tax loss carry-forward but were reduced because of a tentative settlement with the Internal Revenue Service of proposed adjustments to the federal income tax liabilities of the Company and its foreign subsidiary for the years 1957 to 1961. The settlement involved an additional provision for taxes of $560,000.

UNIVERSAL LEAF TOBACCO CO., INC.

Retained Earnings at Beginning		$36,484,482
Deduct:		
Additional Federal Income Tax Assessment on prior years	55,179	
Premium on Preferred Stock acquired	6,450	
		61,629
		$36,422,853

Carry-back and Carry-forward of Operating Losses

Tables 9 and 10 summarize the number, report presentation, and materiality of carry-backs and carry-forwards of operating losses, as disclosed in the 1965 reports of the survey companies. For an extensive discussion of the acceptable accounting treatment of claims for refund of income taxes based on the carry-back of losses, refer to *Accounting Research and Terminology Bulletins, Final Edition,* 1961 (Chapter 10, Section B) issued by the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants.

The following representative examples of carry-backs and carry-forwards of operating losses have been selected from the 1965 reports of the survey companies.

Carry-back of Operating Loss

AMERADA PETROLEUM CORPORATION

Profit before provision for income taxes	$92,320,982
Deduct:	
Provision for income taxes (Note 2)	35,092,000
Net Income for the Year	$57,228,982

Note 2: Provision for Income Taxes—The provision for income taxes for 1965 reflects (1) a credit of $5,211,000 representing a refund due the Corporation resulting from a carryback against 1964 United States income tax of allowable foreign tax credit generated by 1965 operations; and (2) a credit of $5,854,000 representing a reduction of 1965 Libya income tax through utilization in full of a tax credit carryover from 1964.

BRUNSWICK CORPORATION

Costs and Expenses:

Provision (credits) for Federal, state and foreign income taxes (Note 3)	($51,650,000)

Note 3: Income Taxes—The Company and its subsidiaries have followed, for book purposes, the practice of recording income from sales financed by long-term installment notes receivable when customers take delivery of bowling lanes, automatic pinsetters and related products. This practice, which is known as the "accrual basis," is the income-reporting method followed by most companies. For income tax purposes, the Company and its subsidiaries follow the "installment basis" of reporting income from such sales.

Income taxes applicable to installment sales have been provided on the basis of book income at the tax rate in effect in the year of sale. These taxes are payable over the terms of installment notes receivable as payments are received from customers. Accordingly, deferred income taxes of $28,330,000 at December 31, 1965 (after reflecting the income tax effect of the substantial bowling losses charged against 1965 operations) will not be payable until future years. The loss in 1965 also resulted in carry-back refund claims of $18,225,000 for Federal income taxes paid in prior years.

Because of reductions in the United States Federal income tax rates, the provision (credits) for income taxes includes credits of $2,300,000 in 1965, and $1,100,000 in 1964, for the difference between income taxes at the current rate and the amount of deferred income taxes previously provided at higher rates.

THE DUPLAN CORPORATION

Income (loss*) before U. S. federal income tax, exclusive of Canadian subsidiaries and K-D Lamp Division	$90,928*
Provision for U. S. federal income taxes (Note 5)	36,586*
Income (loss*) exclusive of Canadian subsidiaries and K-D Lamp Division	$54,342*

Note 5: The amount of $36,586 represents the investment credit for fiscal 1965 which is available as a carryback to the prior year.

The investment credits for the fiscal years 1962, 1963 and 1964 were taken into income in fiscal 1964. The U. S. federal income tax provision for the year ended September 30, 1964 was reduced by $174,506 representing that year's investment tax credit benefit of $141,651 and the credit for fiscal 1962 of $32,855. The credit of $33,540 for fiscal 1963 had been credited to the tax provision with a corresponding charge to depreciation expense in fiscal 1963; in fiscal 1964, depreciation was reduced accordingly.

*Red figure.

Carry-forward of Operating Loss

DAYCO CORPORATION

Deduct:	
Cost of sales—excluding depreciation	$64,540,149
Selling, administrative and general expenses	19,292,402
Depreciation and leasehold amortization	2,506,814
Interest and loan expense	913,256
Federal income taxes	1,703,284
	$88,955,905

Notes to Financial Statements

Note 6: The Company's current provision for federal income taxes reflects the complete application of the operating loss carryover in the amount of $1,997,000 of a subsidiary which was merged during the year.

TABLE 10: INCOME TAX ADJUSTMENTS, ALLOCATIONS, AND DEFERMENTS—1965

	Percentage of Materiality*														
	Income Account							Retained Earnings Account							1965
Nature of Income Tax Adjustments:	0—5%	6—10%	11—20%	21—50%	Over 50%	N	Total	0—5%	6—10%	11—20%	21—50%	Over 50%	N	Total	Total Items
Prior year tax accrual adjustments	5	1	1	1	1	—	9	2	1	1	—	1	2	7	16
Additional tax assessment or payment	1	1	—	—	—	—	2	1	—	—	—	—	1	2	4
Carry-back: Operating loss	1	—	1	—	2	—	4	—	—	—	—	1	—	1	5
Carry-forward: Operating loss	2	2	4	4	5	22	39	—	—	1	—	1	—	2	41
Interest expense on assessments	1	—	—	—	—	—	1	—	—	—	—	—	1	1	2
Interest received on tax refund	1	—	—	—	—	—	1	—	—	—	—	—	—	—	1
Tax adjustment not identified	—	—	—	—	1	—	1	—	—	—	—	—	—	—	1
Tax adjustment—other items	4	—	—	—	1	—	5	3†	—	—	—	—	—	3	8
Prior year investment credit returned to income	4	1	—	—	—	—	5	1	1	—	—	—	—	2	7
Adjustments—Total	19	5	6	5	10	22	67	7	2	2	—	3	4	18	85
Allocation of Current Income Taxes, with:															
Extraordinary items shown net of related tax	9	8	5	2	3	—	27	4	13	16	9	8	—	50	77
Extraordinary items shown in full amount	34	16	16	2	9	1	78	5	3	6	6	18	—	38	116
Only tax effect of extraordinary items shown	1	—	—	—	—	—	1	—	1	—	—	—	—	1	2
Allocations—Total	44	24	21	4	12	1	106	9	17	22	15	26	—	89	195
Deferments:															
Deferment of income taxes	92	55	49	24	3	22	245	—	—	—	—	—	—	—	245
Reduction of deferred income taxes	8	2	1	1	—	1	13	—	—	1	—	—	—	1	14
Deferments—Total	100	57	50	25	3	23	258	—	—	1	—	—	—	1	259
Total	163	86	77	34	25	46	431	16	19	25	15	29	4	108	539

	Accounts Adjusted for Special Items:		
Number of income tax adjustments	Income	Retained Earnings	1965 Total
For prior year accruals, etc.	67	18	85
For allocations arising from special items	106	89	195
For deferments	258	1	259
Total	431	108	539

*See Table 9 for Presentation of Income Tax Adjustments.
See Tables 11 and 12 for Extraordinary Items.
N—Percentage of Materiality not determinable.
†Includes one entry to capital surplus.

BELL INTERCONTINENTAL CORPORATION

Income Before Taxes	$6,475,130
Provision for Federal Income Taxes (Note 2)	2,560,000
Income After Taxes	$3,915,130

Note 2: *Federal Income Taxes*—Bell Intercontinental Corporation normally files a consolidated Federal income tax return with all includable subsidiaries. A subsidiary which is not includable incurred substantial losses in 1964 for which no tax benefit was available in 1964. In 1965, the provision for Federal income taxes was reduced as a result of the carryforward of this subsidiary's operating losses. After recognition of minority interest, the effect of this tax reduction was to increase net income for the year by approximately $233,000.

Subsidiaries and affiliates which are not includable in Bell's consolidated tax return file returns on an individual company basis. Certain subsidiaries and affiliates have open tax years which may be subject to adjustment upon review by the Internal Revenue Service. In the opinion of management, the effect of any Federal income tax adjustments at the subsidiary level would not be material to the financial statements of Bell Intercontinental.

CHOCK FULL O'NUTS CORPORATION

Income before provision for taxes	$4,251,629
Provision for taxes, including federal income taxes of $1,102,000 and $1,712,000, respectively (Note 2)	1,925,782
Net Income	$2,325,847

Note 2: Changes in the Internal Revenue Regulations during fiscal 1965 permitted the Company to utilize subsidiary carryforward losses and to reduce its provision for federal income taxes for fiscal 1965 by approximately $340,000. In fiscal 1964, the provision for federal income taxes was reduced approximately $118,000 as a result of the utilization of a carry-forward loss.

Federal income taxes in fiscal 1965 and 1964 were reduced by approximately $211,000 and $89,000, respectively, by application of the investment credit under the Revenue Acts of 1962 and 1964.

UNITED MERCHANTS AND MANUFACTURERS, INC.

Net Provision for Federal and Foreign Taxes on Income (Note B)	$12,928,878
Net Income (Note A)	$18,519,433

Note B: *Taxes*—The accompanying consolidated financial statements are subject to final determination of Federal, foreign, state and local taxes.

The provision for Federal and foreign taxes on income is stated net after deducting approximately $1,000,000 (applicable principally to foreign subsidiaries), representing refunds and reductions of taxes under the carry-back and carry-over provisions of the respective tax laws.

Availability of Operating Loss Carry-forward Disclosed in Notes to Financial Statements

AMERICAN SAINT GOBAIN CORPORATION

Note 5: Federal Income Taxes—No provision has been made for Federal taxes on income because of the carry-over of prior years' operating losses. After giving effect to the operating loss deduction used in the year 1965, the Company has an unused operating loss carry-over from prior years of $255,000 which is available to reduce income subject to Federal income taxes within a three year period. In addition, investment credits of $1,200,000 are available to reduce Federal income taxes within the next two to five years.

COLT INDUSTRIES INC.

Note 2: Tax Loss Carry-Forward—The Company has a substantial tax loss carry-forward due to operating losses and special charges in 1962 and prior years. As a result of application of the operating loss carry-forward, the effective rate of tax for 1965 was approximately 31% and no provision was required for 1964, other than that relating to the earnings of Quincy retroactively included herein. There is no operating loss carry-forward remaining to offset future tax provisions.

The loss carry-forward due to special charges recorded in 1962 (prior to the restatement of capital accounts) to the extent not utilized in 1965 will be used to reduce future tax payments on earnings generated within the statutory carry-forward period. It is not possible currently to estimate the aggregate amount of such future tax benefits. The amounts thereof, however, will not be reflected in reported earnings, but will be added to reserves related to the special charges as required and to the extent not so required will be credited to capital surplus.

GAR WOOD INDUSTRIES, INC.

Note H: Federal Taxes on Income—No provision for federal taxes on income is required because of the carry-forward of operating losses of prior years. Unused operating losses and investment tax cedit available for carry-forward to future years are approximately $870,000.

HOFFMAN ELECTRONICS CORPORATION

Note D: Income Tax—No provision for income tax is required for the year ended December 31, 1965, by reason of the carry-forward of net operating losses from the previous year. Remaining loss carry-forwards of approximately $200,000 will offset future taxable income; other tax benefits could offset approximately $300,000 of additional future earnings.

THE RATH PACKING COMPANY
Notes to Financial Statements

The operating losses for income tax purposes for the calendar year 1964 and the first nine months of 1965 more than offset income of prior years against which such losses may be carried back resulting in refund of income taxes paid in 1963 and leaving a tax basis operating loss carry-forward estimated to approximate $3,260,000 that may be offset against taxable income when earned in future years. Investment tax credits formerly recorded on the books, or that are applicable to the current year, were eliminated by reason of the loss carry-backs but are available for carry-forward to future periods as offsets in the aggregate approximate amount of $322,000 against future income taxes. The amounts and credits shown below in the provision for taxes for the current year are those necessary to adjust the books to reflect the conditions above described.

	1965	1964
Provision for Federal Income taxes on current operations (credits)	$(387,797)	$(35,207)
Provision for deferred income tax	59,566	525,207
Investment tax credit	130,000	(64,000)
	$(198,231)	$426,000

STRUTHERS WELLS CORPORATION

Note 3: Federal Income Taxes—Federal income tax returns of the Corporation are under examination by the Internal Revenue Service for the fiscal years ended November 30, 1960 and 1961.

The Corporation will file a consolidated Federal income tax return for the year ended November 30, 1965. No tax liability is anticipated because of the application of prior years' operating losses carried forward.

WALWORTH COMPANY

Note 6: No provision for Federal income taxes is necessary because tax loss carry-forwards are available.

TWENTIETH CENTURY-FOX FILM CORPORATION

Note 4: Federal Taxes on Income—Consolidated Federal income tax returns are filed. The current provision for Federal income taxes has been reduced by credits for foreign taxes paid in prior years allowable under the carry-over provisions of the Internal Revenue Code, and by investment tax credits earned in prior years. The company believes that future years' provisions for Federal taxes on income will not be materially reduced by such carry-forward credits.

Various expenses have been recorded for financial statement purposes which will not be deductible for income tax purposes until future years. However, the benefit of these deductions may be substantially offset in the year claimed as a deduction for income tax purposes by similar expenses that will not be deductible in that year.

The Federal income tax returns for the years 1957 through 1962 are currently being examined. Management believes that there is adequate provision in the accounts for any liability payable with respect to all open years.

Tax Adjustments—Other Items

Disclosed in Income Statement

AIR REDUCTION COMPANY, INCORPORATED

Income Before Federal and Foreign Taxes on Income	$43,335,498
Provision for Federal and Foreign Taxes on Income:	
Current	11,699,592
Deferred—Net	5,980,796
Total (Note E)	17,680,388
Net Income for the Year	$25,655,110

Note E: Federal Taxes on Income—The Company's provision for current Federal income taxes reflects net reductions attributable to the use of liberalized depreciation and guideline depreciation rates for tax purposes only. Provision has been made for deferred income taxes in an amount equivalent to such net reductions.

The 1965 and 1964 current provisions for Federal income taxes have been reduced by investment credits of $2,740,000 and $2,200,-000, respectively.

Provisions for estimated losses on plant facility abandonments, being accomplished over several years, and on a plant accident, net of estimated Federal income tax reductions, were made by charges to retained earnings in prior years. The provision for current Federal taxes on income is before tax reductions of $263,369 and $773,928 in 1965 and 1964, respectively, arising from such losses actually realized and deducted for income tax purposes in those years.

UNION CARBIDE CORPORATION
Statement of Income and Retained Earnings

Deductions:	
Provision for United States and Foreign Income Taxes (Note 4)	$146,198,000

Note 4: Provision for United States Income Taxes—The Investment Tax Credit applicable to certain depreciable assets placed in service in the United States amounted to $13,531,000 in 1965 and $12,626,000 in 1964. These amounts have been credited to earnings in 1965 and 1964, respectively, as a reduction of income taxes. Beginning with the year 1964, the Corporation and all its qualified subsidiaries elected to file a Consolidated United States Federal Income Tax Return. As a result, $4,600,000 or $0.08 per share, applicable to the utilization of certain deductions and credits in the 1964 return, has been credited to 1965 earnings as a reduction of income taxes.

Disclosed in Retained Earnings Statement

PEDEN IRON & STEEL CO.
Retained Earnings:

Balance—Beginning of year	$6,237,069
Revenue Agent's Adjustments for Prior Years and Other Income Tax Adjustments (Net)	26,457

Disclosed in Paid-in Surplus Statement

HERCULES POWDER COMPANY

Paid-in Surplus:	
Balance at beginning of year	$49,586,601
Excess of sales price over par value of stock sold under stock option plans	1,335,282
Net amount by which stated value of class A stock exceeded or (was less than) par value of common stock issued in conversion thereof and the market value of fractional shares	786,786
Refund of U. S. capital gains tax on reacquired common stock awarded as bonus in the year 1953	100,739

Prior Year Investment Credit Returned to Income

Set Forth in Notes to Financial Statements

HAMILTON WATCH COMPANY

Income before income taxes and equity in earnings of unconsolidated foreign subsidiaries		$1,892,677
Provision for taxes on income (Note 6):		
Currently payable	364,000	
Deferred federal income tax charges, net	435,000	
		799,000
Income before equity in earnings of unconsolidated foreign subsidiary		$1,093,677

Note 6: Provision for Taxes on Income—Prior to the year ended January 31, 1965, Hamilton followed the practice of amortizing the benefits of the investment tax credit over the productive lives of the related property. In the current year, after a change in the federal tax laws, Hamilton changed its practice and now records the credit as a reduction of income tax expense in the year the benefit is received. Accordingly, the income for the year ended January 31, 1965 is approximately $30,000 greater than it would have been under the company's previous practice. In addition, the net income for the year ended January 31, 1965 has been increased approximately $32,500 relating to the retroactive adjustment of the credit utilized in years prior to January 31, 1965.

The net provision for deferred income taxes relates to differences between book and tax amounts applicable to depreciation, pensions, material costs, prior year net operating losses of a merged subsidiary and a prior year installment sale of equipment.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

Statement of Net Earnings and Retained Earnings

Provision for Income Taxes after credit of $220,000 in 1965 and including charge of $1,231,000 in 1964 for deferred federal income taxes (Note 2)	$3,200,000

Note 2: Income Taxes—The provision for income taxes reflects exemption from taxes on income from the Canadian potash mine which, under the Income Tax Act of Canada, is not subject to taxes for a three-year period from the date commercial production commenced. No provision has been made for taxes which would be payable if undistributed earnings of foreign subsidiaries were paid to the parent Corporation, since these earnings are considered permanently invested in the businesses.

The Corporation's income tax returns for the five years ended June 30, 1963 are under examination by the Internal Revenue Service. Although the Service has proposed adjustments (relating principally to the Corporation's method of computing percentage depletion), it is believed that adequate provision has been made in the Corporation's accounts for any taxes that ultimately may be assessed.

Investment tax credits of approximately $700,000 have been applied to reduce the 1965 provision for federal income taxes, of which $77,000 represents amounts deferred in prior years.

AMERICAN AIR FILTER COMPANY, INC.

Note 4: Investment Credit—The Revenue Act of 1964 eliminated the requirement that the investment credit be treated as a reduction of the basis of the property; therefore, during the years ended October 31, 1964, and 1965, the Company recorded the credit as a reduction of the provision for Federal income taxes for such years. The previously deferred investment credit to October 31, 1963, amounting to $79,446, was restored during 1965 to the appropriate property accounts and has been included in current earnings.

AMERICAN OPTICAL COMPANY

Cost of goods sold	$ 73,517,634
Selling, general and administrative expenses	40,437,929
Depreciation and amortization	4,059,402
Interest and debt discount and expense	869,162
Other charges	414,815
Nonoperating charges and credits (Note 5)	(65,000)
	$119,233,942

Note 5: Nonoperating Charges and Credits—Nonoperating charges are as follows:

Provision for self-insurance	$400,000
Restoration of prior years' investment credit (Note 6)	(465,000)
	$(65,000)

THE GREAT WESTERN SUGAR COMPANY

Net income	$ 9,379,066
Earnings retained for use in the business at beginning of year	49,808,946
Prior years' investment credit	565,299
Total	$59,753,311

THE PARKER PEN COMPANY

Note 6: Investment Tax Credit—The company has adopted the policy of reflecting the investment tax credit on fixed asset additions as a reduction of income tax expense in the year of the asset addition. As a result of this change, the current year's investment tax credit and unamortized credits from prior years, which amounts are not significant, are included in the 1965 income statement.

Set Forth in Retained Earnings Statement

THE AMALGAMATED SUGAR COMPANY

Income before provision for income taxes	$11,804,000
Provision for federal and state income taxes:	
Taxes before investment tax credit	6,133,000
Less: Investment tax credit—current year	464,000
Taxes after investment tax credit	5,669,000
Net income carried to retained earnings	6,135,000
Retained earnings at beginning of year	29,876,000
Add: Investment tax credit restored for years ended prior to September 30, 1964	275,000
	36,286,000
Less: Dividends	2,320,000
Retained earnings at end of year	$33,966,000

ALLOCATION OF INCOME TAXES

The problem of allocation of income taxes arises in those cases where there are material and extraordinary differences between the taxable income upon which such income taxes are computed and the income for the period determined in accordance with generally accepted accounting principles. For a comprehensive discussion of the allocation of income taxes and the method of applying the allocation principle, see the *Accounting Research and Terminology Bulletins, Final Edition* (Chapter 10, Section B), issued in 1961, by the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants, and also *Accounting Series, Release No. 53,* published by the Securities and Exchange Commission.

Deferments of income taxes arising from variations in the treatment for income tax purposes as opposed to financial reporting purposes, of the investment tax credit, depreciation, and installment sales, are not considered allocations of taxes in Table 9. Such deferments of income taxes are shown separately in Table 9 with appropriate coverage in the text.

Presentation of Income Tax Allocation

Table 9 shows there were 195 items of income tax allocation for extraordinary items disclosed by the survey companies in their 1965 annual reports. In 77 of the instances the extraordinary item giving rise to the allocation was presented "net of the related tax effect." The extraordinary item was shown "in full amount" in 116 cases. The percentage of materiality (Table 10) was not determinable for one of these cases. The types of extraordinary items are shown in Tables 11 and 12 of this section. Examples of allocation are given below.

Extraordinary Items Shown Net of Related Tax

Disclosed in Income Statement

CONSOLIDATED FOODS CORPORATION

Sales and Other Income:	
Net sales and operating revenues	$790,108,918
Profit on disposal of property and equipment, less applicable income taxes of $283,595 in 1965 and $38,792 in 1964	385,903
	$790,494,821

DEERE & COMPANY

Income Before Gain on Sale of Chemical Company Assets	$51,034,619
Gain on Sale of Chemical Company Assets (Less related income tax)	4,758,000
Net Income for the Year	$55,792,619

CUTLER-HAMMER, INC.

Income from operations	$20,856,995
Other income or (deductions)	(666,235)
Income before relocation and start-up expenses	20,190,760
Relocation and start-up expenses	3,289,059
Income before taxes	16,901,701
Provision for Federal and State income taxes	8,584,723
Net Income	$ 8,316,978

Financial Review

The 1965 net income of $8,316,978 was 4.4% of the 1965 net sales of $190,959,893. The after tax effect of the $3,289,059 of relocation and start-up expenses was .8% of net sales, making the 1965 performance before these expenses comparable to the 5.2% earned on net sales in 1964. Earnings per share of common stock were $2.66 compared with $2.53 per share in 1964 and $2.61 in 1956, the previous record year. All per share figures are calculated on the basis of shares outstanding at the end of the respective years after giving effect to the 2-for-1 stock split effective February 3, 1965.

INTERLAKE STEEL CORPORATION

Sales and Revenues:	
Net sales	$262,363,243
Other revenues	3,463,477
	$265,826,720

Financial Review

Other Revenues: Other revenues amounted to $3,463,000 in 1965. The most important source of these revenues was dividend income which amounted to $1,902,000. Of this amount $1,388,000 came from an associated company, Olga Coal Company, in which Interlake owns a 37% interest. Interlake's equity in Olga's 1965 earnings amounted to $864,000. Interest income from short-term investments was $536,000, somewhat less than the prior year. The final major source of income was from the sale of the principal assets of the Enos Coal Mining Division to Old Ben Coal Corporation on October 12, 1965. The net after-tax gain on this sale amounted to $529,000. The total consideration for sale of these assets was $19,705,000 of which $14,580,000 was cash. The balance was taken in the form of 125,000 shares of Old Ben common stock. Other revenues came from sundry sources, primarily rents and royalties.

SUNSHINE BISCUITS, INC.

Income Before Income Taxes and Gain on Sale of Real Estate	$7,851,542
Provision for Federal and Canadian Income Taxes	3,260,000
Income Before Gain on Sale of Real Estate	4,591,542
Gain on Sale of Real Estate, Net of Applicable Income Taxes	886,192
Net Income	$5,477,734

TIME INCORPORATED

Income Statement

Other Income	$6,999,000

Notes to Financial Statements

Other Income and Other Deductions: Other income includes dividends and interest of $3,616,000 in 1965 and $3,121,000 in 1964; and capital gains of $1,775,000 in 1965 and $1,823,000 in 1964. The principal capital gain in 1965 was from the sale of stock owned for many years in a printing concern and in 1964 from the sale of broadcasting properties in Minneapolis.

Other deductions consist principally of interest expense of $2,942,000 in 1965 and $3,255,000 in 1964.

Letter to Stockholders

The Company's interest in J. W. Clement Co., owners of Pacific Press and other printing facilities, was sold, resulting in a capital gain of approximately $1.6 million after taxes. Time-Life International's 50% share of Panorama (Italy) was sold to our partner, Arnaldo Mondadori Editore of Milan.

Disclosed in Retained Earnings Statement

ASSOCIATED BREWING COMPANY
Statement of Earnings Retained for Use in the Business

Loss on sale of idle facilities, net of related tax reduction	$103,193

BAYUK CIGARS INCORPORATED

Net income for the year, Note 3	$ 698,648
Special charge—loss on disposal of plant facilities, net of associated income taxes, Note 1	171,500
Net income and special charge	527,148
Retained earnings at beginning of year	21,822,201
Dividends paid—$.50 per share (1965); $.875 per share (1964)	(686,663)
Retained earnings at end of year, Note 4	$21,662,686

Note 1: In early 1965 manufacturing operations at the Allentown and Steelton plants were discontinued. The costs incurred in vacating the Allentown plant, and the provision for loss on the disposal of the Steelton property are shown as a special charge, net of associated income taxes, in the consolidated statement of income and retained earnings.

EVANS PRODUCTS COMPANY

Net Earnings	$ 8,404,000
Special Item:	
Gain on sales of timber and related facilities, less income taxes	5,364,000
Net Earnings and Special Item	$13,768,000

MAREMONT CORPORATION
Statement of Earnings Retained in the Business

Non-recurring expenses and losses in connection with plant closings and consolidations, etc., less related Federal income tax credit of $1,740,000 (Note 8)	$3,500,000

Note 8: Plant Closings and Consolidations, Etc.: Estimated expenses and losses in connection with plant closings and consolidations, etc., relate primarily to the Cleveland shock absorber facilities which are to be closed in 1966. Because of the non-recurring nature of these costs, they have been charged to earnings retained in business.

ST. JOSEPH LEAD COMPANY

Net Income for the Year (1965, $4.98 per share on 4,570,564.5 shares; 1964, $3.93 per share on 4,560,077.5 shares)	$22,766,498
Special Items (Note 9)	14,610
Net Income for the Year and Special Items	$22,781,108

Note 9: Special Items—Special items comprise the following: 1965:

Profit from sale of investment in The New Jersey Zinc Company after taxes of $168,993	$506,979
Less—Abnormal costs incurred through insolvency of contractor in construction of new mine facilities after taxes of $454,494	492,369
	$ 14,610

and for 1964, profit from sale of investment in Missouri-Illinois Railroad Company (after taxes of $777,572), $2,332,715.

Extraordinary Items Shown in Full Amount

Disclosed in Income Statement

ALLIED CHEMICAL CORPORATION
Income Statement

Other Income:	
Gain on exchange of marketable securities	$4,026,721
Dividends	2,866,397
Interest	1,022,774
Profit on purchase of debentures	1,027,752

THE BLACKSTONE CIGAR COMPANY
Income Statement

Operating loss	$ 998,024
Other income	10,422
	987,602
Start-up expenses of Puerto Rican operations	96,319
Interest expense	107,413
Net loss (Note 6)	$1,191,334

Letter to Stockholders

Our two Puerto Rican subsidiary corporations are now fully operative; one is grading Connecticut shade wrapper tobacco; and the other is manufacturing sheet tobacco. These tobacco sheets, which we will make and sell under the terms of an exclusive license in the western hemisphere, hold great promise for a profitable future because we feel that they will receive general acceptance. Organizational, start up and preoperative costs amounting to $96,319 have been charged to expense as incurred.

CALUMET & HECLA, INC.
Statement of Income and Retained Earnings

Other Income—Note 1	$1,171,940

Note 1: Principles of Consolidation—The accompanying consolidated financial statements include those of the Company and all wholly-owned operating subsidiaries. As of July 1, 1965 the operations of the Company in Canada were reorganized into a single corporation, Calumet & Hecla (Canadian) Limited. This reorganization had no effect on asset values or earnings as compared to prior years.

Alabama Metallurgical Corporation operated as a wholly-owned subsidiary to March 31, 1965 when it was liquidated under a tax-free reorganization into the Company and now operates as a division. The accounts of this subsidiary were first consolidated as of April 1, 1962, at which time pre-production expenses attributable to the establishment of the magnesium business were included in Charges Deferred to Future Operations to be amortized over a period not to exceed ten years. Due to the deteriorating pricing structure of magnesium metal, the Company elected in 1965 to accelerate this amortization and write off the remaining pre-production expense of $1,511,486 which includes $1,020,944 attributable to the acceleration. This item is included in the income statement in Amortization of Development Projects. The available net operating loss carry forward from the subsidiary has been used to reduce the provision for federal income taxes.

No sales, costs, or earnings of Unifin Limited are included in the 1965 figures since the operating assets and business were sold on January 4, 1965. Other income includes a gain of $357,236 from this sale and the sale of a minority stock investment.

KOPPERS COMPANY, INC.
Statement of Income and Earnings Retained in the Business

Operating profit	$17,699,398
Other Income:	
Dividends (Note 1), interest, etc.	957,776
Profit on sales of capital assets, principally timber properties	1,840,040
	2,797,816
	$20,497,214

ST. REGIS PAPER COMPANY
Summary of Earnings

Income Credits:	
Dividend and interest income	$ 4,443,334
Equity in net earnings of subsidiaries not consolidated and associated companies (Note 2)	5,304,120
Profit from sales of fixed assets	1,066,741
Profit from sales of investments	561,112
Other	1,228,453
	$12,603,760

Disclosed in Retained Earnings Statement

ELGIN NATIONAL WATCH COMPANY
Statement of Earnings and Retained Earnings (Deficit)

Net earnings (or loss) including Federal income tax reduction in 1964	$(6,841,730)
Special Charges:	
Cost of prior-year overruns on certain United States Government contracts (Note 2)	1,513,000
Net loss including Federal income tax reduction and special charges	$(8,354,730)
Retained Earnings, beginning of year	3,368,441
Retained Earnings (Deficit), end of year	$(4,986,289)

Note 2: Costs on United States Government Contracts—At the close of the previous year, February 29, 1964, the Company was preparing claims under the changes provisions of contracts with the United States Government to recover the excess of manufacturing costs over the contract selling prices of certain fixed price contracts. As of that date, $2,340,000 of such costs were included in inventories in the consolidated balance sheet. Subsequently, additional costs of $500,000 were incurred on these contracts. In May, 1965, the claims against the government on two of the three major contracts were settled. The remaining costs of $1,513,000 not recovered in the settlement have been written off as a special charge against earnings in the year ended February 28, 1965.

By May, 1965, the Company had completed or discontinued work on all government contracts and had sold nearly all of the machinery and equipment used in such production. In connection therewith, the Company has provided in the accounts for any liabilities that might be incurred or losses that might be sustained in phasing out its defense business.

UNITED PARK CITY MINES COMPANY
Statement of Income

Net loss for the year	$ 77,379
Unrecovered cost of assets abandoned in 1965 (Note G)	203,711
Net loss after special charge	$281,090

Note G: Special Charge on Statement of Income—During 1965 certain buildings, equipment, machinery and supplies were declared obsolete and of no further use to the mining operations of the company. Dismantling and salvage work was begun and the unrecovered costs of these assets were written off as a special charge in the 1965 statement of income as follows:

	Unrecovered costs
Buildings, machinery and equipment	$172,329
Supplies	31,382
Total	$203,711

WESTINGHOUSE AIR BRAKE COMPANY
Statement of Income and Retained Earnings

Net Income	$ 15,080,783
Retained Earnings at Beginning of Year:	
Westinghouse Air Brake Company and its consolidated subsidiaries	87,604,126
Total	102,684,909
Other Additions (Deductions):	
Excess of equity in net assets of subsidiaries not consolidated over carrying value as of January 1, 1965 (Note 1)	6,758,614
Charge for obsolete inventory and plant changes, net of income taxes (Note 4)	(2,100,000)
Cash Dividends	(7,153,938)
Retained Earnings at End of Year	$100,189,585

Note 4: The charge to retained earnings for obsolete inventory and plant changes is a result of the decision by management to recognize, at one point in time, the estimated costs (after income taxes) to reorganize the facilities and inventories to meet the rapidly changing character of the Company's commitment to the traffic control, signaling and communication requirement of the rail and mass transit industries.

GENERAL BRONZE CORPORATION
Statement of Income and Earned Surplus

Net income for the year	$ 820,824
Earned Surplus, beginning of year	3,771,126
	4,591,950
Expenses attributable to relocation of Garden City operations and Steel Weldments and Brach Divisions (Note 7)	654,307
Earned Surplus, end of year	$3,937,643

Note 7: On April 15, 1965 the Company entered into an agreement to sell its Garden City plant, exclusive of machinery and equipment, for $4,000,000 and received as a deposit an irrevocable Letter of Credit for $400,000 which had been deposited in escrow. The Agreement calls for completion of the sale on or before April 15, 1966.

In the meantime, the Company is moving its head office and the Garden City operations to new locations. During 1965 the Company also relocated the operations of its Steel Weldments and Brach divisions, as more fully discussed in the Chairman's letter. Expenses incurred to date in connection with the afore-mentioned relocations are shown as a charge to earned surplus.

Only Tax Effect of Extraordinary Items Shown

FREEPORT SULPHUR COMPANY
Statement of Earnings Retained in the Business

Earnings retained in the business at beginning of year	$ 80,494,168
Net income for the year, as above	21,659,954
Portion of Federal income tax savings applicable to amount charged to retained earnings in 1960 on writeoff of investment in Cuban American Nickel Company (Note 3)	2,300,000
	104,454,122
Dividends declared during the year	12,302,580
Earnings retained in the business at end of year	$ 92,151,542

Note 3: For the years 1959 through 1963, Freeport's Federal income taxes were determined on the basis of filing returns which consolidated Cuban American Nickel Company and its subsidiary, Moa Bay Mining Company, which companies were not consolidated in the financial statements. The entire investment in these companies, which were originally organized to mine and process Cuban minerals, was written off in 1960 by a charge to retained earnings. Tax deductions and resultant tax-loss carry-forwards arising from these companies have eliminated the Federal income taxes which would otherwise have been payable by Freeport. Because a portion of these reductions in taxes otherwise payable is considered to be applicable to the amount charged to retained earnings in 1960, annual charges equivalent to each year's share of such portion have been included in Taxes. Such charges amounted to $2,300,000 in 1965 compared with $1,600,000 in 1964 and were credited to retained earnings in those years. The Company has a substantial unused tax-loss carry-forward available to it and will continue to charge income and to credit retained earnings with the appropriate portion of tax savings as they are realized.

GENERAL REFRACTORIES COMPANY
Statement of Income and Retained Earnings

Costs and Expenses:

Federal, foreign and state income taxes ... $3,514,350

Notes to Financial Statements

Note 3: Taxes—The provision for federal, foreign and state income taxes as shown in the accompanying statements of income is composed of the following:

	1965	1964
Currently payable	$3,339,728	$2,859,904
Charge or (credit) for deferred income taxes	198,622	(219,044)
(Credit) equivalent to 1963 investment credit	—	(87,271)
Charge or (credit) equivalent to income taxes applicable to gains or losses on disposal of facilities and interest on prior years' income tax deficiencies, not charged or credited to income	(24,000)	278,903
	$3,514,350	$2,832,492

DEFERMENTS OF INCOME TAXES

As mentioned in the immediately preceding part of this section on "Allocation of Income Taxes," deferments of income taxes arise from the variations in the treatment of certain items on corporate income tax returns in accordance with the provisions of the applicable statutes from the treatment of these items for financial statement purposes in accordance with generally accepted accounting principles. The principal items giving rise to deferred income taxes are: (1) the U. S. investment tax credit on the acquisition of qualifying tangible personal property as permitted by the Revenue Act of 1962, and as subsequently amended, and similar investment allowances permitted under the income tax laws of other countries; (2) the use of shorter lives on depreciable property for income tax purposes (as permitted by Revenue Procedure 62-21 issued by the U. S. Internal Revenue Service in July, 1962 and similar provisions of the income tax laws of other countries) than for financial statement purposes; (3) the use of accelerated depreciation methods as previously described in this section under "Depreciation" for income tax purposes as permitted by the applicable laws of the U. S. and other countries and use of the "straight-line" method for financial statement purposes; and (4) the use of the installment method for reporting income from certain deferred payment sales for income tax purposes and the use of the accrual method for reporting income from such sales for financial statement purposes. When the income for income tax purposes is less than income for financial statement purposes, provision is made in the current financial statements for estimated income taxes that will be payable in future years when the income reportable for income tax purposes will be greater than income reportable for financial statement purposes by charging current income tax expense and crediting a long-term liability account (sometimes referred to in the survey companies' reports as a reserve account) for deferred income taxes payable in future years.

Reductions in deferred income taxes were mentioned in the reports of some of the survey companies. In several cases these reductions were attributable to the deduction, for financial statement purposes, of normal depreciation on emergency facilities constructed under certificates of necessity which exceeded the amortization allowable for income tax purposes on the companies' 1965 U. S. returns. In other cases the deferred income tax reductions were attributable to lower corporate income tax rates. The reductions in deferred income taxes attributable to the return to income of unamortized U. S. investment tax credits for prior years have been reported previously in this section as Income Tax Adjustments. Although most of the adjustments to return the unamortized investment tax credits to income were reflected in the 1964 statements of the survey companies, some of the adjustments were made in 1965.

As noted in Tables 9 and 10 there were 259 income tax deferment items presented in the 1965 reports of 257 survey companies, which consisted of 245 deferred items applicable to 1965 income tax provisions and 14 items representing reductions in deferred income tax charges applicable to prior years.

Following are examples of deferred income taxes.

Presented Among Other Costs in Income Statement With Tax Estimate

REPUBLIC STEEL CORPORATION

Federal income taxes (deferred taxes 1965 — $2,307,937; 1964 — $976,019)—Note E	36,300,000
Total	$1,308,505,894

Note E: Deferred Federal Income Taxes and Investment Credits—Deferred Federal income taxes amounting to $45,558,331 at December 31, 1965, were attributable to deductions by the Corporation for tax purposes of its share of the depreciation and amortization charges of Reserve Mining Company in excess of the amounts recorded on the books of Reserve, and to the excess of depreciation charges of the Corporation for tax purposes over amounts included in the statement of income. The credits for investment in depreciable property (including the Corporation's share of the credit attributable to Reserve Mining Company) for the year 1965, amounting to approximately $8,200,000, were included in income by a credit to the provision for Federal income taxes.

UNITED STATES TOBACCO COMPANY

Costs and Expenses:	
Cost of products sold	$30,862,993
Other operating costs	11,158,997
Interest	304,621
Federal, Canadian, and state income taxes (including deferred Federal taxes, 1965, $247,000 and 1964, $176,000)	3,418,000
Total Costs and Expenses	$45,744,611
Noncurrent Liabilities	
Deferred Federal income taxes applicable to additional depreciation taken for tax purposes	$ 920,000

As Special Item

GENERAL CIGAR CO., INC.

Net sales and other revenue (Note 1)	$213,416,000
Cost of goods sold	173,519,000
Gross profit	39,897,000
Selling, administrative and general expenses	34,225,000
Interest expense	3,075,000
Federal Income Taxes:	
Current (Note 2)	112,000
Deferred (Note 3)	288,000
	$ 37,700,000

Note 2: Federal Income Taxes—The provision for federal income taxes in 1965 has been reduced by $246,000 (1964—$248,000) for the investment tax credit. A portion of the company's consolidated income was earned in Puerto Rico. Under present tax laws, such income is not expected to be subject to United States income taxes.

Note 3: Depreciation—Costs and other expenses include depreciation and amortization of $1,846,000 in 1965 and $1,731,000 in 1964. In 1965 the company changed to the straight-line method of depreciating assets previously depreciated on accelerated methods. The accelerated methods have been continued for federal income tax purposes. This change had the effect of increasing net income by $250,000. A charge equivalent to the tax reduction applicable to the excess of tax depreciation over book depreciation has been provided for the year 1965.

OSCAR MAYER & CO. INC.

Cost of products sold, including delivery expense but excluding items below	$260,466,802
Marketing and administrative expenses	22,442,600
Depreciation	5,362,301
Pension plan contributions	2,639,015
Interest expense	150,916
Taxes (except income and social security)	1,427,526
Federal and State Income Taxes:	
Currently payable	5,500,000
Deferred investment tax credit (net)	160,841
	$298,150,001

Presented in Last Section of Income Statement With Tax Estimate

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

Profit from operations	$96,114,900
Income Credits:	
Other—net	2,517,979
	98,632,879
United States and foreign income taxes (including a provision for net deferred investment credit—1965, $1,656,000; 1964, $2,165,000)	46,500,000
Net Income	$52,132,879

UNITED STATES RUBBER COMPANY

Income Before Taxes and Other Charges	$74,748,105
Federal and foreign income taxes (including provision for deferred taxes: 1965—$6,855,000; 1964—$5,417,000)	31,129,921
Minority interests	1,407,702
Foreign exchange losses	1,986,124
Provision for foreign losses	3,000,000
	37,523,747
Net Income	$37,224,358

Notes to Financial Statements

Investment Credit: The Investment Credit for 1965 made available under the Revenue Act of 1962, as amended in 1964, representing 7 per cent or less of the cost of certain machinery and equipment purchased for domestic operations, amounted to $2,661,000. This credit and the amortization of 1962 and 1963 credits of $221,000 for a total of $2,882,000 were applied as a reduction of our 1965 provision for Federal income taxes.

The unamortized balance of Investment Credits for 1962 and 1963, amounting to $1,499,000 as of December 31, 1965, is included in the amount of $29,699,426 in Deferred Federal and Foreign Taxes.

Financial Review

For financial accounting purposes, depreciation of property, plant and equipment is provided on a straight line basis at rates presently considered adequate to amortize the total cost over the life of the assets.

For Federal and Canadian income tax purposes, the Company uses the accelerated depreciation method and the liberalized depreciation "Guideline" rates. The resultant reduction in current taxes payable, $6,855,000 in 1965 and $13,717,000 for years prior thereto, is included in Deferred Federal and Foreign Taxes on the balance sheet.

As Special Item

COLONIAL STORES INCORPORATED

Profit before Federal income taxes and investment credit	$11,738,060
Provision for Federal income taxes (Note 4):	
Current (net of investment credit: 1965, $418,020; 1964, $469,194)	5,130,277
Deferred—through use of accelerated depreciation for tax purposes	260,353
Amortization of investment credit	(65,425)
Total provision for Federal income taxes	5,325,205
Net Earnings	$ 6,412,855

Note 4: Federal Taxes on Income—Depreciation of fixtures, equipment and transportation equipment acquired new since 1954 has been recorded in the accounts by the straight-line method, whereas for Federal income tax purposes the company has used accelerated methods of depreciating these assets. The reductions in current Federal income taxes resulting from this policy have been deferred, by charges to income and credits to deferred Federal income taxes. Portions of these provisions will be restored to income in years when depreciation recorded in the accounts exceeds that allowable for tax purposes.

The investment tax credits for the years ended January 1, 1966 and January 2, 1965 have been taken directly into income as a reduction of Federal income tax expense. In prior years such credits were deferred and are being amortized over the estimated useful lives of the qualified assets; the unamortized portion ($388,862) is combined with deferred Federal income taxes on the accompanying consolidated balance sheet.

PULLMAN INCORPORATED

Income before provision for income taxes		$38,120,605
Provision for federal and foreign income taxes (Note 2):		
Current	16,223,000	
Deferred	1,326,000	
		17,549,000
Net Income for the year		$20,571,605

Note 2: Income Taxes—The provision for federal income taxes is shown after reduction for investment tax credits of $472,000 in 1965 and $1,780,000 in 1964.

Deferred federal income taxes have been provided in recognition of differences in reporting of certain items of income and expense (principally depreciation) in the tax returns from those recorded in the books. The provisions pertaining to differences in reporting income from instalment sales, however, are treated as current tax liabilities, since the related instalment receivables are classified as current assets. Amounts for 1964 have been reclassified in the accompanying financial statements to conform to the 1965 basis of presentation.

Details Set Forth in Notes to Financial Statements, Financial Review, etc.

SPERRY RAND CORPORATION

Funds Statement

Source of Funds:	
Net income	$ 22,016,961
Depreciation, amortization, and obsolescence	85,039,554
Increase in deferred taxes on income	3,213,000
Increase in minority interest in subsidiaries consolidated	4,281,693
	$114,551,208

Balance Sheet

Deferred Taxes on Income, related to depreciation	$ 18,573,000

CHAMPION PAPERS INC.
Notes to Financial Statements

Note 3: *Deferred Federal Income Tax*—Champion reserves out of income each year amounts equal to the reduction in Federal income taxes resulting from the use, for tax purposes only, of accelerated methods of depreciation. The amount so reserved for 1965 and added to the deferred Federal income tax account was $2,317,518.

GENERAL MOTORS CORPORATION
Notes to Financial Statements

Provision for Income Taxes: General Motors provides currently for income taxes by charging income with the amounts estimated to be payable under the applicable tax laws. There are differences in any given year between taxable income and the income reported in the Statement of Consolidated Income which tend to offset one another over a period of years.

The reductions in income taxes payable as a result of the investment credit provisions of the Revenue Acts of 1962 and 1964 ($39,662,000 in 1965) are being reflected in the Statements of Consolidated Income over the life of the applicable assets. The amount so reflected in 1965 as a reduction in the provision for income taxes was $8,908,000.

For United States income tax purposes use of the guideline lives adopted in 1962 brings depreciation more in line with that used for accounting purposes. Accumulated depreciation on the Corporation's books exceeds the accumulated amount deducted for income tax purposes.

Other Liabilities: Other liabilities at December 31, 1965 consisted of the following: undelivered instalments of bonus awards and of contingent credits applicable to terminated stock options, $172,926,540; accrued taxes on undistributed earnings of subsidiaries, $86,731,952; deferred investment credit, $98,137,000; other noncurrent liabilities, $194,075,412; and minority interest in the preference of Vauxhall Motors Limited, $418,851.

OWENS-ILLINOIS, INC.
Financial Review

Income Taxes, Including Deferred Taxes: The provision for U.S. Federal income taxes charged to operations in 1965 was reduced by $1.5 million as a result of the change in rate from 50% to 48%. This compares with a similar reduction of $1.2 million in 1964 resulting from the 2% change in rate in that year. Investment credits of $2.0 million in 1965 and $1.4 million in 1964 have been applied in reduction of tax provisions in those years.

Depreciation methods and procedures used for tax purposes in the U.S. and in certain foreign countries differ from those used for reporting earnings, and tax benefits resulting from accelerated tax depreciation have been treated as deferred taxes since such differences first arose.

In addition to depreciation, there are several other items of income and expense which are properly reported in different years in the financial statements and tax returns. In order to remove distortions from reported earnings, the method of accounting for the tax effects of such items was changed in 1965 with no significant effect on results for the year. The principal items involved are provisions for estimated expenses, such as furnace rebuilding costs and discounts and allowances on receivables. Such provisions reduce reported earnings but have no effect on taxes currently payable, whereas charges for actual costs and allowances in later years reduce taxable but not book income. The reverse situation arises from certain other costs which are deductible currently for tax purposes but are reportable as expense in later years. In 1965, we have commenced the practice of reporting such items and the related tax effects in the same year.

The net prior year effect of this change was credited to retained earnings in 1965. The amount shown as deferred income taxes in the balance sheet at December 31, 1965, has been reduced by estimated future tax benefits relating to the reserve for rebuilding furnaces and other long-term reserves. The liability for income taxes currently payable includes a nominal net amount resulting from the application of tax allocation procedures to items of working capital. The net charge to operations for deferred income taxes (i.e., the noncurrent portion) amounted to $6.7 million in 1965.

Reduction of Deferred Income Taxes

DETROIT STEEL CORPORATION

Earnings Before Income Taxes	$6,592,000
Federal income taxes (reduced by investment credits of $581,000 and $1,231,000, respectively, and $940,000 and $895,000, respectively, for taxes provided in prior years)	1,900,000
Net Earnings	$4,692,000

Notes to Financial Statements

Property, Plant, and Equipment, Reserve for Future Income Taxes, and Investment Credit: A substantial portion of the cost of facilities acquired under Certificates of Necessity has become fully amortized for federal income-tax purposes, and, as a result, depreciation provided in the financial statements for 1965 and 1964, which is based on normal service lives, was $1,785,000 and $1,673,000 greater, respectively, than the amounts deductible for income-tax purposes. The estimated taxes applicable thereto of $940,000 and $895,000, respectively, have been charged against the reserve for future federal income taxes provided for such purpose in prior years.

The Corporation has included the entire amount of the investment credit ($581,000 in 1965 and $1,231,000 in 1964) in income. Credits deferred in prior years by means of offsetting depreciation provisions ($509,000) were transferred to other income in 1964.

The estimated cost to complete construction in progress at December 31, 1965, was $2,800,000.

DIANA STORES CORPORATION

Profit before Federal income taxes	$2,567,145
Provision for Federal income taxes:	
Current	737,326
Deferred (Credit) (Note 4)	(14,424)
	722,902
	1,844,243
Increase in equity (after taxes) of:	
Non-consolidated real estate subsidiaries (Note 1)	116,231
50% owned companies (Note 2)	310,523
	426,754
Net Income	$2,270,997

Note 4: *Deferred Federal Income Taxes*—For income tax purposes the company reports profits from charge account sales as they are collected from customers. Future income taxes, payable upon such collections, are included in deferred Federal income taxes payable.

THE YOUNGSTOWN SHEET AND TUBE COMPANY

Income Before Provision for Federal Income Taxes	$78,686,559
Provision for Federal Income Taxes (Note 1):	
Current year	27,100,000
Total	27,100,000
Net Income for the Year	$51,586,559

Note 1: *Provision for Federal Income Taxes*—Federal income taxes in 1965 amounted to $31,750,000, after investment credits of $5,167,000, of which $27,100,000 was charged to income. The remaining $4,650,000 was charged to the reserve for future federal income taxes provided in prior years, of which $2,430,000 resulted from an excess of Erie Mining Company's book costs over those allowable for tax purposes and $2,220,000 resulted from an excess of book depreciation over tax depreciation on fixed assets acquired prior to 1955.

EXTRAORDINARY ITEMS

Extraordinary items are extensively discussed in the *Accounting Research and Terminology Bulletins, Final Edition,* issued in 1961, by the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants. The committee on accounting procedure states therein (Chapter 8), "Income and Earned Surplus":

> 1. The purpose of this chapter is to recommend criteria for use in identifying material extraordinary charges and credits which may in some cases and should in other cases be excluded from the determination of net income and to recommend methods of presenting these charges and credits.
>
> 2. In dealing with the problem of selecting the most useful form of income statement, the danger of understatement or overstatement of income must be recognized. An important objective of income presentation should be the avoidance of any practice that leads to income equalization.
>
> 11. The committee has indicated elsewhere[1] that in its opinion it is plainly desirable that over the years all profits and losses of a business be reflected in net income, but at the same time has recognized that, under appropriate circumstances, it is proper to exclude certain material charges and credits from the determination of the net income of a single year, even though they clearly affect the cumulative total of income for a series of years. In harmony with this view, it is the opinion of the committee that there should be a general presumption that all items of profit and loss recognized during the period are to be used in determining the figure reported as net income. The only possible exception to this presumption relates to items which in the aggregate are material in relation to the company's net income and are clearly not identifiable with or do not result from the usual or typical business operations of the period. Thus, only extraordinary items such as the following may be excluded from the determination of net income for the year, and they should be excluded when their inclusion would impair the significance of net income so that misleading inferences might be drawn therefrom:[2]
>
> (a) Material charges or credits (other than ordinary adjustments of a recurring nature) specifically related to operations of prior years, such as the elimination of unused reserves provided in prior years and adjustments of income taxes for prior years;
>
> (b) Material charges or credits resulting from unusual sales of assets not acquired for resale and not of the type in which the company generally deals;
>
> (c) Material losses of a type not usually insured against, such as those resulting from wars, riots, earthquakes, and similar calamities or catastrophes except where such losses are a recurrent hazard of the business;
>
> (d) The write-off of a material amount of intangibles;[3]
>
> (e) The write-off of material amounts of unamortized bond discount or premium and bond issue expenses at the time of the retirement or refunding of the debt before maturity.
>
> 12. The following, however, should be excluded from the determination of net income under all circumstances:
>
> (a) Adjustments resulting from transactions in the company's own capital stock;
>
> (b) Amounts transferred to and from accounts properly designated as surplus appropriations, such as charges and credits with respect to general purpose contingency reserves;
>
> (c) Amounts deemed to represent excessive costs of fixed assets, and annual appropriations in contemplation of replacement of productive facilities at higher price levels;[4] and
>
> (d) Adjustments made pursuant to a quasi-reorganization.
>
> 13. Consideration has been given to the methods of presentation of the extraordinary items excluded in the determination of net income under the criteria set forth in paragraph 11. One method is to carry all such charges and credits directly to the surplus account with complete disclosure as to their nature and amount. A second method is to show them in the income statement after the amount designated as net income. Where the second method is used, misconceptions are likely to arise as to whether earnings for the period are represented by the amount actually designated as net income or by the final, and often more prominent, amount shown on the income statement after deduction or addition of material extraordinary items excluded from the determination of net income. Having in mind the possibility of such misconceptions where the second method is employed, the committee believes that the first method more clearly portrays net income. It should be noted that the Securities and Exchange Commission, in its revised Regulation S-X issued in December, 1950, made provision in item 17 of Rule 5-03 for the addition to or deduction from net income or loss, at the bottom of income statements filed with the Commission, of items of profit and loss given recognition in the accounts during the period and not included in the determination of net income or loss. The change in Rule 5-03 does not affect the determination of the amount to be reported as net income or earnings for the year. Furthermore, the additions or deductions at the foot of the income statement after determination of net income are equivalent to direct credits or charges to earned surplus.

[1]References, not reproduced.
[2]References, not reproduced.
[3]References, not reproduced.
[4]References, not reproduced.

In view of the foregoing, and although the committee strongly prefers the first method, it considers the second method of presentation described above to be acceptable provided care is taken that the figure of net income is clearly and unequivocally designated so as not to be confused with the final figure in the income statement. Thus it is imperative that the caption of the final figure should precisely describe what it represents, e.g., *net income and special items, net income and refund of 1945 excess profits taxes, net loss and special items,* or *profit on sale of subsidiary less net loss.* A company may use the first method of presentation in one statement and the second method in another like statement covering the same fiscal period. The committee wishes to make clear that neither of the above-described methods of presentation precludes the use of the combined statement of income and earned surplus. However, where such combined statement is utilized, the committee's preference is that the figure of net income be followed immediately by the surplus balance at the beginning of the period. It is also the committee's opinion that deduction of the single item of dividends from net income on the income statement would not be subject to misconception.

Presentation of Extraordinary Items

A total of 250 extraordinary items were disclosed in the 1965 annual reports of 174 of the 600 survey companies. The disposal or sale of assets comprised the largest group. Other items resulted from such varied transactions or events as changes in the basis of valuation of inventories or other assets, and miscellaneous extraordinary expenses, losses, or gains.

Table 11 summarizes the various methods of presentation of extraordinary items as shown in the 1965 annual reports. Debits and credits are shown separately. Of the 250 extraordinary items, the majority were set forth in the income statement (129 items), a number were disclosed in either the footnotes or in the letter to stockholders (14 items), and the balance (107 items) were shown in the statement of retained earnings or capital surplus.

Many companies presented extraordinary items net of income tax provisions resulting therefrom. Others reflected a gross amount while still others made no reference to income tax effects at all. Where disclosure of an extraordinary item, net of tax, was made, reference to the amount of the applicable tax was mentioned in some cases parenthetically in the statement itself or in an accompanying footnote.

Materiality of Extraordinary Items

Since the question of materiality is of paramount importance in the presentation of special or extraordinary items, Table 12 summarizes the percentages of materiality and the accounts adjusted for the 250 extraordinary items presented by the survey companies in their 1965 annual reports. The percentage of materiality of extraordinary items was determined by the ratio of such items to the 1965 earnings adjusted for both extraordinary items and prior income tax adjustment items. Table 12 shows that 117 of the extraordinary items did not exceed a materiality percentage of 10 per cent; 44 items were within an 11-20 per cent range of materiality; 26 items varied from 21-50 per cent, and 50 exceeded 50 per cent of materiality. In the case of 13 of the 250 extraordinary items, the reports did not contain sufficient information for determination of materiality.

Where the earnings adjusted for both extraordinary items and prior income tax adjustment items resulted in a loss for the year, all extraordinary items, whether charges or credits, were considered as having a materiality percentage exceeding 50 per cent.

The income account (including footnotes, etc.) was utilized for the recording of 143 extraordinary items and the retained earnings account for 107 extraordinary items. A combination of such accounts was frequently employed by the survey companies in recording the extraordinary items.

Examples

Illustrative examples showing the retained earnings account adjusted during 1965 for extraordinary items are set forth in Section 4, after Table 4.

The use of the income account in connection with extraordinary items is illustrated in the following examples, which show the presentation of extraordinary items and their varied nature.

Disposal or Sale of Assets

CROWN CENTRAL PETROLEUM CORPORATION
Income Statement

Profit Before Depreciation, Depletion, Etc.	$3,883,954
Deduct:	
Depreciation	1,843,690
Depletion	311,516
Abandonments and sales of property, plant and equipment—net	(200,075)
	1,955,131
Income Before Taxes	1,928,823
Federal Income Taxes	419,161
Net Income	$1,509,662

( ) indicate red figure.

TABLE 11: EXTRAORDINARY ITEMS—1965

	Presentation in Report†					
	Before Net Income			After Net Income		
Nature of Extraordinary Item*	1. Listed Among Income Items or Other Costs	2. In Separate Last Section	3. Set Forth in Footnotes President's Letter, or Financial Review	4. In Special Section of Income or Combined Statement	5. In Retained Earnings Statement	1965 Total Items
DEBITS						
Disposal or sale of:						
A: Fixed assets	10	2	1	7	5	25
B: Investments or securities	—	—	—	—	1	1
C: Subsidiary, affiliate, or division	2	—	—	—	2	4
D: Other assets	—	—	—	1	—	1
Change in valuation bases:						
E: Inventory write-down to market	1	—	—	—	—	1
F: Change in investment valuation	—	—	1	1	2	4
G: Other fixed asset adjustments	—	2	—	—	—	2
H: Miscellaneous adjustments	—	—	—	1	—	1
Expenses, losses, gains, etc.:						
I: Foreign exchange adjustments	9	5	2	—	—	16
J: Government contracts	—	—	—	1	—	1
K: Nonrecurring plant expenses	4	3	—	—	2	9
L: Various other gains and losses	4	5	1	2	2	14
M: Various prior year adjustments	2	—	—	1	1	4
N: Discontinued operations	3	2	1	3	10	19
Miscellaneous other items:						
O: Lump-sum intangible asset reduction	—	—	—	—	1	1
P: Higher plant replacement costs or extraordinary depreciation	1	—	2	—	—	3
Q: Transfer to reserves or reversal	7	5	1	2	6	21
R: Other	1	2	—	—	2	5
Total Debits	44	26	9	19	34	132
CREDITS						
Disposal or sale of:						
S: Fixed assets	28	7	3	15	3	56
T: Investments or securities	14	1	2	4	1	22
U: Subsidiary, affiliate, or division	2	—	—	5	2**	9
V: Other assets	2	—	—	1	—	3
Change in valuation bases:						
W: "Lifo" liquidation or replacement	—	—	—	1	—	1
X: Change in investment valuation	—	—	—	—	3	3
Y: Miscellaneous adjustments	1	—	—	—	1	2
Expenses, losses, gains, etc.:						
Z: Foreign exchange adjustments	1	—	—	1	—	2
AA: Government contracts	—	—	—	1	—	1
BB: Various other gains and losses	—	3	—	2	1	6
CC: Various prior year adjustments	—	—	—	2	3	5
Miscellaneous other items:						
DD: Transfer to reserves or reversal	—	—	—	2	6	8
Total Credits	48	11	5	34	20	118
Total Debits and Credits	92	37	14	53	54	250

1965 Extraordinary Items with Charges or Credits to:	No. of Companies	No. of Items
Income only	96	143
Retained earnings only	60	107
Both income and retained earnings	18	—
No extraordinary items	426	—
Total	600	250

†See Table 12 for Percentage of Materiality.
*See next page for Reference to Company Numbers. See also Tables 9 and 10.
**Includes one entry to capital surplus.

BASIC PRODUCTS CORPORATION

Statement of Income and Income Reinvested

Income Charges:	
Interest expense	$955,400
Less income credits—net—Note 8	647,797
Income Charges—Net	$307,603

Note 8: Income credits include a profit of approximately $158,000 on disposal of the Corporation's interest in oil operations.

BELL & HOWELL COMPANY

Statement of Earnings and Earnings Invested in the Business

Income:	(000 Omitted)
Sales	$185,670
Royalties	358
Share of earnings of 50%-owned affiliates	152
Gain on sale of investments	630
Interest, commissions, and other income	786
	$187,596

CLEVITE CORPORATION

Results of Operations

Costs and Expenses:	
Nonrecurring items, net of taxes:	
Gain on patent settlement	$520,000
Loss on sale of semi conductor business	*358,844*

EVERSHARP, INC.

Statement of Earnings and Retained Earnings

Net Sales	$53,424,708
Costs and expenses [including depreciation and amortization of $1,419,584 (1965) and $1,342,519 (1964)]:	
Cost of sales, research and development expenses	23,490,438
Selling, general and administrative expenses	22,822,357
Other—principally interest, net	443,857
	46,756,652
	6,668,056
Loss on disposition of idle property	140,171
Earnings before federal taxes on income	6,527,885
Federal taxes on income (Notes 3 and 5)	2,960,000
Net Earnings	$ 3,567,885

Company Reference Numbers to Table 11

*Refer to Company Appendix Section—*Debits*—A1: 149, 173, 302, 313, 331, 399, 447, 558, 571, 575; A2: 25, 218; A3: 412; A4: 24, 78, 81, 158, 214, 216, 561; A5: 66, 177, 202, 335, 519; B5: 388; C1: 141, 300; C5: 275, 326; D4: 561; E1: 110; F3: 462; F4: 349; F5: 54, 334; G2: 130, 192; H4: 206; I1: 31, 142, 175, 186, 341, 414, 419, 477, 563; I2: 170, 174, 226, 289, 567; I3: 72, 560; J4: 210; K1: 21, 174, 182, 536; K2: 93, 130, 351; K5: 242, 586; L1: 283, 326, 450, 477; L2: 130, 351, 406, 519, 565; L3: 222; L4: 199, 478; L5: 558, 586; M1: 207, 440; M4: 580; M5: 587; N1: 110, 302, 447; N2: 300, 565; N3: 359; N4: 60, 214, 240; N5: 22, 177, 248, 277, 355, 485, 519, 543, 558, 583; O5: 583; P1: 192; P3: 471, 518; Q1: 38, 110, 206, 429, 498, 523, 550; Q2: 116, 226, 265, 470, 567; Q3: 372; Q4: 366, 528; Q5: 138, 172, 177, 322, 563, 568; R1: 447; R2: 192, 596; R5: 138, 333. *Credits*—S1: 9, 18, 22, 57, 63, 68, 118, 156, 159, 196, 199, 227, 228, 257, 279, 296, 300, 330, 337, 416, 450, 465, 479, 499, 522, 553, 573, 584; S2: 17, 179, 186, 285, 339, 436, 533; S3: 20, 46, 306; S4: 45, 119, 159, 180, 190, 215, 217, 233, 301, 336, 416, 479, 534, 544, 568; S5: 342, 553, 563; T1: 12, 18, 75, 87, 89, 118, 159, 310, 416, 479, 485, 553, 570, 573; T2: 54; T3: 487, 545; T4: 199, 478, 480, 568; T5: 418; U1: 131, 331; U4: 44, 70, 227, 480, 528; U5: 102, 587; V1: 77, 476; V4: 282; W4: 214; X5: 408, 416, 586; Y1: 457; Y5: 166; Z1: 310; Z4: 199; AA4: 345; BB2: 107, 141, 568; BB4: 158, 291; BB5: 476; CC4: 181, 336; CC5: 54, 182, 416; DD4: 199, 528; DD5: 154, 253, 277, 283, 424, 558.

HERCULES POWDER COMPANY

Income Statement

Income Before Taxes on Income	$72,935,954
U. S., foreign and state taxes on income	33,214,769
Net Income Before Extraordinary Gain	39,721,185
Extraordinary gain on sale of land, less related income taxes	2,900,000
Net Income	$42,621,185

OWENS-ILLINOIS, INC.

Statement of Earnings and Retained Earnings

Earnings from operations	$87,034,022
Other income:	
Dividends	3,733,084
Interest	2,480,769
Gain on sale of idle plant	1,039,166
Gain on sale of Monsanto Company shares	830,208
Miscellaneous	3,969,272
	12,052,499
	99,086,521
Other deductions:	
Interest	4,436,129
Minority interest in earnings of subsidiaries	784,740
Other expenses and losses	2,210,370
	7,431,239
	91,655,282
Provision for U.S. and foreign income taxes (see page 20)	39,500,000
Net earnings	52,155,282
Gain on sale of six forest products plants, less applicable Federal income tax ($6,162,000)	15,062,606
Net earnings and nonrecurring gain	$67,217,888

SEABOARD ALLIED MILLING CORPORATION

Income Statement

Other Income:	
Gain on sales of securities	$ 99,120
Sundry	171,324
	$270,444

SEARS, ROEBUCK AND CO.

Income Statement

Net Sales	$5,740,034,700
Other Income:	
Dividends	36,419,533
Miscellaneous income	7,052,081
Total Income	$5,783,506,314

Financial Review

Both the catalog and retail divisions turned in record earnings, and dividends received by the Company were at an all-time high. Dividend income of $36,419,533 included $27,000,000 from Allstate Insurance Company, $4,766,308 from foreign subsidiaries and $1,483,375 from Simpson-Sears Limited, a Canadian affiliate. Also, in the fourth quarter of 1964, the Company realized a capital gain of $2,588,505 from the sale of an investment. This gain is reflected in the increase in miscellaneous income.

UNITED WHELAN CORPORATION

Statement of Loss and Special Charge

Loss on operations	$(2,635,296)
Loss on disposition of assets (Note 9)	(811,853)
Loss before federal income tax	(3,447,149)
Federal income tax (credit) (Note 4)	63,549
Net loss, including minority interests	(3,510,698)
Minority interests in subsidiaries' profits	31,218
Net loss	$(3,541,916)

Note 9: *Loss on Disposition of Assets*—During fiscal 1965, the Corporation disposed of various assets including all but one of the stores of its Charles division. The sale of the Charles stores in September, 1965 for $1,350,665 in cash and $1,156,521 of notes resulted in a loss of approximately $780,000.

Valuation Changes

DIGITRONICS CORPORATION
Statement of Income (Loss) and Earned Surplus (Deficit)

Other Deductions:	
Retirement of manufacturing facilities (Note 1)	$ 160,499
Interest expense	206,811
	367,310
Income (Loss) Before Extraordinary Charge	$(4,030,081)

Note 1: In order to reflect factors of obsolescence and reduced economic life, depreciation expense relating to rental equipment was increased by approximately $460,000, cost of sales was increased by approximately $520,000 and manufacturing facilities in the net amount of $160,499 were retired.

Financial Review

Net interest expense of $166,700 showed a substantial reduction from the $292,983 paid out in the year ended March 31, 1964. Loss for the year amounted to $4,841,796 after all extraordinary and non-recurring charges including the following: $811,715 to remove deferred marketing expenses from the Balance Sheet; $554,003 to extinguish all Dial-o-verter Start-up costs; $460,000 for increased depreciation expense relating to rental equipment; $160,499 for retirement of manufacturing facilities no longer required; and the $520,000 in increased cost of sales.

EMHART CORPORATION
Income Statement

Net Income for the Year	$12,988,461
Special Items:	
Loss on sale of cordage assets (Note 4), less related inventory adjustment (Note 2)	756,780
Net Income for the Year and Special Items	$12,231,681

Note 2: *Inventories*—The inventories are summarized as follows:

Finished Goods	$19,735,809
Work-In-Process	21,375,241
Raw Materials	9,862,022
Supplies	1,580,080
Total	$52,553,152

Finished goods, work-in-process, and raw materials are stated principally at standard cost, which approximates actual cost, or at market, whichever is lower. Other inventories are stated at actual cost or at market, whichever is lower. Inventories are valued on the first-in, first-out basis except a portion of cordage fibre inventories of a Canadian subsidiary which was valued on the last-in, first-out basis in 1964. The change in basis for valuation of these cordage fibre inventories resulted in an increase in inventories of $347,642, which amount has been included in a special item in the statement of consolidated income.

Financial Review

A special charge in 1965 of $757,000, or 19 cents a share, resulted from transactions related to Plymouth's disposal of its domestic cordage operations. The amount consists of a $602,000 net loss on sales of domestic cordage plants and inventories, a $503,000 net loss from the liquidation of a fifty-percent owned Haitian twine operation, and a $348,000 net gain from a change in the basis of stating Canadian cordage inventories. In 1964, there was a special credit of $7,243,000 or $1.83 a share, resulting from the gain on the sale and exchange of Monsanto Company common stock.

REMINGTON ARMS COMPANY, INC.
Statement of Income and Earned Surplus

Income:	
Net Sales	$95,915,002
Other Income	1,479,153
Total	$97,394,155

Note: Other income in 1965 reflects a $750,000 reduction arising from the write down of an investment. Provision for Federal taxes in 1965 is after deducting $500,000 provided in prior years and no longer required.

Special Expenses, Losses, or Gains

AMERICAN HOME PRODUCTS CORPORATION
Income Statement

Cost of goods sold	$328,489,818
Selling, administrative and general expenses	256,433,824
Employees' insurance, annuities, etc.	8,055,764
Interest	2,125,098
Other deductions, including foreign losses and exchange adjustments	7,998,583
	$603,103,087

BROCKWAY GLASS COMPANY, INC.
Statement of Income and Retained Earnings

Net Income Before Special Item	$4,385,474
Special item (net after income tax):	
Add: Loss incurred in operation of Hazel-Atlas glass plants purchased from Continental Can Company, Inc. charged to a reserve for anticipated losses created therefor, as provided by terms of the Purchase Agreement (Note 5)	326,888
Net Income for the Year	$4,712,362

Note 5: *Reserve for Anticipated Losses*—Under the terms of the agreement for purchase of assets with Continental Can Company, Inc., Continental agreed to pay the sum of $2,800,000 to cover anticipated losses during the period beginning October 18, 1964, and ending October 17, 1967. Of this amount $1,400,000 has been credited to the reserve for anticipated losses, and $1,400,000 has been credited to the reserve for future income taxes (Note 4).

The reserve for anticipated losses has been charged with $326,888 (net after income taxes) for the loss incurred in operation of the Hazel-Atlas plants during the current year.

FALSTAFF BREWING CORPORATION
Financial Review

Net income for 1965 amounted to $5,505,824, down from $7,035,631 for the year 1964. Earnings per share in 1965 were $1.22 compared to $1.59 for the previous year. Factors contributing to the decline in earnings include a 2% decline in Falstaff's barrelage sales, increases in labor and material costs and expenses, and special charges aggregating approximately $1,300,000 comprising adjustments to conform Narragansett's accounting methods to Falstaff's and the write-off of the costs of Falstaff's packaging redesign.

KENNECOTT COPPER CORPORATION
Statement of Income and Earned Surplus

Cost of goods sold	$414,723,145
Depreciation	25,092,240
Selling and general administrative expenses	21,934,065
Shut-down expenses during strikes	1,191,095
Research, exploration and miscellaneous	8,355,777
	$471,296,322

STANDARD PACKAGING CORPORATION
Income Statement

Income (Loss) before Extraordinary Items	$ (980,648)
Extraordinary Gain (Loss) net of Federal income tax effect (Note 2)	(258,846)
Net Income (Loss)	$(1,239,494)

Note 2: *Extraordinary Items*—The extraordinary loss of $258,846 in 1965 is after $226,832 of Federal income tax effect and represents principally the write off of charges on a special order deferred in 1964 in anticipation of a renewal and costs of an abandoned research and development project deferred in prior years.

The extraordinary gain of $702,000 in 1964 is after $222,000 of Federal income taxes and resulted from the sale of timber rights.

MACK TRUCKS, INC.
Statement of Income and Earnings Retained in the Business

Income Before Special Charges	$7,861,453
Accelerated amortization of deferred costs at December 31, 1965 (less applicable U.S. income taxes) (Note 2):	
Hagerstown start-up costs	2,794,918
Product development costs	763,470
	3,558,388
Net Income	$4,303,065

Note 2: At the time the Company moved certain manufacturing operations from Plainfield, New Jersey to a new plant in Hagerstown, Maryland in 1961, certain extraordinary start-up costs totaling $8,073,000 net of applicable income taxes were deferred. A formula was developed for the amortization of these costs based on production, but not to exceed six years.

Similarly, certain product development costs incurred in 1960 through 1962 totaling $1,196,000 net of applicable income taxes had been deferred and formulas established for the write-off of such costs based on production.

Since 1963, changes have been made designed to improve production at Hagerstown and further funds have been expended for new product development. The costs of these improvements and development activities have been written off as incurred. It is contemplated that future expenditures for both such purposes may be required. In view of these circumstances, management concluded that it was prudent to accelerate the amortization of these deferred charges. Accordingly, the entire remaining unamortized costs, less applicable income taxes, at December 31, 1965 amounting to $2,794,918 and $763,470 respectively have been charged off in 1965.

Income before special charges in 1965 and 1964 includes $2,390,610 and $1,439,623 respectively for amortization of deferred costs based on production as described above, less applicable income taxes.

Other Extraordinary Items

BURROUGHS CORPORATION
Statement of Income and Retained Earnings

Income before income taxes and provision for foreign operations	$36,697,948
Estimated U.S. and foreign income taxes	16,920,000
Provision for foreign operations	2,250,000
Net income for the year	$17,527,948

H. K. PORTER COMPANY, INC.
Income Statement

Other Deductions, Net:	
Interest on borrowings	$2,157,101
Costs of discontinuing certain operations	871,151
Antitrust settlement costs	702,505
Loss (gain) on disposals of capital assets	286,366
	4,017,123
Less other interest and miscellaneous income, net	368,241
Total Other Deductions, Net	$3,648,882

Letter to Stockholders

During 1965, the Company negotiated further settlements of civil suits related to alleged antitrust violations in connection with sales of electrical apparatus. Accordingly, at February 4, 1966, only 10% of such suits remained unsettled. It is not possible to predict the total payments that may be required to dispose of the remaining cases, but management is of the opinion that adequate provision for them has been made in the accounts. Charges against income for settlements and attorneys' fees totaled $702,505 in 1965.

TABLE 12: EXTRAORDINARY ITEMS—1965

	Percentage of Materiality*														
	Before Net Income (including footnotes, etc.)							After Net Income							1965
Nature of Extraordinary Item	0—5%	6—10%	11—20%	21—50%	Over 50%	N	Total	0—5%	6—10%	11—20%	21—50%	Over 50%	N	Total	Total Items
Disposal or sale of:															
Fixed assets	22	10	9	1	5	4	51	4	6	5	7	8	—	30	81
Investments or securities	9	2	2	1	—	3	17	2	—	2	—	2	—	6	23
Subsidiary, affiliate, or division	2	—	1	—	1	—	4	—	2	2	2	2	1**	9	13
Other assets	—	2	—	—	—	—	2	—	—	1	—	1	—	2	4
Change in valuation bases:															
Inventory write-down to market	—	—	—	—	1	—	1	—	—	—	—	—	—	—	1
"Lifo" liquidation or replacement	—	—	—	—	—	—	—	1	—	—	—	—	—	1	1
Change in investment valuation	—	1	—	—	—	—	1	1	2	—	3	—	—	6	7
Other fixed asset adjustments	—	—	—	—	1	1	2	—	—	—	—	—	—	—	2
Miscellaneous adjustments	—	—	—	—	1	—	1	—	—	—	2	—	—	2	3
Expenses, losses, gains, etc.:															
Foreign exchange adjustments	15	—	1	1	—	—	17	—	—	—	—	1	—	1	18
Government contracts	—	—	—	—	—	—	—	1	—	—	—	1	—	2	2
Nonrecurring plant expenses	1	1	1	1	2	1	7	—	—	—	—	1	1	2	9
Various other gains and losses	4	3	2	1	2	1	13	1	2	—	—	3	1	7	20
Various prior year adjustments	2	—	—	—	—	—	2	—	4	2	1	—	—	7	9
Discontinued operations	—	—	3	1	2	—	6	1	—	3	2	7	—	13	19
Miscellaneous other items:															
Lump-sum intangible asset reduction	—	—	—	—	—	—	—	—	—	—	1	—	—	1	1
Higher plant replacement costs or extraordinary depreciation	—	1	1	—	1	—	3	—	—	—	—	—	—	—	3
Transfer to reserves or reversal	6	3	3	—	1	—	13	3	1	4	2	6	—	16	29
Other	1	—	1	—	1	—	3	—	1	1	—	—	—	2	5
Total	62	23	24	6	18	10	143	14	18	20	20	32	3	107	250

*Ratio of item to 1965 net income adjusted for extraordinary items and income tax adjustments.
N—Percentage of materiality not determinable.
**Includes one entry to capital surplus.
See Table 11 for Presentation of Extraordinary Items. See Tables 9 and 10 for Income Tax Adjustments.

PEPSICO, INC.
Income Statement

Costs and Expenses:	
Cost of sales	$234,618,140
Advertising, selling and administrative	215,740,763
Interest expense	1,618,867
Other expenses	2,773,407
Adjustment for foreign activities	287,139
	$455,038,316

Note 2: Reserve for Foreign Activities—It is the policy of the Company to exclude from consolidated net income and consolidated retained earnings the unremitted earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities by charges against income (Adjustment for Foreign Activities). The Reserve is used to absorb extraordinary losses that arise from foreign operations such as the losses resulting from devaluation of foreign currencies and unsettled political conditions preventing normal commercial operations.

RIEGEL PAPER CORPORATION
Review of Operations

Depreciation and depletion charged to earnings totaled $6,004,000 last year, as compared with $6,596,000 in 1964. Depreciation in 1965 was determined on the basis of the straight-line method as is now the practice in most of the paper industry. The company had been previously using an accelerated depreciation method. This change reduced the 1965 depreciation provision by $2,120,000 and increased net income by $1,100,000, after providing for deferred federal income taxes. In 1965, the company provided $1,030,000 for extraordinary depreciation related to certain facilities, which reduced reported net income by $535,000, after giving effect to related tax reductions. The net effect of these changes was to increase 1965 earnings by $565,000; the total increase in earnings over 1964 was $1,531,000.

THE STANDARD OIL COMPANY
(AN OHIO CORPORATION)
Financial Review

Offsetting in part these factors that improved 1965 earnings were the expenses associated with Sohio's 1965 capital investment program which is described on Page 19 of this report. These expenses were related, for the most part, to the construction of new facilities, to Sohio's share of the costs in the oil shale development project (described on Page 15), and to the increased charges for depreciation of refinery facilities at the Cleveland No. 1 Refinery which is to be dismantled on completion of expanded facilities at the Toledo Refinery. These increased charges for depreciation of Cleveland No. 1 Refinery facilities amounted to $3 million in 1965. The expanded and modernized refinery facilities at Toledo are scheduled to be put on stream during the first half of 1966.

DESIGNATION OF FINAL FIGURE

The *Accounting Research and Terminology Bulletins, Final Edition,* 1961, issued by the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants, in discussing the presentation of material extraordinary charges and credits in the income statement after the amount designated as *net income* (Chapter 8, Paragraph 13), stresses the care that must be taken so that:

> . . . the figure of net income is clearly and unequivocally designated so as not to be confused with the final figure in the income statement. Thus it is imperative that the caption of the final figure should precisely describe what it represents, e.g., *net income and special items . . . net loss and special items. . . .*

See also quotations from the above bulletin, in this section, under "Extraordinary Items."

The descriptive captions used to identify the figures preceding the special items and the final figures in the income statements are reflected in Table 13. There were 73 survey companies that presented such items in a separate last section of the 1965 income statements. Thirty-two companies indicated the *inclusion* of the extraordinary charges and credits in the figure of net income for the year, 40 companies clearly indicated the *exclusion* of such charges and credits from the figure of net income for the year. One company did not clearly designate the net income figure although description of the final figure would seem to exclude the extraordinary item from net income.

Examples illustrating the presentation of the final figure of the income statement of the 1965 reports where material extraordinary charges or credits are involved follow. Additional examples are given, in this section, under "Extraordinary Items."

Indicating Exclusion from the Net Income

AMERICAN SMELTING AND REFINING COMPANY

Net Earnings	$52,455,922
Special Items, net after taxes:	
Sale of Asarco Mexicana, S.A. stock	3,741,048
Net Earnings and Special Items	$56,196,970

ARMOUR AND COMPANY

Net Earnings for the Year	$22,432,238
Special Item:	
Loss on closing of Kansas City Meat Processing Unit, less Federal income tax reduction of $3,377,000	(4,204,413)
Net Earnings and Special Item	$18,227,825

CURTISS-WRIGHT CORPORATION

Net Income	$7,992,080
Special credit, adjustment of prior years' depreciation, less related federal income taxes, $722,000 (Note 4)	782,552
Net Income and Special Credit	$8,774,632

Note 4: In 1965, for financial reporting purposes, the Corporation retroactively changed its method of computing depreciation on certain categories of plant and equipment from a straight-line composite basis to a straight-line year of acquisition basis while retaining the straight-line composite basis for income tax purposes, and made provision at current rates for the related deferred federal income taxes. These changes had the effect of increasing net income for the year ended December 31, 1965 by approximately $365,000. The effect of such changes applicable to the years 1964 and 1963 is shown as a special credit in the consolidated statement of income for the year ended December 31, 1965.

HARNISCHFEGER CORPORATION

Net Income for Year	$3,642,854
Special Items:	
Provision for losses and expenses relating to discontinuance of operations and disposition of assets of the prefabricated homes subsidiary, net of income taxes	(515,000)
Reduction of reserve for anticipated losses and expenses relating to discontinuance of Diesel Engine Division	550,000
Net Income for Year and Special Items	$3,677,854

LESLIE SALT CO.

Net Income (Note 2)	$1,029,199
Special Credits:	
Gain on land sales, less $324,000 deferred Federal income taxes	828,747
Development costs expensed in prior years, less applicable Federal income taxes (Note 2)	148,885
Net Income and Special Credits	$2,006,831

Note 2: In 1965 the Companies adopted the practice of including in the cost of real estate under development the engineering, planning and other consulting fees, property taxes and interest directly related to the development program of Leslie Properties, Inc. Previously such costs had been charged against income as incurred. Costs of $289,349 expensed in prior years (1964 and 1963) have been added to the cost of real estate under development, and are shown, less applicable Federal income taxes, as a special credit in the statement of income and retained income for the year ended December 31, 1965. Had the 1965 practice been in effect in 1964, net income for that year would have been greater by $86,485.

McGRAW-HILL, INC.

Net Income	$18,150,804
Increase in appropriation for unexpired subscriptions net of related Federal income taxes	(371,831)
	$17,778,973

ST. JOSEPH LEAD COMPANY

Net Income for the Year (1965, $4.98 per share on 4,570,564.5 shares; 1964, $3.93 per share on 4,560,077.5 shares)	$22,766,498
Special Items (Note 9)	14,610
Net Income for the Year and Special Items	$22,781,108

Note 9: *Special Items*—Special items comprise the following: 1965:

Profit from sale of investment in The New Jersey Zinc Company after taxes of $168,993	$506,979
Less—Abnormal costs incurred through insolvency of contractor in construction of new mine facilities after taxes of $454,494	492,369
	$ 14,610

and for 1964, profit from sale of investment in Missouri-Illinois Railroad Company (after taxes of $777,572), $2,332,715.

SCHENLEY INDUSTRIES, INC.

Net Income for the Year	$17,736,454
Special Credits, less related income taxes:	
Net gain on disposition of securities	3,544,192
Net gain on sale of assets and business of a subsidiary	2,680,000
	6,224,192
Net Income and Special Credits	$23,960,646

TIDEWATER OIL COMPANY

Net Income	$56,556,000
Special items—gain on sale of assets	685,000
Net Income and Special Items	$57,241,000

Indicating Inclusion in the Net Income

ALPHA PORTLAND CEMENT COMPANY

Income Before Extraordinary Gain	$256,294
Extraordinary Gain on Sale of Limestone Deposits, Net of $150,000 of Federal Income Tax	450,000
Net Income	$706,294

TABLE 13: DESIGNATION OF FINAL FIGURE—1965

Number of Companies Presenting:*	1965
Extraordinary Items in Separate Last Section of the Income Statement	
Indicating "exclusion" from the net income for the year by:	
Designating figure preceding extraordinary item as—	
A: *Net income for the year* and final figure of the income statement as *net income and special item*	38
B: *Net income for the year* and final figure of the income statement *undesignated*	2
Indicating "inclusion" in the net income for the year by:	
Designating figure preceding extraordinary item as—	
C: *Net income before special item* and final figure of the income statement as *net income for the year*	23
D: *Net operating income* and final figure of the income statement as *net income*	5
E: Setting forth an *undesignated* figure preceding extraordinary item and designating final figure of the income statement as *net income for the year*	3
F: Designating final figure as *net income for the year* with *no intermediate total* before extraordinary item	1
Other:	
Designating figure preceding extraordinary item as—	
G: *Net income before special item* and final figure of the income statement as *net income and special item*	1
Total	73

*Refer to Company Appendix Section—A: 24, 44, 45, 60, 70, 78, 81, 119, 158, 180, 181, 190, 199, 206, 210, 214, 215, 216, 217, 227, 233, 240, 277, 282, 291, 301, 336, 345, 349, 416, 478, 479, 480, 528, 534, 544, 568, 580; B: 177, 366; C: 17, 54, 107, 116, 131, 141, 186, 192, 226, 265, 283, 285, 289, 300, 331, 351, 406, 436, 470, 519, 533, 567, 596; D: 25, 174, 179, 339, 565; E: 93, 170, 218; F: 130; G: 159.

ANDERSON, CLAYTON & CO.

Net income before special net credits	$8,473,000
Special net credits (Note 8)	1,337,000
Net income (Notes 1 and 7)	$9,810,000

Note 8: Special net credits of $1,337,000 resulted from gains on sale of investments after deducting estimated investment losses and estimated income taxes. The Company sold its textile division and its interest in a shipping company for profits which were offset in part by provision for decline in value of two investments in Latin America. Subsequent to the close of the fiscal year, the Company sold its remaining shipping company investment for a substantial gain.

THE BLACKSTONE CIGAR COMPANY

Operating loss	$ 998,024
Other income	10,422
	987,602
Start-up expenses of Puerto Rican operations	96,319
Interest expense	107,413
Net loss (Note 6)	$1,191,334

CHAMPION PAPERS INC.

Income Before Income Taxes	$33,423,329
Provision for Federal and Other Income Taxes	15,250,000
Extraordinary Items (Net Credit)	(141,308)
Net Income for the Year	$18,314,637

Note 4: The extraordinary items (net credit of $141,308) are composed of production start-up and product development costs and write-off of retired production facilities. These items are stated after related income tax reduction and investment tax credit of $3,325,000 and $3,693,431, respectively.

THE CUNEO PRESS, INC.

Net loss from operations	$(66,402)
Capital gains on sale of equipment, less federal income tax of $149,000 and $439,000	161,926
Net Income for the year	$ 95,524

LIBBY, McNEILL & LIBBY

Net income from operations	$2,320,406
Gains on disposal of fixed properties, net after taxes	180,464
Net income for the year	$2,500,870

MACK TRUCKS, INC.

Income before special charges	$7,861,453
Accelerated amortization of deferred costs at December 31, 1965 (less applicable U.S. income taxes) (Note 2):	
Hagerstown start-up costs	2,794,918
Product development costs	763,470
	3,558,388
Net Income	$4,303,065

SUNSHINE BISCUITS, INC.

Income Before Gain on Sale of Real Estate	$4,591,542
Gain on Sale of Real Estate, Net of Applicable Income Taxes	886,192
Net Income	$5,477,734

Other

CONSOLIDATION COAL COMPANY

Net Income (Before Special Credit)	$41,167,055
Special credit—Note K:	
Profit on disposal of mining properties and reserve coal lands less applicable taxes on income (1965, $1,768,000; 1964, $169,000)	5,301,584
Net Income and Special Credit	$46,468,639

Note K: *Special Credit*—During the past several years the Company has participated with major users of coal in the formation of companies, the coal production of which companies has been allocated to the stockholders in proportion to their stockholdings or dedicated in total to the stockholders other than the Company. In connection therewith the Company has sold to such companies mine plants and equipment and also has sold or leased coal properties to the companies. Profits on such sales, which are deemed to be unusual sales of assets not acquired for resale and not of the type in which the Company generally deals, have been recorded as special credits, and have been accounted for on the same basis for both tax and financial reporting purposes (where applicable on an installment sales basis). Special credit for 1965 includes $2,903,549 profit of the nature referred to above and $2,398,035 profit on the sale of a block of reserve coal.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

EARNINGS PER SHARE

Statistical presentations of periodic net income (or loss) in terms of earnings per share are commonly used in annual reports to shareholders.

Accounting Research Bulletin No. 49†, issued by the committee on accounting procedure of the American Institute of Certified Public Accountants in 1958, deals with some of the problems which arise in the calculation and presentation of earnings per share in the annual reports.

Among other things the committee stated that:

(a) It is, in many cases, undesirable to give major prominence to a single figure of earnings per share;

(b) Any computation of earnings per share for a given period should be related to the amount designated in the income statement as net income for such period; and

(c) When material extraordinary charges or credits have been excluded from the determination of net income, the per-share amount of such charges and credits should be reported separately and simultaneously. . . . In all cases in which there have been significant changes in stock during the period to which the computations relate, an appropriate explanation of the method used should accompany the presentation of earnings per share.

Where earnings per share for a number of years are submitted which include periods in which there have been stock splits or substantial stock dividends, *Bulletin No. 49* states in effect that the earnings for periods prior to the dates of the splits, etc., should be divided by the current equivalent of the number of shares outstanding in the respective prior periods in order to arrive at earnings per share in terms of the present stock position. Table 14 summarizes the presentation of earnings per share where the number of shares has changed during any applicable year as a result of activity such as stock dividends, splits, conversions, etc., and the companies disclose comparative statistics for two years or more. Not all companies disclose whether the earnings per share figure is based on the number of shares outstanding at the end of the year, or on an average number of shares outstanding during the year. For purposes of Table 14, those companies not disclosing the basis of calculation of earnings per share, have been grouped with companies which calculate earnings per share on shares outstanding at the end of each year.

Of the 600 companies included in the 1965 survey, 577 disclosed comparative earnings per share figures for two years or more. Three companies disclosed earnings per share for the current year only, and 20 companies made no such disclosures.

TABLE 14: EARNINGS PER SHARE—1965

Comparative Earnings per share—	Based on Number of Shares Outstanding: At end of current year	At end of each year or basis not disclosed	Average during each year	1965 Total Items
*Adjusted retroactively for:**				
A: Stock dividends	23	99	35	157
B: Stock splits	14	165	43	222
C: Stock conversions	2	6	1	9
D: Stock options exercised	9	3	1	13
E: Treasury stock activity	5	—	1	6
F: Other	5	33	8	46
	58	306	89	453
*Not adjusted retroactively for:**				
G: Stock dividends	—	5	—	5
H: Stock conversions	—	22	10	32
I: Stock options exercised	—	71	19	90
J: Treasury stock activity	—	52	9	61
K: Other	—	23	4	27
	—	173	42	215
*Adjustment not disclosed:**				
L: Information not presented to indicate either existence of or basis for retroactive adjustment for material changes in shares outstanding	—	9	—	9
*No retroactive adjustments necessary:**				
M: No material change in number of shares outstanding during current year as to require adjustment	15	152	19	186
Total	73	640	150	863

Number of Companies*

	Disclosing comparative earnings per share	577
N:	Disclosing earnings per share for current year only	3
O:	Not disclosing earnings per share	20
	Total	600

*Refer to Company Appendix Section—A: 3, 7, 11, 12, 13, 25, 29, 34, 37, 38, 39, 47, 50, 55, 56, 60, 63, 64, 72, 73, 74, 80, 84, 86, 87, 88, 92, 96, 97, 98, 100, 107, 110, 117, 129, 130, 133, 134, 135, 139, 141, 146, 151, 156, 157, 165, 167, 168, 175, 178, 183, 185, 186, 187, 190, 193, 194, 195, 201, 205, 212, 214, 217, 219, 225, 226, 228, 231, 253, 255, 257, 264, 267, 272, 278, 279, 283, 294, 296, 299, 300, 302, 304, 305, 307, 312, 314, 328, 329, 332, 334, 336, 339, 342, 344, 345, 350, 351, 353, 357, 358, 364, 370, 379, 380, 381, 384, 386, 391, 395, 398, 404, 405, 408, 415, 420, 421, 422, 430, 433, 438, 441, 443, 447, 454, 459, 460, 465, 473, 474, 476, 478, 479, 481, 492, 498, 508, 510, 511, 514, 518, 520, 525, 526, 538, 540, 543, 544, 550, 553, 556, 567, 577, 578, 581, 585, 591; B: 1, 2, 21, 23, 27, 28, 30, 31, 32, 38, 39, 44, 48, 50, 55, 61, 67, 69, 73, 84, 85, 87, 90, 92, 97, 100, 103, 106, 108, 109, 110, 114, 117, 121, 122, 124, 129, 130, 133, 134, 135, 136, 139, 142, 143, 144, 145, 151, 156, 157, 164, 165, 166, 168, 169, 171, 172, 174, 176, 178, 182, 183, 186, 187, 191, 195, 196, 197, 201, 203, 205, 206, 209, 212, 214, 217, 219, 222, 225, 226, 227, 228, 230, 234, 237, 238, 242, 243, 244, 246, 248, 253, 254, 255, 256, 258, 260, 264, 265, 271, 272, 274, 278, 279, 281, 283, 285, 287, 289, 290, 292, 303, 304, 305, 307, 308, 309, 312, 316, 319, 323, 325, 332, 337, 341, 343, 344, 345, 349, 351, 352, 353, 357, 358, 360, 361, 362, 364, 365, 366, 368, 370, 372, 375, 377, 380, 381, 382, 384, 385, 389, 398, 399, 405, 408, 409, 411, 415, 416, 419, 420, 421, 424, 426, 427, 430, 431, 433, 437, 438, 443, 444, 445, 447, 450, 453, 454, 456, 461, 465, 468, 470, 471, 473, 476, 477, 478, 492, 493, 494, 497, 498, 504, 511, 513, 516, 518, 520, 523, 525, 534, 541, 542, 543, 545, 546, 552, 553, 555, 556, 566, 567, 569, 578, 579, 581, 591, 594, 595, 598, 599, 600; C: 68, 69, 169, 211, 408, 422, 443, 515, 528; D: 47, 68, 169, 193, 194, 231, 242, 267, 296, 300, 333, 473, 480; E: 197, 276, 440, 480, 507, 560; F: 7, 11, 12, 27, 32, 36, 60, 71, 89, 95, 96, 106, 107, 110, 129, 130, 134, 150, 166, 183, 188, 189, 202, 212, 239, 287, 305, 308, 333, 344, 360, 387, 429, 439, 465, 466, 469, 482, 528, 535, 549, 568, 576, 577, 586, 598; G: 53, 75, 436, 453, 531; H: 15, 60, 65, 80, 87, 97, 122, 136, 142, 152, 184, 191, 230, 235, 254, 260, 264, 275, 328, 339, 345, 388, 401, 460, 482, 506, 536, 541, 543, 553, 555, 598; I: 14, 36, 42, 60, 65, 67, 70, 75, 78, 83, 115, 122, 136, 142, 152, 154, 155, 159, 161, 174, 184, 186, 191, 196, 199, 206, 214, 218, 230, 241, 245, 248, 257, 260, 264, 271, 275, 281, 294, 299, 302, 305, 309, 325, 328, 330, 340, 343, 345, 356, 357, 358, 361, 373, 387, 407, 417, 418, 420, 424, 429, 430, 431, 437, 438, 444, 465, 469, 476, 482, 493, 497, 498, 500, 501, 530, 541, 542, 543, 544, 545, 549, 553, 555, 567, 572, 586, 595, 597, 598; J: 13, 29, 31, 36, 45, 54, 57, 58, 63, 65, 67, 69, 70, 118, 120, 141, 159, 168, 172, 174, 181, 189, 241, 248, 275, 282, 285, 291, 294, 297, 302, 309, 317, 340, 347, 354, 357, 359, 370, 374, 387, 410, 453, 460, 461, 468, 495, 501, 509, 517, 520, 521, 523, 525, 528, 536, 541, 553, 563, 571, 585; K: 10, 58, 60, 100, 155, 161, 184, 201, 214, 218, 222, 230, 254, 255, 260, 309, 317, 328, 330, 357, 430, 460, 471, 476, 542, 568, 598; L: 82, 213, 266, 298, 348, 452, 488, 524, 570; M: 4, 5, 6, 8, 9, 16, 17, 18, 19, 20, 22, 24, 26, 33, 35, 40, 41, 43, 46, 49, 51, 52, 59, 62, 66, 68, 76, 77, 79, 81, 91, 94, 99, 101, 102, 104, 105, 111, 112, 113, 116, 119, 125, 126, 127, 128, 131, 138, 140, 147, 148, 149, 153, 160, 162, 163, 170, 173, 177, 198, 200, 204, 207, 208, 215, 220, 221, 223, 224, 229, 232, 233, 236, 247, 249, 251, 252, 259, 261, 262, 263, 268, 269, 270, 273, 277, 280, 284, 286, 288, 293, 295, 306, 310, 311, 313, 315, 318, 320, 321, 324, 326, 327, 331, 335, 338, 355, 363, 367, 369, 371, 376, 378, 383, 390, 393, 394, 396, 397, 402, 403, 406, 412, 413, 414, 423, 425, 428, 432, 434, 435, 442, 446, 448, 449, 451, 455, 458, 462, 463, 464, 467, 472, 475, 483, 484, 486, 487, 489, 490, 491, 496, 502, 503, 505, 512, 519, 521, 522, 529, 532, 533, 537, 539, 547, 548, 554, 557, 558, 559, 562, 564, 565, 573, 574, 575, 580, 582, 583, 587, 588, 589, 590, 592, 593, 596; N: 123, 400, 584; O: 93, 132, 137, 158, 179, 180, 192, 210, 216, 240, 250, 301, 322, 346, 392, 457, 485, 499, 527, 561.

The materiality of the retroactive adjustments to earnings per share is presented in Table 15. Materiality in this table is the ratio of the number of shares involved in the retroactive adjustment, to the number of shares outstanding at the beginning of the company's fiscal year.

Examples

The following examples selected from the 1965 annual reports illustrate the various methods used to present earnings per share and to disclose the basis for computation. Frequently illustrations are taken from 10-year comparative summaries. To save space, only such part or parts of the summaries are given as will illustrate the subject matter.

Adjusted Retroactively for Stock Conversions

ELTRA CORPORATION
Results in Brief

	1965	1964
Operations:		
Net Sales	$254,666,845	$252,186,145
Net Income for the Year	12,423,676	9,585,388
Net Income Attributable to		
Common Stock	11,632,284	8,760,501†
Per Share*	$3.75	$2.80†

*Based on shares outstanding at end of year.
†Adjusted to reflect the conversion of 414,568 preferred shares to common shares during Fiscal Year 1965.

Adjusted Retroactively for Stock Dividends

ALLEN INDUSTRIES, INC.
Highlights

	1965	1964
Net Earnings	$3,599,932	$2,864,121
Per Share of Stock	$3.80*	$3.02

*Based on 947,369 shares outstanding at December 31, 1965 (exclusive of treasury shares).

Operating Review

Your Company scored heavily in 1965 in increased sales and increased earnings. Consolidated 1965 net sales were $86,092,411 compared to $67,404,828 in 1964. Consolidated net earnings in 1965, after all charges including provision for federal income taxes, were $3,599,932 or $3.80 per share, compared to 1964 consolidated net earnings of $2,864,121 or $3.02 per share adjusted to the same number of shares. The 1965 consolidated sales included, to a limited extent, sales from certain of your Company's wholly-owned subsidiaries acquired and/or newly created in 1965.

Ten-Year Comparison

(In Thousands Except as Indicated)

	1965*	1964*	1963*	1959	1957
Sales—Earnings:					
Sales and other income	$86,200	$67,716	$65,319	$43,323	$47,316
Earnings before income taxes	6,910	5,474	6,049	4,438	3,717
Federal income taxes	3,310	2,610	3,140	2,285	1,975
Net earnings for the year	3,600	2,864	2,909	2,153	1,742
Net earnings per share for the year adjusted to 947,369 shares at December 31, 1965	$3.80	$3.02	$3.07	$2.27	$1.84
Dividends:					
Cash dividends declared to shareholders	$ 1,549	$ 1,388	$ 1,357	$ 777	$ 713
Cash dividend rate (including extras) per share	$1.65	$1.50	$1.60	$1.00	$1.15
Stock dividend—%			10%	25%	10%
Cash dividend rate (including extras) per share adjusted for all stock dividends	$1.65	$1.50	$1.45	$0.73	$0.76

TABLE 15: EARNINGS PER SHARE—1965

Comparative Earnings per share—	Percentage of Materiality† 0—5%	6—10%	11—20%	21—50%	Over 50%	N	1965 Total Items
Adjusted retroactively for:							
Stock dividends	44	8	1	—	—	—	53
Stock splits	—	—	—	16	50	—	66
Stock conversions	2	—	4	1	—	—	7
Stock options exercised	11	1	—	—	—	—	12
Treasury stock activity	4	1	1	—	—	—	6
Other	18	3	5	5	4	1	36
	79	13	11	22	54	1	180
Not adjusted retroactively for:							
Stock dividends	3	2	—	—	—	—	5
Stock conversions	23	3	2	—	—	4	32
Stock options exercised	90	—	—	—	—	—	90
Treasury stock activity	53	3	3	—	—	2	61
Other	18	2	5	—	—	2	27
	187	10	10	—	—	8	215
	266	23	21	22	54	9	395
Adjustment made in a prior year; none required in current year							273
							668

†Ratio of item to the number of shares outstanding at the beginning of fiscal year.
See Table 14 for Presentation of Earnings per share.
N—Percentage of materiality not determinable.

DAYCO CORPORATION
Ten-year Comparative Summary

	1965	1964
Net sales	$93,243,912	$81,447,686
Income (loss) before income taxes and extraordinary items	6,032,918	5,065,337
Net income (loss) before extraordinary items	4,329,634	4,411,819
Net income (loss) per share of common stock and before extraordinary items (Note 1)	$3.13*	$3.23*

Note 1: Based on average number of shares of common stock outstanding during year adjusted for 10% and 20% stock dividends paid February 15 and November 30, 1956, respectively, 5% stock dividend paid February 15, 1960, and 3% stock dividend paid February 15, 1965.

*These earnings reflect the benefit of a tax loss carry-forward. Per share earnings at full tax would have been: 1965 $2.42; 1964 $1.93

Adjusted Retroactively for Stock Splits

EASTMAN KODAK COMPANY
Summary of the Year in Figures

Financial Data in Thousands Except Per Share and Per Cent Figures

	1965	1964	Change
Sales	$1,463,485	$1,237,176	+18%
Earnings before income taxes	473,625	371,748	+27%
Net earnings	247,625	187,248	+32%
—per cent of sales	16.9%	15.1%	
—per common share*	$3.07	$2.32	

*Based on shares outstanding at year-end after 2-for-1 stock split in 1965.

Ten-Year Review
(Data in Thousands Except Per Share and Per Cent Figures)

	1965	1964	1963
Sales	$1,463,485	$1,237,176	$1,106,671
Earnings before income taxes	473,625	371,748	296,929
Net earnings	247,625	187,248	144,429
—per cent of sales	16.9%	15.1%	13.1%
—per common share†	$ 3.07	$ 2.32	$ 1.78

†Based on 80,602,718 shares outstanding as of December 26, 1965.

MERCK & CO., INC.
Facts in Brief

	1965	1964
Net Sales	$331,962,000	$286,705,000
Income Before Taxes	107,698,000	84,767,000
Taxes on Income (Estimated)	48,100,000	39,900,000
Net Income	59,598,000	44,867,000
Dividends Declared on Preferred Stock	276,000	302,000
Earnings per Share of Common Stock*	$1.84	$1.39
Based on average shares outstanding		

*Here and elsewhere in this Annual Report, all references to common stock for the year 1964 and preceding years reflect an adjustment for the 3-for-1 stock split effective May 5, 1964.

Ten Year Summary of Income and Dividends

	1965	1964	1963
Average Number of Shares Outstanding	32,232	32,105	32,013
Earnings Per Share of Common Stock*	$1.84	$1.39	$1.11

*Based on the average number of shares of common stock outstanding adjusted for the 3-for-1 stock split effective May 5, 1964.

SIMPLICITY PATTERN CO. INC.
Ten Year Review

	1965	1964	1963
Per Common Share:			
*Profit	$2.21	$1.91	$1.52
†Dividends—cash	.95	.85	.76
—stock	5%	5%	5%
*Equity	$9.75	$8.47	$7.35

*Based on shares outstanding at the end of each year, adjusted for the two-for-one stock split in 1962 and for the 5% stock dividends in 1963, 1964 and 1965.

†Dividends per share have been adjusted for the two-for-one stock split in 1962.

Adjusted Retroactively to Reflect Recapitalization

GENERAL ANILINE & FILM CORPORATION
Five-Year Statistical Summary
(Dollars in thousands except per share)

	1965	1964	1963
Sales	$215,502	$192,207	$177,689
Income before Taxes	24,203	20,444	16,468
Federal Income Taxes	11,027	9,738	8,379
Net Income	13,176	10,706	8,089
Per Share of Common Stock (Note a)	1.10	.89	.68

Note a: Based on 11,966,131.5 shares outstanding after giving effect to the recapitalization approved during 1964.

Not Adjusted Retroactively for Conversion of Debentures

FRUEHAUF CORPORATION
Financial Highlights

Sales and Earnings: The year 1965 was the fourth consecutive year in which Fruehauf Corporation reported record sales and earnings. Net earnings in 1965 were $3.02 per Common Share as compared to $2.45 in 1964 based upon average number of shares outstanding in each year. The increase in earnings per share was achieved while the average number of Common Shares outstanding increased by the conversion of Debentures. Based on the average number of shares outstanding in 1964, the 1965 earnings would have been equivalent to $3.16 per share. Sales increased 25 percent in 1965 and net earnings increased nearly 30 percent. Financial highlights are shown graphically above.

Not Adjusted Retroactively for Treasury Stock Activity

HOLLY SUGAR CORPORATION
Letter to Stockholders

Earnings and Dividends: Net income for the fiscal year ended March 31, 1965, was $4,368,727, or $6.64 per share of Common Stock (658,320 shares outstanding), compared with $3,571,140, or $5.26 per share (678,320 shares outstanding) for the preceding year. Net income for the past year . . .

Common Stock in Treasury: On January 6, 1965, the Corporation purchased from The First National Bank of Denver, Trustee under the Will of Ethel I. Carlton, 20,000 shares of its Common Stock at $34 per share, the closing market price on the preceding market day. The Corporation already then had in its Treasury 3,020 shares reacquired some years ago at a cost of approximately $21 per share. The average cost of the 23,020 shares of Common Stock held in the Treasury at March 31, 1965, is $32.29 per share.

A plan for employee purchases of Common Stock and for a qualified incentive stock option plan will be submitted for approval of Stockholders at the annual meeting on June 30, 1965. Common Stock held in the Treasury is available for these or other corporate purposes.

Earnings Per Share in Relation to Extraordinary Items

Table 16 summarizes the treatment in the 1965 annual reports of earnings per share when extraordinary items are present. Per share figures were presented for extraordinary items by 37 companies. Six other companies reported income per share before and after extraordinary items. Reference was seldom made to earnings per share for extraordinary items if the items were included among the income items or other costs.

Examples are given below for the treatment of earnings per share when extraordinary items are present.

TABLE 16: EARNINGS PER SHARE TREATMENT OF EXTRAORDINARY ITEM(S)

	Exclusion of Material Extraordinary Items from Net Income	
	Earnings per share shown for:*	
A:	Net income *only*; no separate figure shown for extraordinary items	10
B:	Net income *and for* extraordinary items	8
C:	Net income *and for* total of net income and extraordinary items	3
D:	Net income, *and for* extraordinary items, *and for* total of net income and extraordinary items	11
	Total number of companies	32
	Inclusion of Material Extraordinary Items in Net Income	
	Earnings per share shown for:*	
E:	Net income *only*; no separate figure shown for extraordinary items	80
F:	Net income which includes extraordinary items, *and for* extraordinary items	10
G:	Net income before extraordinary items, *and for* extraordinary items, *and for* net income which includes extraordinary items	7
H:	Net income before extraordinary items, *and for* net income which includes extraordinary items	3
I:	Net income before extraordinary items, *and for* extraordinary items	1
	Total number of companies	101

	1965	1964
Reports disclosing *both* extraordinary item(s) *and* earnings per share	133	145
Report does not disclose extraordinary item(s)	447	432
Report does not disclose earnings per share	20	23
Total	600	600

*Refer to Company Appendix Section—A: 45, 60, 233, 277, 291, 336, 478, 528, 544, 580; B: 24, 44, 177, 214, 282, 345, 416, 479; C: 78, 119, 568; D: 70, 81, 159, 181, 190, 199, 215, 217, 349, 480, 534; E: 9, 12, 17, 18, 20, 21, 22, 31, 38, 54, 57, 63, 68, 72, 75, 77, 107, 110, 116, 118, 130, 141, 142, 149, 170, 173, 174, 175, 196, 206, 207, 218, 226, 257, 279, 289, 296, 300, 302, 306, 313, 326, 330, 337, 339, 341, 359, 366, 372, 399, 406, 412, 414, 419, 429, 440, 447, 450, 462, 471, 476, 477, 498, 518, 522, 523, 533, 536, 550, 553, 558, 560, 563, 567, 570, 571, 573, 575, 584, 596; F: 46, 89, 182, 186, 227, 228, 283, 285, 310, 519; G: 25, 87, 131, 156, 265, 351, 465; H: 436, 470, 565; I: 331.

Computation of Earnings Per Share When Extraordinary Items Are Excluded from Net Income

AMERICAN SUGAR COMPANY

Income Statement

Net Income for Year	$14,981,124
Special Credit—Gain on sale of non-operating property, less applicable taxes	1,380,718
Net Income and Special Credit	$16,361,842

Five Year Financial Record

	1965	1964
Net Sales and Operating Revenues	$457,255,421	$437,758,383
Consolidated Net Income (Note a)	14,981,124	7,637,526
Preferred Dividend Requirements	1,215,755	1,221,578
Net Income Applicable to Common Stock	13,765,369	6,415,948
Per common share	$3.84	$1.76

Note a: Consolidated net income does not include special credits of $1,380,718 in 1965 and $528,194 in 1962.

UNITED STATES SMELTING REFINING AND MINING COMPANY

Consolidated Statement of Income and Retained Earnings Unappropriated

Net Operating Profit	$6,161,192
Gain on metal price fluctuations (Note 9)	824,464
Net Income	6,985,656
Special items (net gain on sales of property and investments)	233,633
Net Income and Special Items	$7,219,289

Financial Highlights

	1965 (1)	1964
Total Revenue (2) (3)	$128,032,749	$36,847,898
Net Operating Profit (2) (3)	6,161,192	4,036,151
Net Income and Special Items (3)	7,219,289	5,291,639
Per Share of Common Stock (after preferred dividend requirements)		
Net Operating Profit	$2.16	$1.10
Net Income and Special Items	$2.65	$1.68

Note 1: Includes Mueller Brass Co. and its subsidiaries acquired in 1965.

Note 2: These figures do not reflect net gain on sales of property and investments or gain on metal price fluctuations—see comparative consolidated statement of income, page 21.

Note 3: Does not include results from operations in Alaska, see page 12.

AUTOMATIC CANTEEN COMPANY OF AMERICA

Statement of Consolidated Earnings

Net earnings	$ 7,877,033
Extraordinary gains from sale of assets ($5,604,893) less applicable federal income taxes (Note 6)	3,347,616
Net earnings and extraordinary gains	$11,224,649

Letter to Stockholders

Reported net earnings and extraordinary gain of $1.66 per share included extraordinary gains of 50¢. Earnings from operations including the change in computing depreciation, were $1.16 per share. In 1964 we earned 76¢. Dividends were increased three times in fiscal 1965 and totaled 65¢ per share compared to 10¢ paid during the previous fiscal year. The current annual dividend rate of 80¢ per share is a manifestation of your company's confidence in its future earning potential.

FOREMOST DAIRIES, INC.
Statement of Consolidated Income

Net Income	$8,706,000
Special Item—Net gain on sale of operating properties (Note 1)	1,200,000
Net Income and Special Item	$9,906,000

Note 1: *Financial Statements*—In January 1965 Foremost, pursuant to an agreement entered into in 1964, sold for cash (of which $1,800,000 was received in 1964) the properties and business which constituted its Southeastern Region. Certain other relatively minor properties were also sold in 1965 in final settlement of a Federal Trade Commission divestiture order. The excess (amounting to $1,200,000, after applicable income taxes of $437,000) of the net proceeds from these sales over the net assets sold is reflected in the accompanying statement of consolidated income as a special item. For comparative purposes, the results of operations of the Southeastern Region for 1964 are shown as a single item in the statement of consolidated income.

Letter to Stockholders

For the fourth consecutive year net earnings of Foremost Dairies, Inc. showed significant growth. Our net profits amounted to $8,706,000, or $1.10 a share, as compared with $7,242,000 or 91 cents per share reported in 1964. In addition to operating earnings, a net gain (after tax) of $1,200,000 was realized on the sale of the Southeastern properties.

LOCKHEED AIRCRAFT CORPORATION
Consolidated Earnings

Earnings for the Year	$51,517,000
Special Credit:	
Settlement of renegotiation claims for the years 1953-56 (Note 8)	2,172,000
Earnings for the Year and Special Credit	$53,689,000

Highlights

Quick Comparison (per share)	1965	1964	Per cent	Change
Net earnings (excluding special credit)	$ 4.69	$ 4.18	up	12
Cash dividends	2.00	1.60	up	25
Stockholders' equity	25.05	22.11	up	13

Those are the results of 1965. Net earnings do not include the $2.2 million special credit (20 cents a share) added to retained earnings.

OWENS-ILLINOIS, INC.
Consolidated Earnings and Retained Earnings

Net earnings	$52,155,282
Gain on sale of six forest products plants, less applicable Federal income tax ($6,162,000)	15,062,606
Net earnings and nonrecurring gains	$67,217,888

Letter to Stockholders

Earnings for the year 1965 were $52,155,282, or $3.38 a common share, on sales of $825,754,916. During 1964, earnings were $42,660,501, or $2.73 a share, on sales of $693,560,200. Not included in the 1965 earnings is a gain of $15,062,606, or $1.02 a share, from the sale in April of a containerboard mill and five corrugated shipping container plants in compliance with an antitrust consent judgment.

Highlights	1965
Net Earnings	$52,155,300*
Nonrecurring gain	15,062,600**
A common share:	
Earnings	3.38*
Nonrecurring gain	1.02**

*Includes earnings of $4.2 million or 28.5 cents a common share resulting from a change for book and financial reporting purposes from an accelerated to a straight-line method of depreciation.

**Gain on sale of six forest products plants on April 16, 1965.

Computation of Earnings Per Share When Extraordinary Items Are Included in Net Income

S. S. KRESGE COMPANY
Income and Income Retained

Cost of merchandise sold (including buying and occupancy costs)	$634,328,116
Selling, general and administrative expenses	182,879,644
Interest	1,841,020
Loss on disposals of fixed assets and cancellation of leases	2,721,870
	821,770,650
	41,094,214
Estimated income taxes, including deferred income taxes:	
U. S., less investment credit of $863,000 and $655,000, respectively	16,366,101
Canadian	2,573,899
	18,940,000
Income before the following item	22,154,214
Gain on sale of net assets of Mt. Clemens Pottery Company, less related federal income taxes of $489,000	1,315,418
Net Income for the Year	$ 23,469,632

Highlights	1965	1964
Sales	$851,443,163	$688,776,005
Number of Stores*	895	885
Net Operating Earnings	$ 22,154,214**	$ 17,374,452
Per Share***	$4.00	$3.16
Average Number of Shares Outstanding	5,540,939	5,500,072

*Does not include Holly or K mart Sporting Goods, Inc. units.
**Exclusive of non-recurring capital gain of $1,315,418 ($ .24 per share).
***Calculation based upon average number of shares outstanding.

Financial Review

Consolidated sales of the Kresge Company in 1965 rose 23.6 percent to a record volume of $851,443,163. Net operating profit increased 27.5 percent to $22,154,214, representing $4.00 per share compared with $3.16 per share for 1964.

A non-recurring capital gain of $1,315,418 (24 cents per share) resulted from our selling the net assets of Mt. Clemens Pottery in July.

LIBBY, McNEILL & LIBBY
Statement of Consolidated Income and Earnings Retained in the Business

Net income from operations	$2,320,406
Gains on disposal of fixed properties, net after taxes	180,464
Net Income for the Year	$2,500,870

Highlights	Years Ended July 3, 1965 (53 weeks)	June 27, 1964 (52 weeks)
Sales	$300,655,665	$289,685,751
Net operating income	2,320,406	5,410,786
Gain on disposal of fixed properties, net after taxes	180,464	667,916
Net income	2,500,870	6,078,702
Per share of common stock*	.44	1.18
% on common stockholders' investment	2.4	6.9

The Year in Review

Operating net earnings amounted to $2,320,406 compared to last year's operating net earnings of $5,410,786. Gains from disposal of fixed assets amounted to $180,464 after taxes (principally from the sale of two parcels of land no longer required in the business), compared to $667,916 after taxes a year ago. These together resulted in total net earnings of $2,500,870, or $0.44 per share of common stock after providing for dividends on preferred stock, compared to last year's total net earnings of $6,078,702, or $1.18 per share.

AMERICAN BROADCASTING COMPANIES, INC.
Consolidated Earnings

Earnings from Operations	$15,721,000
Capital and Non-Recurring Gains (Losses), net, after applicable Federal income tax	(156,000)
Earnings for the Year	$15,565,000

Year in Brief

	1965	1964
Earnings		
Operations	$15,721,000	$11,019,000
Capital and non-recurring gains (losses), net	(156,000)	177,000
Total	$15,565,000	$11,196,000
Per share:		
Operations	$3.39	$2.40
Capital and non-recurring gains (losses), net	(.04)	.04
Total	$3.35	$2.44

PHOENIX STEEL CORPORATION
Statements of Consolidated Earnings and Retained Earnings

Net earnings before gain on disposal of fixed assets	$2,992,162
Net gain on disposal of fixed assets	638,319
Net Earnings for the Year	$3,630,481

Three Years in Brief

1963	1964	1965	
$48,705,000	$55,682,000	$59,267,000	Net Sales
(1,373,000)	1,100,000	2,992,000	Net Income (Loss) Before Nonrecurring Profit
—2.8%	2.0%	5.0%	Per Cent of Sales
4,074,000	245,000	638,000	Nonrecurring Profit
2,701,000	1,345,000	3,630,000	Net Income
2.49	1.24	3.04	Per Share

Financial Summary

Sales and Earnings: Sales for 1965, the highest since 1959, were $59,267,000 and 6.4 per cent higher than 1964's $55,682,000. Net earnings and operating profits for 1965 were the highest recorded by your company since 1956.

Net earnings for the year were $3,630,000, an increase of 170 per cent over the $1,345,000 total reported for 1964. Earnings per share were $3.04 on 1,195,578 shares outstanding at year end including 106,349 shares issued on January 20, 1966 in payment of the 10 per cent stock dividend to shareholders of record December 10, 1965. This compares with earnings of $1.24 per share in 1964 on the 1,086,249 shares then outstanding.

A nonrecurring profit of $638,000 is included in the net earnings for 1965 as compared to $245,000 in 1964. These profits resulted from the sale of unused parcels of land which the company owned and which your management has been disposing of gradually since 1963. It is expected these excess land sales will be completed in 1966.

Net income from operations (net earnings less nonrecurring profits) was $2,992,000 in 1965 or $2.50 per share as compared to $1,100,000 or $1.01 per share in 1964. This 172 per cent increase in profitability from operations reflects your management's successful efforts to exercise greater control over all cost factors and improve production efficiency.

THE AMERICAN TOBACCO COMPANY
Financial Review

Earnings: Net income advanced again to a record high of $80,526,803 in 1965, a gain of 10% over the 1964 level of $73,-195,438.

Profit margins were higher in 1965 as advertising and promotion costs were maintained at the 1964 level, while plant efficiency continued to improve. Also contributing to the gain in net income were reduced federal income taxes and nonrecurring profit on sale of property abroad amounting to $1,237,000 after deducting U. S. and foreign taxes.

Net income per Common share rose to $3.05 compared with $2.69 in 1964. The reduction in the federal income tax rate from 50% to 48% contributed 12¢ per share to 1965 net income, and another 5¢ per share was accounted for by the sale of foreign property referred to above. Approximately 3¢ per share of 1965 earnings was derived from the retirement of the Preferred stock which did not take effect until the second half of 1965 and, accordingly, this represents only about one half the estimated annual benefit to the Common stock.

CORN PRODUCTS COMPANY
Statement of Income

Income before provision for taxes on income	$99,467,414
Provision for United States and foreign taxes on income	42,855,195
	56,612,219
Unrealized losses on foreign exchange, net	238,388
	56,373,831
Minority shareholders' interest	1,683,882
Net income for the year	$54,689,949
Earnings per share	$2.45

Financial Review

Net Income: Net income for 1965 rose to $54.7 million compared with $49.5 million a year ago, an increase of 10.5 per cent. Our domestic business was the source of 53 per cent of our net income while 47 per cent was derived from abroad. Earnings per share were $2.45, or 23 cents more than the $2.22 recorded in 1964. Net income was 5.6 per cent of net sales in 1965, compared with 5.5 per cent a year ago.

INCOME FROM FOREIGN OPERATIONS

The accounting treatment of income derived by United States companies which have branches or subsidiaries operating in foreign countries requires careful consideration. In this connection reference is made to *Accounting Research and Terminology Bulletins, Final Edition,* issued in 1961, by the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants—Chapter 12, which states in part:

> 4. A sound procedure for United States companies to follow is to show earnings from foreign operations in their own accounts only to the extent that funds have been received in the United States or unrestricted funds are available for transmission thereto. Appropriate provision should be made also for known losses.
>
> 5. Any foreign earnings reported beyond the amounts received in the United States should be carefully considered in the light of all the facts. The amounts should be disclosed if they are significant, and they should be reserved against to the extent that their realization in dollars appears to be doubtful.
>
> 6. As to assets held abroad, the accounting should take into consideration the fact that most foreign assets stand in some degree of jeopardy, so far as ultimate realization by United States owners is concerned. Under these conditions it is important that especial care be taken in each case to make full disclosure in the financial statements of United States companies of the extent to which they include significant foreign items.

Since United States income tax is a factor to be considered where income from foreign operations is reported, disclosures in this connection should be fully incorporated. *Accounting Research and Terminology Bulletins, Final Edition*, 1961, referred to above, discusses Income Taxes in general. Chapter 10, Section B, states in part:

> 4. . . . Income taxes are an expense that should be allocated, when necessary and practicable, to income and other accounts, as other expenses are allocated. What the income statement should reflect under this head, as under any other head, is the expense properly allocable to the income included in the income statement for the year.
>
> 18. If, because of differences between accounting for tax and accounting for financial purposes, no income tax has been paid or provided as to certain significant amounts credited to surplus or to income, disclosure should be made. However, if a tax is likely to be paid thereon, provision should be made on the basis of an estimate of the amount of such tax. . . .

The following analysis made from the 1965 annual reports of the 600 survey companies is indicative of current practice, though it has been difficult in many cases to ascertain from the reports the precise information required to make a more informative presentation. For this purpose companies having Canadian subsidiaries or branches have been omitted, as it has been found that for the most part income from Canadian operations has been treated much the same as from domestic operation; in any case it does not quite coincide with the treatment of other foreign operations in general.

Foreign Subsidiaries—Consolidated

Income fully taken up:
- With U. S. tax provided for—by a reserve, or net after taxes, etc. (*1, 49, 54, 116, 135, 146, 166, 182, 197, 249, 279, 330, 341, 372, 374, 415, 419, 437, 455, 486)
- With no provision for related U. S. tax on unremitted earnings evident (*6, 40, 62, 117, 124, 125, 139, 155, 174, 232, 246, 258, 284, 287, 309, 405, 414, 515, 535, 576, 578, 594)
- With no information as to the related provision for U. S. tax (*44, 92, 136, 162, 172, 206, 233, 262, 305, 321, 364, 396, 435, 470, 497, 516, 536, 567, 600)
- With tax provided on dividends received (*7, 72, 251, 294, 311, 379, 421, 431, 465)

Foreign subsidiaries evident but no information as to the accounting treatment of income (*2, 57, 82, 84, 122, 156, 177, 300, 302)

Foreign Subsidiaries—Not Consolidated

Income fully taken up:
- With U. S. tax provided for—by a reserve, or net after taxes, etc. (*249, 391, 408, 586)
- With no provision for related U. S. tax on unremitted earnings evident (*123, 232, 284, 414, 512, 565, 594)
- With no information as to the related provision for U. S. tax (*37, 75, 77, 135, 178, 186, 208, 219, 248, 280, 343, 355, 363, 368, 429, 434, 439, 460, 467, 469, 477, 479, 480, 543)
- With tax provided on dividends received (*100, 131, 251, 482, 595)

Income taken up only as dividends are received (*16, 33, 61, 89, 125, 155, 182, 205, 212, 257, 309, 330, 396, 416, 432, 454, 487, 538, 584, 598)

Income not taken up—no references to dividends received (*220, 235, 441, 462, 498, 535, 578)

Foreign subsidiaries evident but no information as to the accounting treatment of income (*20, 39, 51, 67, 72, 122, 129, 153, 194, 234, 252, 278, 302, 323, 365, 419, 435, 536, 551, 599)

Foreign Subsidiaries—Consolidated

With U. S. Tax Provided for All Income Including Unremitted Earnings

DRESSER INDUSTRIES, INC.
Notes to Financial Statements

Note G: Foreign Subsidiaries—The accounts of consolidated foreign subsidiaries have been stated in United States dollars at appropriate current rates of exchange. Net assets of foreign subsidiaries at October 31, 1965, were distributed by geographical location as follows:

	(in thousands of dollars)			
	Canada	Europe	Other	Total
Current assets	$ 9,190	$19,366	$8,877	$37,433
Current liabilities	1,834	6,594	4,372	12,800
Net current assets	7,356	12,772	4,505	24,633
Investment in securities		10,236		10,236
Fixed and other assets	4,499	9,348	2,325	16,172
Net assets	$11,855	$32,356	$6,830	$51,041

Net earnings of these subsidiaries amounted to $6,847,000 in 1965 and $3,335,000 in 1964. Distribution of such earnings to the Company amounted to $2,046,000 in 1965, and none in 1964.

Provision for deferred taxes on unremitted foreign earnings amounted to $2,356,000 in 1965, and $2,172,000 in 1964.

Accounting Policies

Consolidation: All significant foreign subsidiaries are included in consolidation, but foreign earnings which are subject to significant financial or political risks are reserved until remitted in U. S. Dollars. In general, unremitted foreign earnings are recognized only where International Monetary Fund convertibility standards are met. U. S. taxes payable upon remittance of foreign earnings are provided for at the time the earnings are included in consolidation, if ultimate remittance is probable.

*Refer to Company Appendix Section.

MERCK & CO., INC.
Notes to Financial Statements

All active wholly-owned subsidiaries have been included in the consolidated financial statements. Foreign subsidiaries are included as of November 30, and as Charles E. Frosst & Co. was not wholly owned as of that date, it is not included in consolidation. The accounts of foreign subsidiaries and branches have been translated into United States dollars on the following bases: imported inventories, fixed assets, and related depreciation have been translated at exchange rates prevailing at dates of acquisition; net assets protected against exchange fluctuation have been translated at rates of exchange fixed by contract; the remaining net assets have been translated at the free rates of exchange in effect at the year-end. Income and expense items other than depreciation and costs of imported inventories have been translated at month-end average rates of exchange.

Net income of consolidated foreign subsidiaries and branches, as translated into U.S. dollars and included in consolidated net income amounted to $18,752,000 in 1965 and $15,181,000 in 1964. The foregoing amounts do not include the profits of the parent company and domestic subsidiaries from their sales to foreign customers, subsidiaries, and branches. Remittances of earnings from consolidated foreign subsidiaries and branches amounted to $18,406,000 in 1965 and $4,796,000 in 1964. Remittances are before applicable taxes, principally U.S. income taxes, already deducted from consolidated net income. U.S. and foreign government taxes may be payable in the event of the remittance of that portion of retained foreign earnings not permanently invested in the business. A reserve applicable to foreign operations has been established for possible additional taxes arising from income related to such operations and for possible losses incident thereto.

With No Provision for U. S. Tax on Unremitted Earnings

CALIFORNIA PACKING CORPORATION
Notes to Financial Statements

Note A: Subsidiaries Consolidated—The consolidated financial statements include the accounts of the Corporation and all domestic and foreign subsidiary companies. At February 28, 1965 net current and working assets of subsidiaries operating in foreign countries amounted to $13,984,452 and the Corporation's equity in their net assets amounted to $29,213,644, stated on the basis of appropriate rates of exchange.

No provision has been made for income taxes which may be payable on future distributions from accumulated earnings of subsidiary companies included in consolidated earnings retained for use in the business.

CELANESE CORPORATION OF AMERICA
Notes to Financial Statements

Note 1: Principles of Consolidation and Related Matters—The consolidated financial statements include the accounts of the Corporation and all significant subsidiaries. All material intercompany transactions and profits have been eliminated.

Plant facilities and other non-current assets and net assets of foreign subsidiaries included in the balance sheet at December 31, 1965 are located as follows:

	Plant Facilities and Other Non-current Assets	Net Assets
Canada	$263,315,499	$149,080,947
Europe	59,836,389	33,227,644
United Kingdom	48,544,466	(2,441)
South America	25,680,392	26,878,718
Total	$397,376,746	$209,184,868

Current assets and liabilities of foreign subsidiaries are included in the balance sheet on the basis of appropriate exchange rates at December 31, 1965. Other assets and liabilities are included on the basis of exchange rates prevailing when acquired or incurred. Earnings of foreign subsidiaries were translated into U.S. dollars on the basis of approximate average exchange rates for the year, except for application of historical rates to depreciation and amortization charges.

At December 31, 1965, undistributed earnings of consolidated foreign subsidiaries totaled approximately $11,650,000 on which no provision for United States income taxes has been made. It is believed that such taxes would not be significant.

Earnings of foreign subsidiaries (principally from those in Canada) included in consolidated net earnings amounted to $8,055,064 in 1965 and $8,572,047 in 1964, net of minority interests.

OTIS ELEVATOR COMPANY
Financial Review

Consolidation: In the interest of presenting a rounded picture of the Company's activities and particularly in recognition of the significance of our international operations, the 1965 financial information has been compiled on a consolidated basis and the other financial data contained in this report has been similarly restated on such basis. The consolidated financial data includes the accounts of the Company and its subsidiaries, except for a relatively immaterial international company acquired in late 1965. Investments in two 50% owned companies and one less than 50% owned company are carried at the Company's equity therein, and changes in equity are now reflected in the annual statement of income. The accounts of the subsidiaries, all of which operate outside the United States, are included on the basis of September 30 fiscal year ends, except Canada, which is included as of December 31. Foreign currencies have been converted into U. S. dollars at appropriate rates of exchange. No provision has been made in the accounts for additional U. S. and Foreign taxes which might be payable on unremitted retained earnings of the subsidiaries.

Foreign Subsidiaries—Not Consolidated

With U. S. Tax Provided for All Income Including Unremitted Earnings

NOPCO CHEMICAL COMPANY
Notes to Financial Statements

Note 2: Investment in Foreign Subsidiary and 50% Owned Companies—The Company's investments in its unconsolidated Swiss subsidiary and in 50% owned foreign companies are stated at equity in the underlying net assets after provision for United States income taxes that would be payable if the net assets were distributed to the Company. At December 31, 1964, these investments were stated at cost.

The increase in the equity in the net assets of these companies for the current year of $130,095 has been included in net earnings. The adjustment to these investments applicable to prior years of $145,733 ($92,065 applicable to 1964) has been credited to retained earnings; such amount will be included as a special credit in the statement of consolidated earnings in the Company's annual report to the Securities and Exchange Commission.

WESTINGHOUSE AIR BRAKE COMPANY
Notes to Financial Statements

Note 1: The consolidated financial statements include the Company and all its domestic and Canadian majority-owned subsidiaries.

At December 31, 1964, investments in capital stocks and advances to subsidiaries not consolidated were carried principally at cost or written down value less a reserve of $1,097,051. Commencing in 1965, investments in subsidiaries not consolidated are carried at the Company's equity in the net assets of such subsidiaries, after providing for taxes which may be payable if the undistributed earnings were transferred to the parent Company, less a reserve of $1,097,051 for possible losses. The excess of net assets of such subsidiaries over the carrying value thereof as of January 1, 1965 of $6,758,614 was credited to retained earnings in 1965. The Company's equity in the net income of these subsidiaries for the year 1965 was credited to income. This credit was $1,005,807 in excess of dividends received during the year from such subsidiaries.

Income Taken Up Only as Dividends Are Received

THE BUDD COMPANY
Notes to Financial Statements

Foreign Investments: The consolidated financial statements include the accounts of the company and its wholly-owned Canadian subsidiaries.

The company's equity in the net assets of unconsolidated foreign companies in which it has investments, based on the most recently available audited statements, exceeded cost by approximately $3,700,000. The company takes into earnings only dividends as received from such investments which for 1965 amounted to $648,031.

At December 31, 1965 the company was contingently liable in the amount of $1,782,000 as guarantor of loans made to certain of its foreign interests.

CASH FLOW

The term "cash flow" has appeared in the annual stockholders' reports with some frequency in recent years, and for that reason the current survey of 600 companies presents the various disclosures relative thereto.

It may be said at the outset that the term appears to be a creation of security analysts rather than accountants, and although it is based largely on net income or earnings, it can never supplant net income or earnings statements.

The accounting research division of the American Institute of Certified Public Accountants published, in 1961, *Accounting Research Study No. 2—"Cash Flow" Analysis and The Funds Statement*. These "studies are designed to provide professional accountants and others interested . . . with a discussion and documentation of accounting problems. The studies are intended to be informative, but tentative only." However, since this study is pertinent to our topic, the following *Highlights* may be of interest:

> "Cash flow" in financial analysis means net income after adding back expense items which currently do not use funds, such as depreciation. It may also involve deducting revenue items which do not currently provide funds, such as the current amortization of deferred income. It corresponds to the "funds derived from operations" in a statement of source and application of funds.
>
> The *concept* of "cash flow" can be used effectively as one of the major factors in judging the ability to meet debt retirement requirements, to maintain regular dividends, to finance replacement and expansion costs, etc.
>
> In no sense, however, can the amount of "cash flow" be considered to be a substitute for or an improvement upon the net income, properly determined, as an indication of the results of operations or the change in financial position.
>
> Statistics and comments relating to the "cash flow" should not be presented in the annual report of a corporation apart from or without reference to the funds statement.

The following tabulation compares the number of survey companies referring to "cash flow" for the years 1965, 1962, and 1960. The tabulation also discloses in what part of the report "cash flow" is mentioned or dealt with.

Number of Companies:	1965	1962	1960
Referring to "cash flow"	145	101	61
Not referring to "cash flow"	455	499	539
Total	600	600	600

Method of Presentation or Location in Reports			
Referred to in:			
President's letter or financial review	83	45	38
Operating summaries or statistics	53	29	4
Highlights	44	12	8
Separate statements	5	13	8
Funds statements	31	N/A	N/A
Chart form	49	9	12
Total	265	108	70

N/A—Not Available.

As indicated by the above tabulation, 145 companies referred to "cash flow," "cash flow earnings," or "internal cash generation," etc., in 1965, compared with 101 companies in 1962 and 61 companies in 1960. One less company referred to "cash flow" in 1964. Statements of "working capital" or "source and application of funds" (referred to above as "the funds statement") are not, as such, included in this presentation, but are treated separately in this survey, immediately following this subject.

Of the above-mentioned 145 companies referring to cash flow, 68 presented the information in dollar amounts (*10, 62, 68, 108, 136, 193, 217, 269, 278, 325, 344, 387, 394, 454, 473, 492, 495, 525, 539, 577); 17 presented amounts per share (*18, 36, 66, 70, 83, 125, 156, 189, 208, 243, 319, 351, 353, 420, 440, 481, 529); and 60 presented both the totals and amounts per share (*12, 87, 172, 188, 231, 255, 289, 296, 330, 350, 389, 398, 435, 439, 461, 471, 512, 520, 566, 598).

Examples of the manner of presentation follow.

Presented in Both Totals and Amounts Per Share

PHILLIPS PETROLEUM COMPANY
Financial and Statistical Review

Cash generated in 1965, consisting of net income plus charges for depreciation, depletion, retirements, and deferred income taxes, was $274,000,000 or $8.21 a share.

SINCLAIR OIL CORPORATION
Highlights

Revenues	$1,293,519,182
Net Income	76,672,607
Per Share	5.06
Cash Income	198,525,796
Per Share	13.11

Financial Review

Cash Income: Cash income (consolidated net income before depreciation, depletion, amortization, property retirements, etc.), or working capital provided from operations, rose to $198.5 million, or $13.11 per share, in 1965, a record high for Sinclair and an increase of $29.2 million, or 17%, over 1964.

*Refer to Company Appendix Section.

STANDARD PRESSED STEEL CO.
Ten Year Financial Summary

	(In Thousands)
Net sales	$120,439
Earnings before income taxes	6,910
Provision for income taxes	3,136
Net earnings	3,774
Cash dividends paid	1,324
Property additions—less book value of retirements and sales	4,057
Depreciation and amortization:	
Plant and equipment	4,849
Intangibles	126
Cash flow (net earnings plus depreciation and amortization)	8,749
Per Share:	
Net earnings	1.43
Cash flow	3.32

UNITED STATES PLYWOOD CORPORATION
Highlights

Net sales	$448,678,453
Net income	18,756,619
Net income per share of common stock	3.01
Dividends paid per share	1.20
Income retained in the business—per share	1.81
Cash flow	39,303,911
Cash flow—per share	6.34

Financial Review

Cash Flow: The cash flow was $6.34 per share of common stock in the year just ended and $4.54 per share in the previous fiscal year. This amounted to $39,303,911, compared with $28,089,-257 in the previous year.

Presented in Dollar Amount

AMERICAN CHAIN AND CABLE COMPANY, INC.
Source and Use of Funds

Source of Funds:	
Net income	$ 9,341,122
Depreciation	3,403,137
Funds provided from operations—cash flow	$12,744,259

COMMERCIAL SOLVENTS CORPORATION
Financial Summary

	(In Thousands)
Operating Record:	
Net Sales	$90,764
Cash Flow (Note c)	11,869
Net Earnings	$ 6,746

Note c: Net earnings, depreciation, depletion and amortization.

EVANS PRODUCTS COMPANY
Financial Highlights

Sales and rentals	$246,941,000
Earnings before taxes	13,904,000
Net earnings	8,404,000
As a percent of common shareholders' average investment*	19%
Per common share*	3.08
Special item—gain on sales	5,364,000
Net earnings and special item	13,768,000
Per common share*	5.24
Cash flow from operations	$ 12,509,000

Presented in Amounts Per Share

MACK TRUCKS, INC.
Financial Review

After all charges, 1965 net income amounted to $4,303,000 or $1.28 per common share, compared with $3,410,000, 97 cents per share, in 1964. Cash flow from income, depreciation, amortization of deferred charges and deferred U.S. income taxes was $6.80 per common share in 1965, and $4.41 per share in 1964.

SOURCE AND APPLICATION OF FUNDS

Section 1 presents tables of additional statements and schedules, some of which are covered by auditors' reports. Among such statements and schedules are those which show source and application of funds. This part of Section 3 expands the coverage of statements of source and application of funds to show where in the report the statements are presented, how they are referred to in auditors' reports, and the titles used. No attempt has been made to distinguish between Source and Application of Funds Statements, and Working Capital Statements since the phrases are often used synonymously, and because of the similarity of information presented.

The accounting principles board of the American Institute of Certified Public Accountants in its *Opinion No. 3, The Statement of Source and Application of Funds,* published in October, 1963, stated its opinion, in part, as follows:

> 8. The Board believes that a statement of source and application of funds should be presented as supplementary information in financial reports. The inclusion of such information is not mandatory, and it is optional as to whether it should be covered in the report of the independent accountant.
>
> 9. The concept of "funds" underlying the preparation of a statement of source and application of funds should be consistent with the purpose of the statement. In the case of statements prepared for presentation in annual reports, a concept broader than that of working capital should be used which can be characterized or defined as "all financial resources," so that the statement will include the financial aspects of all significant transactions, e.g., "non-fund" transaction such as the acquisition of property through the issue of securities.
>
> 10. Types of transactions reflected in the statement of source and application of funds may vary substantially in relative importance from one period to another. As a result, consistency of arrangement of items from period to period and uniformity of arrangement as between reporting enterprises are of less significance than in the case of the balance sheet or income statement. In a statement of source and application of funds it is desirable to disclose and to emphasize the more important financial events of the period covered by the statement. Related items should be shown to-

gether when the result contributes to the clarity of the statement, and less important items should be combined. Significant changes in individual current assets and current liabilities should be shown as separate items whenever they are not otherwise adequately disclosed in the financial statements; changes in the other current items may then be combined and shown as a single amount.

12. Both increases and decreases in capital stock (other than stock dividends or splits), in noncurrent liabilities, and in noncurrent assets should be shown where the amounts are material. The proceeds from an issue of securities should appear as a separate source of funds. Where significant in amount, the proceeds from the sale of property should be disclosed and shown separately from property acquisitions.

It is interesting to note that of the 458 companies including "funds" statements in their reports, 153 were one-year statements while 305 were for 2 or more years. The number of companies presenting statements of source and application of funds in 1965 increased to 458, or 76 per cent of the companies represented in the survey, compared to 387 companies presenting such statements in 1964, or 65 per cent.

WHERE PRESENTED

The following tabulation reveals the location of the "funds" statement in the reports of the 600 survey companies. Similar information for 1964 is included in an adjoining column.

Source and Application of Funds Statement Presented:*	Number of Companies 1965	1964
With financial statements:		
A: As the first of the statements	28	21
B: As the last of the statements	147	129
C: Between balance sheet and income statement	13	12
D: Between balance sheet and retained earnings (deficit) statement	8	2
E: Between balance sheet and capital surplus statements	2	2
F: Between income and retained earnings or capital surplus statements	5	4
G: Between balance sheet or income statement and shareholders' equity statements	2	3
H: Between retained earnings and capital surplus statements	2	1
Between customary statements and additional statements	—	3
Total	207	177
With president's letter, financial, or other textual review:		
I: Before president's letter	14	11
J: After president's letter	5	9
K: With president's letter	21	22
L: With financial review	101	114
Other presentations	—	1
M: Between notes and auditors' report	41	N/C
N: After financial statements and auditors' report	69	53
Total	458	387
Companies not presenting "funds" statement	142	213
Total	600	600

*Refer to Company Appendix Section—A: 8, 65, 84, 108, 220, 299, 325, 379, 435, 472, 553, 594; B: 40, 66, 100, 160, 222, 257, 352, 373, 427, 454, 570, 580; C: 63, 128, 157, 168, 244, 265, 341, 375, 457, 540, 544, 598; D: 1, 123, 356, 370, 392, 502, 522, 581; E: 545, 568; F: 178, 215, 319, 437, 486; G: 67, 300; H: 245, 360; I: 4, 34, 90, 368, 415, 431, 444, 466, 520, 526, 555, 582; J: 38, 131, 465, 510, 511; K: 31, 86, 102, 176, 207, 273, 303, 384, 458, 498, 533, 591; L: 33, 74, 136, 194, 232, 293, 329, 340, 417, 468, 535, 566; M: 52, 75, 144, 191, 231, 287, 339, 399, 459, 475, 554, 595; N: 2, 82, 140, 185, 234, 296, 363, 381, 426, 493, 546, 585.
N/C—Not Compiled.

WHERE REFERRED TO BY AUDITORS

The source and application of "funds" statement is referred to by the auditors of 273 of the 600 survey reports in 1965. In all of the 273 reports, the auditors expressed an opinion on the "funds" statements. For examples of the auditors' opinion on "funds" statements see Section 5, Identification of Financial Statements. The tabulation below has been arranged to show in what part of the auditors' report the reference to the "funds" statement is made.

Auditors' Opinion Expressed Reference made in:*	Number of Companies 1965	1964
A: *Scope* paragraph	7	5
B: *Opinion* paragraph	37	82
C: Both *scope* and *opinion* paragraphs	143	86
D: Separate paragraph	22	18
E: Modified short-form report	64**	—
Total	273	191
Not referred to in auditors' report	185	196
	458	387
Not presenting "funds" statement	142	213
Total	600	600

*Refer to Company Appendix Section—A: 148, 217, 290, 334, 392, 505, 572; B: 13, 87, 128, 188, 248, 284, 354, 373, 452, 493, 531, 582; C: 1, 79, 111, 139, 214, 235, 300, 350, 421, 467, 558, 600; D: 19, 66, 146, 191, 229, 251, 409, 459, 466, 552, 563, 576; E: 23, 73, 124, 183, 240, 265, 318, 361, 469, 490, 580, 590.
**Corresponding figure in 1964 included under "B."

CONTENT OF "FUNDS" STATEMENT

The items encountered most frequently in the "funds" statements of the 600 companies making up the survey, and the frequency of their occurrence, are set forth in the accompanying tabulation. Many companies use the terms *miscellaneous* or *other* for items too small or too many to list separately. Also included in this category in the following tabulations are items which do not occur sufficiently often, among the 600 companies to warrant the resulting proliferation of the table if they were given separate status.

Not every company with a "funds" statement will have all components of an item in the tabulation. A particular company might have depreciation, but not depletion and amortization. It has nevertheless been included in the all-embracing category for convenience and to keep the number of items in the tabulation to a minimum.

Content of "Funds" Statement *SOURCE (FUNDS PROVIDED)* Item in Statement	Number of Companies referring to item
Net income or earnings (or net loss)	457
Depreciation, depletion, and amortization	453
Income taxes (deferred, adjusted, future, etc.)	195
Investment credit	20
Reduction in investment in unconsolidated subsidiaries, mortgages, etc.	9
Decrease or loss in investments	39
Amortization of deferred charges	12
Increase in minority interests	22
Sales of plant and equipment	193
Increase in long-term debt	196
Sales of stock including stock options	278
Other and miscellaneous	301

APPLICATION OR DISPOSITION (FUNDS APPLIED) Item in Statement	
Cash dividends paid	441
Repayment of short- or long-term debt	264
Expended for plant or equipment	458
Purchase of company's own stock	173
Investment in unconsolidated subsidiaries	80
Investments	92
Decrease in deferred Federal income taxes	15
Other and miscellaneous	300

TITLE OF "FUNDS" STATEMENT

Many different titles were used in the reports of the 600 survey companies, for 1965, for source and application of funds. The titles used most frequently were *Source and Application of Funds, Source and Disposition of Funds, Source and Use of Funds, Changes in Working Capital, Working Capital,* and *Funds Statement.*

The tabulation below lists the more frequently used titles for the "funds" statement, and also the number of companies using one-year statements as opposed to statements for two years or more.

Title of Statement*	Number of Companies with: 1-year statements	2 years or more	Total
A: Source and application of funds	47	111	158
B: Source and disposition of funds	16	34	50
C: Source and distribution of funds	1	1	2
D: Source and use of funds	18	44	62
E: Application of funds statement	1	—	1
F: Funds statement	11	12	23
G: Working capital	13	12	25
H: Changes in working capital	17	23	40
I: Analysis of changes in working capital	4	15	19
J: Source and use of working capital	1	5	6
K: Miscellaneous other titles	24	48	72
Total	153	305	458

*Refer to Company Appendix Section—A: 18, 56, 182, 223, 233, 300, 338, 408, 464, 531, 590; B: 7, 95, 170, 189, 247, 266, 356, 381, 434, 495, 535, 573; C: 311, 426; D: 5, 65, 116, 188, 239, 276, 349, 399, 430, 441, 523, 567; E: 160; F: 1, 12, 102, 185, 226, 234, 312, 358, 454, 457, 545, 577; G: 30, 40, 152, 186, 207, 246, 326, 374, 478, 497, 508, 525; H: 8, 96, 104, 172, 218, 220, 369, 390, 437, 494, 519, 541; I: 83, 90, 131, 187, 256, 284, 339, 391, 419, 503, 512, 599; J: 129, 177, 248, 412, 455, 540; K: 16, 77, 100, 175, 200, 269, 327, 366, 468, 476, 533, 586.

The following examples, taken from the 1965 reports, illustrate source and application of funds statements. For treatment of the "funds" statement in auditors' reports, see Section 5.

AMERICAN CHAIN & CABLE COMPANY, INC.
Source and Use of Funds

Source of Funds:	
Net income	$ 9,341,122
Depreciation	3,403,137
Funds provided from operations — cash flow	12,744,259
Use of Funds:	
Capital expenditures	7,002,347
Cash dividends	3,357,521
Increase in working capital	2,328,725
Miscellaneous net	55,666
	$12,744,259

AVCO CORPORATION
Consolidated Source and Disposition of Working Capital

Source of Working Capital:	
Net earnings	$24,433,287
Depreciation	7,042,338
Less equity in consolidated net earnings of Avco Delta Corporation	(3,561,123)
	27,914,502
Common stock options exercised	536,424
Increase (decrease) in long term debt other than convertible debentures	37,667,488
Decrease (increase) in other	273,436
Total	66,391,850
Disposition of Working Capital:	
Cash dividends declared	13,744,719
Treasury stock purchased	259,626
Investment in Avco Delta Corporation, $85,972,411 of which $60,878,987 was in Avco common stock	25,093,424
Investment in Bay State Abrasive Products Company, $26,104,826 less $8,732,208 of working capital acquired	17,372,618
Investment in television (WOAI) and radio (WOAI and WWDC) stations, $15,612,208 of which $3,500,000 was in Avco preferred stock	12,112,208
Net additions to property, plant and equipment	8,116,341
Total	76,698,936
Decrease in Working Capital	$10,307,086

CERTAIN-TEED PRODUCTS CORPORATION
Consolidated Statement of Funds

Sources of Funds:	
Net income	$ 5,630,487
Depreciation of fixed assets and amortization of intangible assets	3,018,496
Decrease in noncurrent receivables	51,394,172
Common stock issued under stock option plans	114,494
Decrease in other assets and deferred charges	2,350,735
Decrease in working capital	2,669,143
	65,177,527
Application of Funds:	
Expenditures for property, plant and equipment, net	10,714,029
Decrease in noncurrent notes payable	49,459,267
Decrease in deferred Federal income taxes	1,932,000
Dividends on common stock	2,282,304
Purchase of common stock for treasury	498,106
Other	291,821
	$65,177,527

CHICAGO PNEUMATIC TOOL COMPANY
Source and Application of Funds

Source of Funds:	
Net income for the year	$15,562,549
Depreciation and amortization	2,501,031
Proceeds from exercise of stock options	436,796
Other	53,468
Total	18,553,844
Application of Funds:	
Dividends	7,090,872
Capital expenditures	5,035,474
Total	12,126,346
Increase in Working Capital	$ 6,427,498

Working Capital

Current Assets:	
Cash and marketable securities	$ 8,880,270
Accounts and notes receivable	34,141,062
Inventories	56,835,946
Prepaid expenses	746,196
Total	100,603,474
Current liabilities	27,501,834
Working Capital	$73,101,640

CONTINENTAL OIL COMPANY
Financial Review

The effect of the year's operating and other transactions on the Company's cash and securities balances is illustrated in the statement of source and application of funds shown below.

Source and Application of Funds

	(Dollars in Thousands)
Source:	
Net Income	$ 96,151
Noncash charges against income:	
Depreciation, depletion, amortization, and retirements	92,818
Surrendered leases and dry hole costs	32,005
Other (including minority interest in income)	5,869
Funds derived from operations	226,843
Sale of fixed assets and investments	18,760
Increase (decrease) in long-term debt	34,838
Repayments of advances previously made to other companies	3,348
Deferred income from oil payments (net)	(4,404)
Other sources (uses) of funds	5,368
Total funds available	284,753
Application:	
Capital expenditures—Domestic	146,864
—International	52,894
Total	199,758
Investments in and advances to other companies	12,998
Dividends paid on Continental Common Stock	51,984
Dividends paid to Preferred stockholders, to minority interests, and to stockholders of pooled company prior to combination	6,978
Increase (decrease) in notes and accounts receivable, inventories, less current liabilities	3,891
Total funds used	275,609
Net increase (decrease) in cash and securities during the year	$ 9,144

AIR PRODUCTS AND CHEMICALS, INC.
Financial Review
Source and Disposition of Funds

	(Dollars in Thousands)
Funds Were Obtained from:	
Net income	$ 7,397
Depreciation	10,715
Increase in reserve for deferred income taxes (Note 2)	2,315
Increase in deferred investment credit (Note 2)	672
Total funds from operations	21,099
Additional long-term debt (Note 1)	29,770
Increase in deferred income and other non-current reserves	767
Issuance of common stock under option plan (Note 5)	430
Increase in minority stockholders' interest	401
	52,467
Funds Were Used for:	
Additions to plant and equipment, net	43,649
Increase (decrease) in investments	234
Cash dividends	422
Reduction of long-term debt (including transfers to current liabilities)	6,913
Increase in working capital	1,249
	$52,467

M. H. FISHMAN CO., INC.
Statement of Source and Use of Funds

Funds Provided by:	
Earnings	$1,241,229
Depreciation	319,691
Proceeds from Sale of Building Less Net Profit included above	44,686
Proceeds from Disposition of Fixtures & Improvements Less Net Profit included above	30,259
Increase in Deferred Taxes	22,200
Total Funds Provided	1,658,065
Funds Used for:	
Purchases of Fixtures & Improvements	74,608
Increase in Other Assets	42,642
Reduction of Long Term Debt	220,849
Payments of Dividends	207,114
Additions to Working Capital	1,112,852
Total Funds Used	$1,658,065

W. F. HALL PRINTING COMPANY
The President's Letter

Working Capital: During the year working capital (current assets less current liabilities) declined from $15,811,000 to $11,161,000 as set forth in the following summary of sources and uses of working capital for the year:

Sources of working capital:	
Net income	$ 3,062,000
Depreciation	3,713,000
Deferred federal income tax	1,156,000
Other	35,000
	7,966,000
Uses of working capital:	
Expenditures for plant and equipment	10,366,000
Dividends paid	1,550,000
Installment on 5¼% promissory notes	700,000
	12,616,000
Net decrease	$ 4,650,000

Cash flow from operations—net income plus expenses which did not require cash outlay (depreciation and deferred federal income tax) totaled $7,931,000. This is a new high for the company and was equal to $7.93 per share, compared with $7.40 per share a year ago.

COOPER INDUSTRIES, INC.
Source and Use of Funds

Funds Were Provided by:	
Net income	$ 7,041,000
Depreciation	2,567,000
Sale of assets and capital stock	592,000
	10,200,000
Funds Were Used for:	
Dividends	2,688,000
Additions to plant and equipment	2,617,000
Purchases of 24,135 treasury shares	847,000
Reduction of long-term debt	728,000
Increase in working capital	3,320,000
	$10,200,000

THE ELECTRIC STORAGE BATTERY COMPANY
Consolidated Statement of Source and Application of Funds

Source of Funds:		
Net income		$ 9,929,474
Depreciation		4,341,406
Increase in long-term debt		21,375,000
Increase in deferred income taxes		575,386
Sale of common stock under option		224,747
Miscellaneous		157,182
Total		36,603,195
Application of Funds:		
Expenditures for property, plant and equipment		12,065,972
Dividends paid		4,643,750
Increase in long-term receivables and other non-current assets		942,748
Purchase of treasury stock		597,488
Increase in investments and advances to affiliates outside the United States		164,349
Total		18,414,307
Increase in Working Capital:		
Working capital at end of year	$82,637,128	
Working capital at beginning of year	64,448,240	
		$18,188,888

PITTSBURGH STEEL COMPANY
Financial Review
Consolidated Statement of Source and Application of Funds

Source of Funds:	
Net income for the year	$ 4,005,000
Items affecting net income not requiring funds:	
Depreciation	10,356,000
Deferred income taxes, net	451,000
	14,812,000
Proceeds from long-term debt	3,000,000
Issuance of common stock under options	84,000
Other	149,000
	18,045,000
Application of Funds:	
Preferred dividends paid	2,706,000
Addition to properties	13,317,000
Reduction of long-term debt	5,189,000*
Investment, principally in mining companies, net	648,000
	21,860,000
Working Capital:	
Increase or (Decrease) for the year	(3,815,000)
Beginning of year	49,703,000
End of year	$45,888,000

*Includes portion classified as current liability.

THE INTERNATIONAL SILVER COMPANY
Funds Statement

Source of Funds:	
Operations:	
Net earnings for the year	$ 7,030,000
Depreciation provision	3,024,000
Deferred federal tax provision	627,000
	10,681,000
Issuance of 4% convertible debentures	12,091,000
Miscellaneous	311,000
	23,083,000
Disposition of Funds:	
Dividends on common and preferred stock	2,484,000
Expended for fixed assets	4,377,000
Repayment of bank loans (including $8,000,000 in current liabilities at December 31, 1964)	12,254,000
	19,115,000
Increase in working capital other than items included above	$ 3,968,000

S. S. KRESGE COMPANY
Consolidated Statement of Source and Application of Funds

Source of Funds:	
Net income for the year	$23,469,632
Depreciation and amortization	12,925,657
Increase in deferred U. S. and Canadian income taxes	1,804,000
Sales of fixed assets	4,223,344
Sales of common stock under stock option and purchase plans	1,789,734
Other	214,049
	44,426,416
Application of Funds:	
Additions to fixed assets	17,411,500
Cash dividends paid by company	7,760,810
Reduction of long term debt	1,537,961
Purchase of treasury shares	338,618
Increase in working capital	17,377,527
	$44,426,416

THE RELIANCE ELECTRIC AND ENGINEERING COMPANY
Statement of Consolidated Source and Application of Working Capital

Working Capital—at beginning of year	$26,279,470
Source:	
Net income	6,711,550
Provision for depreciation	3,020,329
Proceeds from sale of common shares under stock option plans	159,352
Market value of common shares issued for purchase of a business	171,213
	10,062,444
Application:	
Cash dividends	2,758,174
Property expenditures less disposals	4,158,942
Cost of common shares purchased	652,796
Reduction of long-term debt	194,000
Increase in investments in associated foreign companies	558,169
Increase in other assets	552,496
	8,874,577
Net Addition to Working Capital	1,187,867
Working Capital—at end of year	$27,467,337

STANDARD PRESSED STEEL CO.
Source and Application of Funds

Source:	
Net earnings	$3,773,887
Charges against net earnings not involving the expenditure of funds:	
Depreciation and amortization	4,974,646
Deferred income taxes and investment credit	23,415
Funds provided from operations	8,771,948
Exercise of employee stock options	4,079
Decrease in deferred charges and other assets	118,606
	8,894,633
Application:	
Property additions less book value of retirements and sales	4,057,017
Increase in working capital	1,031,900
Cash dividends	1,323,513
Reduction of long-term debt	1,754,778
Purchase of treasury stock	376,687
Increase in investment in foreign affiliates	350,738
	$8,894,633

SUN CHEMICAL CORPORATION
Consolidated Statement of Source and Disposition of Funds

	(Dollars in Thousands)
Funds Came from:	
Operations:	
Net earnings for year	$1,462
Depreciation & amortization—non cash expenses	1,560
New long-term debt	3,000
	6,022
Funds Were Used for:	
Property, plant & equipment additions—net	2,607
Cash dividends	619
Reduction in long-term debt	421
Increase in other investments & receivables	405
Increase in other non current items	306
Increase in working capital	1,664
	$6,022

UNITED STATES TOBACCO COMPANY
Comparative Statement of Sources and Utilization of Funds

Sources of Funds:	
Net earnings	$ 4,271,203
Depreciation	806,161
Deferred Federal income taxes	247,000
Total from Earnings	5,324,364
Proceeds of 5% Promissory Note	5,000,000
Treasury stock issued in connection with businesses acquired	1,278,428
Miscellaneous	7,339
	11,610,131
Utilization of Funds:	
Dividends paid	2,767,916
Property, plant, and equipment of businesses acquired	1,479,803
Other purchases of plant and equipment	871,443
Excess of cost over net tangible assets of businesses acquired	2,176,383
Reduction of long-term debt	677,000
Purchases of treasury stock	1,187,512
Miscellaneous	72,065
Added to working capital	2,378,009
	$11,610,131

TEXAS GULF SULPHUR COMPANY
Funds Statement

Funds Were Provided from:	
Net income	$18,161,000
Charges to income not involving working capital:	
Depreciation and amortization	4,884,000
Deferred taxes	3,400,000
Other items—net	1,268,000
	27,713,000
Tax credits deferred to future income	372,000
Other accounts—net	198,000
	28,283,000
Funds Were Required for:	
Dividends	4,007,000
Net additions to property, plant and equipment	58,018,000
Additions to investments and advances over amounts liquidated	797,000
	62,822,000
Resulting in a (Decrease) Increase in Working Capital of	($34,539,000)

VARIAN ASSOCIATES
Consolidated Funds Statement

Funds Received from	
Operations:	
Net income for the year	$ 4,001,000
Depreciation and other charges to income not requiring cash	6,046,000
	10,047,000
Common stock issued under the employee stock purchase plan and former Eimac employee stock option plan	1,727,000
	11,774,000
Funds Used for	
Property, plant, and equipment additions	4,790,000
Purchase of treasury stock	1,972,000
Payment of long-term notes	1,529,000
	8,291,000
Increase in Working Capital	$ 3,483,000

VASCO METALS CORPORATION
The President's Letter
Funds Statement

Source:	
Net income	$3,413,214
Depreciation	1,246,138
Decrease in long-term receivable of Canadian subsidiary	209,610
Decrease in working capital	226,072
Other items	96,982
	5,192,016
Application:	
Cash dividends paid	1,168,439
Purchase of fixed assets	2,536,914
Investment in Vasco common stock	419,496
Decrease in long-term debt	915,167
Increase in patents	152,000
	$5,192,016

WEST VIRGINIA PULP AND PAPER COMPANY
Source and Disposition of Working Capital

Source:	
Net income	$19,353,000
Provision for depreciation and depletion	17,195,000
Provision for deferred federal taxes on income	5,122,000
Funds generated from operations	41,670,000
Common stock issued under stock option plan	554,000
Other transactions	352,000
	42,576,000
Disposition:	
Additions to property and plant	33,568,000
Dividends	7,235,000
Reduction in long-term debt	2,063,000
Purchase of common stock	235,000
Purchase of preferred stock	296,000
	43,397,000
Decrease in Working Capital	$ 821,000
Working Capital:	
At the end of the year	$59,427,000
At the beginning of the year	60,248,000
Decrease	$ 821,000

Section 4 RETAINED EARNINGS and CAPITAL SURPLUS

SOME CHANGES AND TRENDS IN 1965 REPORTS

		Table or Page Number
NEW—	*Treasury Stock* permissible accounting practices expanded in accordance with Accounting Principles Board Opinion No. 6	p. 262
NEW—	A Table showing *Accounting Treatment of Treasury Stock* has been added	Table 5

THIS SECTION OF THE SURVEY reviews and classifies the charges or credits to the retained earnings and capital surplus accounts in the 1965 financial statements of the 600 survey companies, excluding those charges or credits which merely present the net loss or income for the current year. These various charges and credits have been segregated for survey purposes as follows:

(a) The first group is concerned with the entries in the statements which refer to cash dividends. Table 1 illustrates the variety of presentations used by the companies in their statements, and data for the years 1965, 1960, 1955, and 1950 are given for comparative purposes. Table 2 analyses the types of cash dividend restrictions indicated by the survey companies. Examples of the various restrictions, taken from the 1965 survey reports, are also included.

(b) The second group consists of the charges or credits resulting from stock dividends and stock splits. Table 3 summarizes the methods used by the companies to disclose stock dividends and stock splits in their annual reports. Illustrations of the presentations of these items follow the table.

(c) The third group includes other charges and credits to retained earnings and to capital surplus, exclusive of those charges or credits which merely record the net loss or income for the current year. Table 4 summarizes the various entries according to the nature of the transaction, and extensive examples are presented in the text.

The term *capital surplus* is used in this section to classify all surplus accounts exclusive of retained earnings. Although the committee on terminology of the American Institute of Certified Public Accountants has recommended a general discontinuance of the use of the term *surplus* in corporate accounting and this objective has been approved by the committee on accounting procedure, the term *capital surplus* is used here as a technical term to indicate the nature of the accounts discussed.

CASH DIVIDENDS—STATEMENT PRESENTATION

During the year under review, 568 survey companies declared cash dividends. Of these companies, 271 displayed such dividends in the retained earnings statement, 263 companies disclosed the cash dividends in a combined income and retained earnings statement, and the remainder used various other methods of presentation, as shown in Table 1.

In 522 reports the deduction for cash dividends was displayed in the statements after the opening balance of retained earnings and after the net income for the year. In 40 cases the deduction for cash dividends was shown between the net income for the year and the opening balance of retained earnings. This treatment was usually found in instances where a combined income and retained earnings statement was presented.

A summary, in comparative form, of cash dividend presentations for the years 1965, 1960, 1955, and 1950 is given in Table 1.

TABLE 1: STATEMENT PRESENTATION OF CASH DIVIDENDS

Where Presented*	1965	1960	1955	1950
After the "Opening Balance of Retained Earnings" and the "Net Income for the Year" in:				
A: Retained earnings statement	268	283	310	325
B: Combined retained earnings and income statement	229	207	182	150
C: Combined retained earnings and capital surplus statement	1	2	7	20
D: Stockholders' equity statement	21	20	14	11
E: Balance sheet	3	5	14	17
Unclassified surplus statement	—	1	7	8
Combined unclassified surplus and income statement	—	1	2	2
	522	519	536	533
Between the "Net Income for the Year" and the "Opening Balance of Retained Earnings" in:				
F: Retained earnings statement	3	1	5	5
G: Combined retained earnings and income statement	34	36	32	33
Income, costs, and changes in capital investment	—	1	—	—
H: Stockholders' equity statement	3	1	1	—
Statement of surplus	—	—	1	—
	40	39	39	38
I: At the foot of the income statement	3	4	8	10
In a supplementary schedule	—	1	1	1
J: In notes to financial statements	3	N/C	N/C	N/C
Within the "Distribution of Net Income" statement	—	—	2	3
	6	5	11	14
Number of Companies:				
Declaring cash dividends	568	563	586	585
Not declaring cash dividends	32	37	14	15
Total	600	600	600	600

N/C—Not Compiled.

*Refer to Company Appendix Section—A: 33, 79, 140, 170, 222, 255, 338, 358, 439, 487, 549, 598; B: 47, 80, 100, 159, 258, 291, 318, 364, 418, 475, 543, 585; C: 200; D: 32, 97, 193, 225, 272, 295, 300, 375, 456, 476, 504, 572; E: 63, 105, 419; F: 248, 437, 511; G: 26, 72, 116, 171, 228, 266, 327, 366, 455, 482, 523, 600; H: 194, 265, 411; I: 445, 449, 569; J: 24, 363, 528.

CASH DIVIDENDS PER SHARE ON COMMON STOCK

Considerable interest has been shown recently regarding the presentation of cash dividends per share paid on common stock. A study therefore was undertaken last year for the first time, and was repeated this year, to establish where in the annual report this information was disclosed and for what periods dividends per share were made available.

The following tabulation reveals the numbers of presentations and the periods used. Five hundred and forty-three companies made 1743 references to cash dividends per share of common stock.

Dividends per Share shown in*	Period of Presentation: 1 yr.	2 yrs.	3-9 yrs.	10 yrs. or more	Total
A: Balance sheet	—	3	—	—	3
B: Retained earnings statement	41	156	—	—	197
C: Income statement	1	4	—	1	6
D: Combined income & retained earnings statement	5	193	—	—	198
E: Highlights	2	351	52	1	406
F: Financial summary	—	4	73	324	401
G: President's letter or financial review	214	174	23	2	413
H: Notes to financial statements	1	4	—	—	5
I: Other	18	6	28	62	114
	282	895	176	390	1743

*Refer to Company Appendix Section—A: 63, 105, 419; B: 58, 82, 160, 222, 286, 305, 370, 468, 493, 542, 579; C: 31, 178, 232, 238, 457, 569; D: 10, 78, 114, 190, 241, 294, 331, 365, 423, 484, 590, 600; E: 34, 53, 100, 165, 262, 283, 342, 373, 484, 494, 538, 577; F: 60, 91, 163, 191, 243, 289, 338, 387, 443, 455, 508, 594; G: 12, 99, 147, 161, 273, 287, 332, 383, 406, 449, 560, 573; H: 24, 55, 359, 440, 467; I: 32, 67, 106, 140, 200, 246, 319, 361, 440, 479, 543, 559.

Examples of cash dividends per share of common stock, taken from the 1965 annual reports, are given below. A company may refer to dividends per share in several places in its report. The examples below give only one presentation for each company.

Examples

Shown in the Balance Sheet

BRIGGS & STRATTON CORPORATION
Balance Sheet

Capital Stock and Surplus:	
Capital Stock—	
Authorized 5,000,000 shares, $3.00 par value	
Issued and outstanding 3,599,952 shares	$10,799,856
Earned Surplus—	
Balance at beginning of year	41,669,270
Net income for the year (per accompanying statement)	11,160,638
Cash dividends paid ($2.65 per share in 1965 and $2.05 per share in 1964)	(9,539,873)
Balance at end of year	43,290,035
Total Capital Stock and Surplus	54,089,891
	$62,812,865

Shown in Retained Earnings

COLUMBIA BROADCASTING SYSTEM, INC.
Statements of Retained Earnings and Capital Surplus

Retained Earnings:	
Balance at Beginning of Period	$100,493,214
Add:	
Net income	49,050,762
	149,543,976
Less:	
Cash dividends: 1965, $1.20 per share; 1964, $1.05 per share	23,839,296
Stock dividends, two per cent: 1965, 401,137 shares; 1964, 388,519 shares	15,339,479
Balance at End of Period (Note 5)	$110,365,201

FIRST NATIONAL STORES INC.
Statement of Earnings Employed in the Business

Balance, March 28, 1964	$64,377,458
Net earnings and special credit	6,448,420
	70,825,878
Cash dividends paid—$2.50 per share	4,097,510
Balance, March 27, 1965	$66,728,368

Shown in the Income Statement

AMERICAN HOME PRODUCTS CORPORATION
Income Statement

Net Income for Year	$76,494,743
Supplementary Data:	
Average number of common shares outstanding during year	22,925,969
Net income per share of common stock (after provision for pro forma dividends on the $2 convertible preferred stock)	$3.10
Dividends paid per share of common stock	$1.90
Depreciation and amortization provided	$11,162,752

FORD MOTOR COMPANY
Statements of Income

Net Income	$703,048,971
Average number of shares of capital stock outstanding	111,066,170
Net income per share	$6.33
Cash dividends per share	$2.10

Shown in Combined Income and Retained Earnings Statement

ADDRESSOGRAPH MULTIGRAPH CORPORATION
Statement of Income and Retained Earnings

Net Income	$18,439,345
Retained earnings at beginning of year	47,160,855
	65,600,200
Dividends paid:	
$1.30 for 1965, $1.10 for 1964	10,389,738
Retained earnings at end of year	$55,210,462

FEDDERS CORPORATION
Statement of Income and Earned Surplus

Net income	$ 3,395,000
Earned surplus at beginning of year	12,441,000
	15,836,000
Dividends paid on common stock—$1.00 per share	2,142,000
Earned surplus at end of year (Note 2)	$13,694,000

JOY MANUFACTURING COMPANY
Statement of Income and Retained Earnings

Net Income	$10,750,238
Retained Earnings at beginning of year	49,475,389
	60,225,627
Less:	
Dividends declared: $2.00 per share in 1965 and $1.25 in 1964	3,589,884
Retained Earnings at end of year	$56,635,743

Shown in Highlights

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION
Financial Highlights

Sales	$552,646,000
Income before taxes on income	33,493,000
Net income	18,393,000
Per common share	1.81
Cash dividends—preferred	302,000
—common	10,019,000
Per common share	1.00

CONGOLEUM-NAIRN INC.
Comparative Summary

Net Income	$5,786,000
Net Income Per Share	4.60
Dividends Per Share	.80
Number of Shares	1,258,285
Book Value Per Share	$28.58
Current Ratio	4.9-1
Number of Stockholders at Year-End	3,569

WOODALL INDUSTRIES, INCORPORATED
Financial Highlights

Net sales	$24,809,924
Net earnings	911,450
Per share	2.21
Depreciation and amortization	842,817
Cash dividends declared	412,639
Per share	1.00

Example of Cash Dividends Shown in Several Places

The example below is typical of information generally presented, although presentations of cash dividends per share vary widely both as to the amount of information given and how they are presented.

THE NEW BRITAIN MACHINE COMPANY
Statement of Income and Earnings
Retained for Use in the Business

Net Income	$ 2,403,889
Earnings retained for use in the business at beginning of year	15,974,873
	18,378,762
Deduct dividends paid:	
Cash dividends — 1965, $1.46 a share; 1964, $1.23 a share, adjusted for 10% stock dividend	751,411
Stock dividend — 10%, 45,919 shares at fair value and $31,338 in lieu of fractional shares	1,466,305
	2,217,716
Earnings Retained for Use in the Business at End of Year	$16,161,046

A Brief Financial Comparison

Sales to Customers	$56,165,768
Net Income	2,403,889
Per Common Share	4.64
Cash Dividends Paid	751,411
Per Common Share	1.46*

*Adjusted to give effect to 10% stock dividend paid in 1965.

Financial Review

Dividends: The Company increased its regular quarterly dividend from 30¢ per share to 40¢ per share in September, 1965. In addition, it paid a 10% stock dividend in October and an extra cash dividend of 15¢ per share in December. Both the quarterly and extra dividend of December were paid on the additional shares issued as the stock dividend.

The cash dividend per share, shown in this Report as $1.46, has been adjusted to reflect the increase in the number of shares outstanding resulting from the 10% stock dividend.

Comparative Financial Statistics 1956-1965
Operations:

Year Ended December 31	Cash Dividend Paid	Per Share* Net Income	Per Share* Cash Dividend
1965	$ 751,411	$4.64	$1.46
1964	589,664	3.30	1.23
1963	430,727	1.77	.91
1962	425,998	1.75	.91
1961	430,808	.72	.91
1960	431,156	.35	.91
1959	628,483	.72	1.32
1958	782,004	.47	1.64
1957	1,031,770	3.82	2.18
1956	1,124,395	4.92	2.41

*Adjusted to give effect to 10% stock dividend paid in 1965.

Shown in President's Letter or Financial Review

PHILIP MORRIS INCORPORATED
President's Letter

In view of the improved operating results, the Board of Directors, at its regular meeting held January 26, 1966, voted a quarterly dividend of $1.05 on the common stock, payable in April, 1966, an increase of 15 cents over the 90 cents per share which had been the quarterly dividend for approximately six years. The Board also voted to effect a three-for-one split of the common stock of the Company, subject to approval of stockholders at the Company's Annual Meeting in April.

SPARTON CORPORATION
Financial Review

During the year cash dividends totalling $.40 per share were paid to common shareowners in equal quarterly installments of $.10. This was in accordance with the policy established by the Board of Directors. The company continued the regular payment of quarterly dividends on preferred stock.

Shown in Financial Summary

MIDWEST RUBBER RECLAIMING COMPANY
Ten Year Summary of Earnings and Certain Other Data

	Cash Dividends: Per Share Preferred***	Cash Dividends: Per Share Common**	% of Net Income
1965	$—	$1.00	69
1964	1.13	1.00	66
1963	2.25	1.25	71
1962	2.25	1.00	81
1961	2.25	1.00	98
1960	2.25	1.25	60
1959	2.25	1.50	51
1958	2.25	1.00	56
1957	2.25	1.00	50
1956	2.25	1.00	59

**Based on common stock outstanding at October 31, 1965.
***1964 preferred dividends paid to date of redemption, April 1, 1964.

RESTRICTIONS ON RETAINED EARNINGS FOR DIVIDEND PURPOSES

Of the 600 survey companies 399 referred in their 1965 reports to the existence of restrictions on retained earnings limiting the declaration of cash dividends. This compares with 398 in 1961, 350 in 1955, and 313 in 1951. Table 2, summarizing the various kinds of restrictions, discloses long-term indebtedness as the most common source.

Cash Dividends Restrictions—Examples

Typical examples of restrictions limiting the declaration of cash dividends, as presented in the 1965 reports, are as follows:

LONG-TERM INDEBTEDNESS

BLISS & LAUGHLIN INDUSTRIES INCORPORATED
Notes to Financial Statements

Note 2 (in part): The most restrictive of the loan agreements requires, among other things, that the Company maintain consolidated working capital of at least $13,500,000 and restricts the use of funds for the payment of cash dividends on or reacquisition of the Company's capital stock. At December 31, 1965, $2,672,126 of earned surplus was free of such restrictions and consolidated working capital was $18,556,866.

TABLE 2: CASH DIVIDEND RESTRICTIONS

Source of Restriction*	1965	1961	1955	1951
A: Long-term indebtedness	365	358	303	258
B: Preferred stock requirements	20	34	49	43
C: Credit agreements	33	34	22	21
V-loan agreements	—	2	8	14
D: Treasury stock	4	5	8	7
E: Dividend arrearage	3	4	—	4
F: Articles of incorporation	11	23	18	27
G: Elkins Act Decree (re: oil pipe lines)	1	3	3	6
H: Board of Directors' resolution	2	2	1	1
I: Restriction not described	4	1	2	8
J: Foreign statutory limitation	2	5	4	2
K: State statutory limitation	3	—	—	—
L: Various other	3	3	3	2
Total	451	474	421	393
Number of Companies				
Referring to dividend restrictions	399	398	350	313
Not referring to dividend restrictions	201	202	250	287
Total	600	600	600	600

*Refer to Company Appendix Section—A: 21, 56, 112, 137, 227, 276, 318, 360, 440, 469, 565, 599; B: 33, 101, 122, 180, 217, 233, 321, 394, 434, 467, 544, 562; C: 37, 89, 146, 177, 220, 250, 359, 375, 470, 508, 547, 580; D: 104, 410, 502, 558; E: 236, 288, 562; F: 16, 118, 131, 144, 175, 176, 229, 293, 350, 416, 489; G: 531; H: 120, 298; I: 132, 139, 272, 291; J: 92, 251; K: 68, 188, 369; L: 136, 283, 565.

BOTANY INDUSTRIES, INC.
Notes to Financial Statements

Note 4 (in part): Certain agreements relating to long-term debt contain various restrictions on the activities of the Company and its subsidiaries relating, among other things, to amount and type of indebtedness, maintenance of working capital and acquisition or disposition of subsidiaries and other assets. The agreements also contain restrictions relating to the purchase or redemption of the Company's own capital stock and the distribution or assets and the payment of dividends (other than stock dividends) to stockholders; as at July 31, 1965, all of the surplus of the Company was so restricted.

COLLINS & AIKMAN CORPORATION
Notes to Financial Statements

Note 2: Long-Term Debt and Dividend Restriction—Long-term debt, consisting of 4¾% and 5% promissory notes to an insurance company, is payable in annual installments of $400,000 from 1965 through 1971, $605,000 from 1972 through 1981 and a final installment of $710,000 in 1982. The loan agreement includes restrictions on the payment of cash dividends and purchase of shares of capital stock of the Company. At February 27, 1965 the portion of the consolidated earned surplus not subject to these restrictions amounted to $10,093,702.

KEYSTONE STEEL & WIRE COMPANY
Stockholders' Equity
Ownership evidenced by:

Common stock, $1 par value; 4,000,000 shares authorized, 1,875,050 shares issued, at stated value (Note A)	$ 2,604,217
Other capital, principally excess of net assets of subsidiaries at dates of acquisition over cost of investments	2,193,662
Retained earnings (Note A)	77,961,913
	82,759,792
Less treasury stock, 2,200 shares at cost	81,119
	$82,678,673

Note A: The indenture relating to the 4½ percent convertible subordinated debentures due October 1, 1981, contains various covenants common to such agreements, including restrictions on the declaration or payment of dividends by the company and the reacquisition of the company's own stock. At June 30, 1965, $19,348,885 of retained earnings was available for payment of dividends or purchase of the company's shares under the debenture provisions.

The debentures are convertible into common stock at the option of the holders at the rate of one share for each $40 (subject to adjustment under certain conditions) of par value of debentures, and 499,950 shares of the authorized but unissued common stock have been reserved for conversion. At the company's option the debentures are redeemable at prices ranging downward from 105¼ percent currently to par value after September 30, 1979. The indenture requires sinking fund payments for retirement of the debentures commencing September 30, 1966 and continuing to and including 1980. The first required payment is $913,500 and subsequent required payments into the fund are in reduced amounts in accordance with terms of the indenture. The company may at its option pay in additional specified amounts.

The debentures are subordinated to indebtedness of the company for borrowed money or for guarantees of loans for money borrowed by others, including subsidiaries.

NEBRASKA CONSOLIDATED MILLS COMPANY
Notes to Financial Statements

Note 7: Restriction on Dividend Payments—Under the terms of the long-term note agreements and of the subordinated sinking fund debentures minimum working capital requirements are provided and limitations are placed on the payment of dividends, purchase of the company's capital stock and making additional investments in or advances to a subsidiary. Under the terms of the agreements, $1,737,274 of consolidated retained earnings, as defined, was unrestricted at June 27, 1965.

RHEEM MANUFACTURING COMPANY
Capital and Retained Earnings (Note 5):

Cumulative preferred stock, par value $100 per share; authorized 150,000 shares (none outstanding)	
Common stock, par value $1 per share; authorized 5,000,000 shares; issued 2,084,460 shares, in treasury 18,247 shares, outstanding 2,066,213 shares	$ 2,084,460
Capital in excess of par value of shares outstanding (increase in 1965 represents value received for treasury shares sold or exchanged)	35,693,751
Earnings retained for use in the business (includes $7,370,579 in 1965 and $7,079,130 in 1964 of undistributed net earnings of unconsolidated companies, owned 50% or more, operating in foreign countries, of which $4,901,061 in 1965 and $4,238,536 in 1964 has been capitalized on the books of such foreign companies) (Note 4)	15,085,748
	52,863,959
	$95,486,622

Note 4: Long-Term Indebtedness—The indenture governing the 3⅞ per cent sinking fund debentures requires the Company to make payments sufficient to retire annually debentures in the principal amount of $900,000. Debentures held in Treasury at December 31, 1965 ($68,000) may be used to satisfy part of the 1966 sinking fund requirement. The remainder of the 1966 requirement is included in current liabilities. The indenture also provides that the Company may not create, guarantee, or assume any funded debt unless immediately thereafter the consolidated net tangible assets, as defined in the indenture, are at least 250 per cent of the consolidated funded debt. At December 31, 1965, the consolidated net tangible assets, as defined, were approximately $66,350,000.

Under the terms of the credit agreement governing the 5¼ per cent term note payable to the bank, the Company is required to make semiannual installment payments of $1,000,000 through June 30, 1970. The agreement provides, among other covenants, that the Company must maintain consolidated working capital of at least $22,000,000 and consolidated net worth of at least $43,000,000.

The credit agreement and the indenture contain various restrictions on the payment of cash dividends. At December 31, 1965, approximately $8,700,000 of earnings were free of restrictions.

RIEGEL PAPER CORPORATION
Notes to Financial Statements

Long-Term Debt: Mandatory sinking fund payments are required in amounts sufficient to retire at specified redemption prices, $600,000 principal amount of 3¾% debentures on each August 1, $390,000 principal amount of 3⅞% debentures on each February 1, and $415,000 principal amount of 5¼% debentures on each November 1. Sinking fund requirements may be satisfied by delivery of debentures in lieu of cash. At January 2, 1966, the Trustee had received and retired $1,019,000 principal amount of reacquired debentures in excess of the $990,000 sinking fund payments required in 1966 for the 3¾% and the 3⅞% issues.

Under a credit and loan agreement, the Company may borrow up to $15,000,000 from banks, repayable in instalments in the years 1968 through 1973, at interest rates not to exceed 5½% (currently 5%). The loans may be prepaid at any time, in whole or in part, without premium. No loans had been made under this agreement at January 2, 1966.

The debenture indentures contain various restrictions including restrictions relative to the payment of dividends and the reacquisition of capital stock. At January 2, 1966, accumulated earnings in the amount of $17,654,000 were unrestricted under such provisions. Under the credit and loan agreement, the Company is not to permit its net current assets to be less than $15,000,000.

SCREW AND BOLT CORPORATION OF AMERICA
Shareholders' Equity

Capital stock—authorized 2,000,000 shares, par value $1; issued 1,768,910 and 1,756,910 shares (Note 6)	$ 1,768,910
Other capital contributed upon issuance of shares (Note 6)	5,742,162
Earnings invested in the business (Note 3)	11,353,093
	18,864,165
Less—Cost of 133,728 shares of stock in treasury	725,730
Total Shareholders' Equity	18,138,435
	$37,401,183

Note 3: Note Payable—Under a supplemental agreement with the bank holding the $10,000,000 long-term 5% note, the Corporation borrowed an additional $5,000,000 at 5¼% on January 3, 1966 to finance purchase of the Pilgrim assets (see Note 2) and for working capital purposes. Quarterly instalments on both notes aggregating $472,500 are payable from March 15, 1967 through September 15, 1971 with the final aggregate instalment of $6,022,500 due on December 15, 1971. The agreements also contain certain provisions with respect to maintenance of working capital and payment of cash dividends. At December 31, 1965, working capital was in excess of the minimum requirement and $1,425,000 of earnings invested in the business was free of the dividend restriction. Unsecured short-term loans are permitted up to a maximum of $3,500,000.

TRIANGLE CONDUIT & CABLE CO. INC.
Notes to Financial Statements

Long Term Debt:

Senior notes 5⅝% due October 15, 1985 payable in annual installments of $450,000 from 1968 to 1984 inclusive, the balance payable in 1985	$ 8,000,000
Convertible subordinated notes 5⅛% due October 15, 1986 and payable in annual installments beginning in 1976. The principal of these notes is convertible into capital stock at $20 per share and is subordinated to the senior notes. 100,000 shares of unissued capital stock are reserved for this purpose	2,000,000
	$10,000,000

The loan agreements under which the above notes were issued contain certain restrictive covenants, among other items including a requirement that net working capital of $15,000,000 be maintained, and a limitation on the payment of cash dividends and the acquisition of the company's capital stock. Consolidated retained earnings of $3,308,837 was free of such restrictions at December 31, 1965.

PREFERRED STOCK REQUIREMENTS

COLGATE-PALMOLIVE COMPANY
Notes to Financial Statements

Surplus Restrictions: Domestic earned surplus at December 31, 1965 amounted to $96,652,000 of which $41,224,000 was not available for payment of cash dividends on common stock under terms of the 3% notes due 1966-1971 and the preferred stock provisions of the Certificate of Incorporation.

GAR WOOD INDUSTRIES, INC.
Stockholders' Investment

4½% Cumulative Convertible Preferred Stock, par value $50.00 a share—authorized, issued, and outstanding 60,813 shares (Notes C and D)	$ 3,040,650
Common Stock, par value $1.00 a share—authorized 2,500,000 shares; issued and outstanding 1,146,183 shares (Note E)	1,146,183
Additional paid-in capital (no change during either year)	3,594,816
Earnings retained for use in the business (Notes B, C, D, and F)	4,036,707
Total Stockholders' Investment	$11,818,356

Note C: 4½% Cumulative Convertible Preferred Stock—Dividend Restrictions and Other Provisions—The terms of the Preferred Stock provide that no dividends shall be paid upon, nor shall any shares be purchased of, the Common Stock after October 31, 1945 (1) unless at the time all cumulative dividends on the Preferred Stock have been paid or declared and (2) which will exceed the sum of $1,000,000 and the consolidated net earnings plus the par value of Preferred Stock converted into Common Stock subsequent to that date, after deduction therefrom of all dividends declared or paid after that date.

The Preferred Stock is subject to redemption at any time, in whole or in part, at $53.00 a share (amounting to $3,223,089 for the shares outstanding at October 31, 1965).

Note F: Dividend Restriction on Common Stock—Under the provisions of the 4½% Cumulative Convertible Preferred Stock, none of the earnings retained for use in the business at October 31, 1965, were available for dividends on the Common Stock.

MAREMONT CORPORATION
Stockholders' Equity

Derived from:	
Common stock, $1 par value, 4,000,000 shares authorized and 1,581,902 outstanding in 1965 (Notes 3 and 4)	$ 1,581,902
Preferred stock, $100 par value, 250,000 shares authorized and 148,039.56 outstanding in 1965 (Notes 3 and 4)	14,803,956
Paid-in surplus (Note 3)	9,227,996
Earnings retained in business, per accompanying statement (Note 2)	17,531,246
	$43,145,100

Note 2: Restrictions Under Long-Term Debt and Preferred Share Agreements—Preferred Shares: The preferred share agreement (see Note 3), provides that (1) the Company will not declare any cash dividends on junior shares (common or junior preferred shares, if any) or purchase, redeem or retire any junior shares or make any other distribution in respect thereof, if immediately thereafter consolidated net income, as defined, from January 1, 1963, plus $3,500,000 would be less than the sum of (a) junior, prior or parity share payments since January 1, 1963, (b) all repayments of principal of unsecured consolidated funded indebtedness required after January 1, 1963, and (c) all payments on account of the purchase, redemption or other retirement of junior preferred shares or prior or parity shares; and (2) the Company will not issue any prior or parity shares unless consolidated earnings available for fixed charges, as defined, for at least two of the three preceding fiscal years shall have been at least equal to 150% of consolidated annual fixed charges, as defined.

Restrictions: At December 31, 1965, consolidated working capital, as defined, was $3,171,000 greater than 150% of consolidated funded indebtedness, as defined; consolidated funded indebteness, as defined, was in excess of one-third of consolidated net tangible assets, as defined (thus requiring noteholder approval for additional non-subordinated long-term borrowings); consolidated current assets, as defined, were 250% of consolidated current liabilities, as defined; consolidated net income, as defined, since January 1, 1965, plus $3,500,000 exceeded the sum of "restricted payments" since January 1, 1965, by $3,739,000; consolidated net income, as defined, since January 1, 1963, plus $3,500,000 exceeded the sum of (a) junior, prior or parity share payments since January 1, 1963, (b) all repayments of principal of unsecured consolidated funded indebtedness required after January 1, 1963, and (c) all payments on account of the purchase, redemption or other retirement of junior preferred shares or prior or parity shares, by $2,377,000. As a result, $15,154,000 of consolidated earnings retained in business—which amounted to $17,531,000 at December 31, 1965—was restricted as to payment of cash dividends on common shares.

CREDIT AGREEMENTS

FOOTE MINERAL COMPANY
Stockholders' Equity

Common stock, $1 par value. Authorized 2,500,000 shares; issued 1,294,931 shares; 1964, 1,261,101 shares (Note 3)	$ 1,294,931
Capital in excess of par value of common stock (Note 4)	9,822,853
Retained earnings, less amount capitalized through stock dividends (Note 5)	7,583,037
	18,700,821
Total Stockholders' Equity	$18,700,821

Note 5: Long-Term Loan Commitment—In 1965 the company entered into an agreement with its principal banks for long-term financing to a maximum of $8,500,000 providing for borrowing on a revolving credit basis until September 1, 1968 with maturities from December 31, 1968 until December 31, 1973. Among other things, the agreement requires net working capital of $6,000,000, limits dividends after June 30, 1965 (except dividends payable in common stock) to current earnings or a maximum of $630,000 in any fiscal year and prevents the company from acquiring its own capital stock. In addition, the company has available a line of credit of $2,000,000.

THE SUPERIOR OIL COMPANY
Stockholders' Equity

Common stock (ten-for-one stock split in 1965), par value	$2.50
Authorized shares	10,000,000
Issued shares	4,250,140
Shares in treasury	80,140
Outstanding shares	4,170,000
	$ 10,625,350
Capital surplus	167,474
Retained earnings (Note 2)	272,934,877
	$283,727,701

Note 2: Long-Term Debt and Restrictions on Payment of Dividends—The trust agreement for the 3¾ per cent debentures due July 1, 1981 provides for semiannual redemptions without premium in the principal amount of $1,500,000. At December 31, 1965, $3,304,000 principal amount of canceled debentures had been applied to the 1966 and 1967 sinking fund requirements. Outstanding debentures may be redeemed in whole or in part at any time upon payment of stipulated premiums.

A credit agreement with certain banks dated April 1, 1964, as amended, provides for borrowing up to $40,000,000 to May 31, 1966. The notes bear interest at 4½ per cent per annum until June 1, 1966, and 4¾ per cent thereafter. Semiannual payments of 5 per cent of the total borrowings are required from June 1, 1968 to December 1, 1973, and the remaining balance is due June 1, 1974. The loan may be repaid at any time without premium. As of December 31, 1965 the sum of $32,000,000 had been borrowed under this credit agreement.

At December 31, 1965, after giving effect to certain restrictions included in the above mentioned trust and credit agreements, approximately $73,190,000 of consolidated retained earnings was not restricted for distribution to stockholders.

BURROUGHS CORPORATION
Financial Review

Stockholders' Equity and Dividends: Stockholders' equity rose to $163,714,709 at December 31, 1965, from $153,873,267 on December 31, 1964. Retained earnings were $91,254,796 at December 31, 1965, an increase of $10,135,033 over the same date in 1964. Additional capital increased $305,112 during 1965, as follows:

Additional capital, December 31, 1964	$36,457,871
Sale of treasury stock	301,642
Conversions of debentures	3,470
Additional capital, December 31, 1965	$36,762,983

Shares outstanding at December 31, 1965 were 7,385,478 as compared with 7,391,720 at the end of the preceding year. Under the provisions of the 4½% convertible debenture issue, 798,065 shares of the unissued common stock of the Company are reserved for the exchange of these debentures.

Regular quarterly cash dividends of 25 cents per share declared in 1965 amounted to $7,392,915 compared to $7,407,526 in 1964. The indentures underlying the debentures and the revolving bank credit agreement contain certain restrictions on the payment of cash dividends. At December 31, 1965, approximately $13,000,000 of retained earnings was free of such restrictions as compared with approximately $10,000,000 at the end of the previous year.

KOPPERS COMPANY, INC.
Stockholders' Equity

Common Stock, $10 par value:	
Authorized 3,000,000 shares; issued 2,317,594 shares (Note 6)	$ 23,175,940
Capital in excess of par value (Notes 1 and 6)	47,511,233
Earnings retained in the business (Note 4)	85,130,527
	$155,817,700

Note 4: Notes Payable to Banks—Under the Bank Credit Agreement the Company has agreed not to pay cash dividends or make other distributions on common stock except from consolidated income after December 31, 1962, plus $7,500,000 and to maintain consolidated net current assets of at least $50,000,000. At December 31, 1965, consolidated net current assets amounted to $92,817,750. Of $85,130,527 consolidated earnings retained in the business at December 31, 1965, $67,256,652 was not available for cash dividends on common stock under the dividend restriction. Interest on the notes is at the "prime rate" in effect at the beginning of each fiscal quarter and at December 31, 1965 was 4½%.

Under the Agreement the notes outstanding on November 1, 1966 can be converted into term notes, 50% of which will be payable in nine semi-annual installments commencing May 1, 1967 and the balance on November 1, 1971.

MIDLAND-ROSS CORPORATION
Shareholders' Equity

Capital stock—Notes F and G:	
Serial Preferred	$ 30,377,600
Common	11,946,950
Additional paid-in capital	19,347,336
Retained earnings—Note E	72,503,384
	$134,175,270

Note E: Notes Payable to Banks and Retained Earnings Restriction—Under the terms of a loan agreement with several banks, the Corporation may borrow up to $15,000,000 at 4½% on Revolving Credit Notes (which may be repaid and reborrowed) to February 28, 1967, at which time it may borrow up to $15,000,000 at 4¾% on Term Notes payable in eight equal semiannual installments commencing August 31, 1967.

The loan agreement includes certain restrictive covenants covering payments of cash dividends, other distributions, and maintenance of working capital. At December 31, 1965, retained earnings free from such restrictions amounted to $19,725,435.

TREASURY STOCK

THE BRISTOL BRASS CORPORATION

Capital:

Common Stock, par value $10 a share:	
Authorized 1,000,000 shares, issued 500,000 shares	$ 5,000,000
Earned surplus (restricted at December 31, 1965 in amount of $151,470 representing the cost of treasury stock)	2,960,418
	7,960,418
Less treasury stock at cost: 1965—15,436 shares; 1964—15,036 shares	151,470
Total Capital	$7,808,948

NORTH AMERICAN SUGAR INDUSTRIES INCORPORATED

Capital Stock and Surplus:

Capital stock:	
7% cumulative preferred—noncallable par value $100—	
Authorized and issued — 1,000 shares; in treasury, 895 shares; outstanding—105 shares	$ 10,500
Common—par value $10—	
Authorized and issued—1,000,000 shares; in treasury, 282,800 shares; outstanding — 717,200 shares	7,172,000
Surplus:	
Earned—per annexed statement (Notes 1 and 2)	13,138,439
	$20,320,939

Note 2: The parent company's earned surplus of $6,710,994 is restricted in the amount of $2,917,500, representing the par value of its preferred and common shares in the treasury.

DIVIDEND ARREARAGES

THE UNITED PIECE DYE WORKS

Investment of Stockholders (Note 6):

Preferred Stock $5.50 Cumulative, par value $75.00 per share:	
1965—Authorized—100,000 shares; issued—52,262 shares, less 2,169 shares in Treasury	$3,756,975
1964—Authorized—100,000 shares; issued—52,262 shares, less 468 shares in Treasury	
Common Stock—par value $.10 per share:	
Authorized 1,500,000 shares; issued and outstanding 898,023 shares	89,802
Additional Paid-in Capital	840,470
Retained Earnings	3,293,956
Total Investment of Stockholders	$7,981,203

Note 6: *Investment of Stockholders*—On or before December 31 of each year, the Company is required to expend for the repurchase of its Preferred Stock an amount equivalent to 15% of net earnings of the Company and its subsidiaries for the preceding year, after deducting dividends accrued or paid on the Preferred Stock for such year. Any excess purchases may be carried forward to meet subsequent years' requirements. Such stock is to be acquired at prices not in excess of $110.00 per share plus accrued dividends. As of December 31, 1965 acquisitions of Preferred Stock exceeded repurchase requirements through December 31, 1965 by $3,437. Subsequent to December 31, 1965, the Company purchased 131 shares of Preferred Stock at a total cost of $10,642 to be applied against 1966 requirements.

The aggregate liquidating preference of the 50,093 shares of Preferred Stock ($110.00 per share) issued and outstanding at December 31, 1965 amounted to $5,510,230 which is $1,753,255 in excess of the amount at which it is stated.

Dividends may be paid on Common Stock provided no preferred dividends are in arrears and provided additional paid-in capital plus retained earnings (at December 31, 1965 $4,134,426) exceed $1,500,000.

HEYWOOD-WAKEFIELD COMPANY

Stockholders' Investment:

Series B First Preferred Stock, 5% cumulative, par value $25.00 per share, redeemable at $26.25 per share:	
Authorized 200,000 shares; issued 139,480 shares	$3,487,000
Common Stock, par value $12.50 per share:	
Authorized and outstanding 120,000 shares	1,500,000
Capital surplus	1,145,137
Earnings retained in the business—Note B	2,506,911
	$8,639,048

Note B: Dividends in arrears on the Series B First Preferred Stock amounted to $7.50 per share and as a consequence earnings retained in the business available to Common stockholders was restricted in the amount of $1,046,100.

ARTICLES OF INCORPORATION

CROWN ZELLERBACH CORPORATION

Notes to Financial Statements

Note 7: *Income Retained in the Business*—Dividends which can be declared from income retained in the business are restricted under the Corporation's Articles of Incorporation and agreements related to long-term debt. There was $47,000,000 available for dividends over the most stringent of these restrictions at December 31, 1965.

HOOKER CHEMICAL CORPORATION

Shareholders' Equity

Earned Surplus (Note 2)	$86,842,601

Note 2: At November 30, 1965, approximately $59,000,000 of earned surplus was not available for the payment of cash dividends on common stock under the most restrictive of the provisions relating to such payments in the Company's indentures, loan agreements and certificate of incorporation. Under provisions in an indenture to be dated January 15, 1966 under which $25,000,000 Sinking Fund Debentures due 1991 are to be issued, approximately $67,000,000 of earned surplus at November 30, 1965 would not have been available for such payments.

OWENS-ILLINOIS, INC.

Shareholders' Equity

Retained Earnings (Note 3)	$304,364,834

Note 3: *Retained Earnings*—The articles of incorporation and certain long-term debt agreements include covenants restricting the payment of dividends. At December 31, 1965, $250,363,310 of consolidated retained earnings was not available for the payment of dividends under the covenants in the debt agreements. The provisions in the articles of incorporation, applicable while any of the 4% preferred shares are outstanding, are presently less restrictive.

SERVEL, INC.

Notes to Financial Statements

Note 7: So long as any $5.25 cumulative preferred stock is outstanding, the Company's Certificate of Incorporation restricts payment of dividends or other distributions to common stockholders (except in shares of common stock) and the repurchase of shares of common stock. Under such restrictions, at October 31, 1965 approximately $1,100,000 would have been available for dividends on or acquisitions of shares of the Company's common stock. However, a more restrictive provision on such payments is contained in the loan agreement referred to in Note 3.

BOARD OF DIRECTORS' RESOLUTION

CANNON MILLS COMPANY
Stockholders' Equity

Retained Earnings (including $100,000,000 reserved by the Board of Directors of Cannon Mills Company for working capital and $11,733,612 applied to purchase of treasury stock)	$140,592,145

HUDSON PULP & PAPER CORP.
Financial Review

Dividends were paid in the amount of $1.26 per share on the Class A Common Stock. Three quarterly dividends of 31½¢ each were paid to holders of the Class B Common Stock. This class, owned to a very large extent by the Directors and members of their immediate families, had received no dividends since the issuance to the public in 1951 of the Class A Common Stock. Under the By-Laws, cash dividends on the Class A Common Stock may be declared in any calendar year prior to January 1, 1972 in excess of those declared on the Class B Common Stock but such excess may be not more than $1.50 per share annually. It is the present intention of the Board of Directors to continue its dividend policy, started in the second quarter, of treating alike each share of common stock regardless of class. Dividends on the various preferred shares were paid at the same rate per share as in prior years, and all sinking fund requirements were met.

FOREIGN STATUTORY LIMITATION

THE BLACK AND DECKER MANUFACTURING COMPANY
Stockholders' Equity

Earnings retained and used in the business—Notes A and B	$45,146,384

Note A (in part): Great Britain, Australia, New Zealand and South Africa have exchange controls and restrictions in effect, and withdrawals of the related investments and undistributed earnings of $12,389,630 are subject in part to such restrictions.

GENERAL REFRACTORIES COMPANY
Notes to Financial Statements

Note 5: Retained Earnings and Working Capital—The company's loan agreements with insurance companies place certain restrictions upon cash dividends. Further, the retained earnings attributable to certain of the consolidated foreign subsidiaries are subject to restrictions by law or agreement respecting the payment of cash dividends. At December 31, 1965, approximately $6,700,000 of the consolidated retained earnings were not so restricted. The loan agreements also provide that working capital of the domestic company shall not be less than $20,000,000. At December 31, 1965, such working capital approximated $24,437,000.

VARIOUS OTHER

THE ATLANTIC REFINING COMPANY
Notes to Financial Statements

Note 6: Dividend Restrictions—In liquidation, the holders of the cumulative preferred stock and the $3 cumulative convertible preference stock will have a preferential right to receive $682,197,000 in excess of the aggregate par values of these shares. The Atlantic Refining Company is advised that under the law of Pennsylvania, in which it is incorporated, no dividend may be paid which would reduce its net assets below the aggregate preferential amount to which the holders of the preferred and preference stock would be entitled in voluntary liquidation. At December 31, 1965, the pooled net assets, including the Company's equity in the net assets of consolidated subsidiaries, exceed this aggregate preferential amount by approximately $386,000,000.

SUN OIL COMPANY
Notes to Financial Statements

Earnings Employed in the Business: Earnings employed in the business at December 31, 1965 include earnings of pipe line subsidiaries approximating $7,000,000 which are not available for dividends.

STOCK DIVIDENDS AND STOCK SPLITS

Accounting Treatment

In September, 1961, the committees on accounting procedure and accounting terminology of the American Institute of Certified Public Accountants issued *Accounting Research and Terminology Bulletins, Final Edition.* Chapter 7, Section B, provides the following comments concerning the accounting aspects of stock dividends and stock split-ups:

Stock Dividends

10. As has been previously stated, a stock dividend does not, in fact, give rise to any change whatsoever in either the corporation's assets or its respective shareholders' proportionate interests therein. However, it cannot fail to be recognized that, merely as a consequence of the expressed purpose of the transaction and its characterization as a *dividend* in related notices to shareholders and the public at large, many recipients of stock dividends look upon them as distributions of corporate earnings and usually in an amount equivalent to the fair value of the additional shares received. Furthermore, it is to be presumed that such views of recipients are materially strengthened in those instances, which are by far the most numerous, where the issuances are so small in comparison with the shares previously outstanding that they do not have any apparent effect upon the share market price and, consequently, the market value of the shares previously held remains substantially unchanged. The committee therefore believes that where these circumstances exist the corporation should in the public interest account for the transaction by transferring from earned surplus to the category of permanent capitalization (represented by the capital stock and capital surplus accounts) an amount equal to the fair value of the additional shares issued. Unless this is done, the amount of earnings which the shareholder may believe to have been distributed to him will be left, except to the extent otherwise dictated by legal requirements, in earned surplus subject to possible further similar stock issuances or cash distributions.

11. Where the number of additional shares issued as a stock dividend is so great that it has, or may reasonably be expected to have, the effect of materially reducing the share market value, the committee believes that the implications and possible constructions discussed in the preceding paragraph are not likely to exist and that the transaction clearly partakes of the nature of a stock split-up as defined in paragraph 2. Consequently, the committee considers that under such circumstances there is no need to capitalize earned surplus, other than to the extent occasioned by legal requirements. It recommends, however, that in such instances every effort be made to avoid the use of the word *dividend* in related corporate resolutions, notices, and announcements and that, in those cases where be-

cause of legal requirements this cannot be done, the transaction be described, for example, as a *split-up effected in the form of a dividend.*

14. The corporate accounting recommended in paragraph 10 will in many cases, probably the majority, result in the capitalization of earned surplus in an amount in excess of that called for by the laws of the state of incorporation; such laws generally require the capitalization only of the par value of the shares issued, or, in the case of shares without par value, an amount usually within the discretion of the board of directors. However, these legal requirements are, in effect, minimum requirements, and do not prevent the capitalization of a larger amount per share.

Stock Split-Ups

15. Earlier in this chapter a stock split-up was defined as being confined to transactions involving the issuance of shares, without consideration moving to the corporation, for the purpose of effecting a reduction in the unit market price of shares of the class issued and, thus, of obtaining wider distribution and improved marketability of the shares. Where this is clearly the intent, no transfer from earned surplus to capital surplus or capital stock account is called for, other than to the extent occasioned by legal requirements. It is believed, however, that few cases will arise where the aforementioned purpose can be accomplished through an issuance of shares which is less than, say, 20% or 25% of the previously outstanding shares.

16. The committee believes that the corporation's representations to its shareholders as to the nature of the issuance is one of the principal considerations in determining whether it should be recorded as a stock dividend or a split-up. Nevertheless, it believes that the issuance of new shares in ratios of less than, say 20% or 25% of the previously outstanding shares, or the frequent recurrence of issuances of shares, would destroy the presumption that transactions represented to be split-ups should be recorded as split-ups.

Distributions designated by the survey companies as stock splits included a number of cases, as shown in Table 3, in which charges were made to retained earnings. It is of interest to note that of the 65 stock splits disclosed in the 1965 reports, in only 4 instances were shares distributed in a ratio of less than one-half to one (*228, 312, 420, 421).

Table 3 summarizes the accounting treatment of the stock distributions disclosed in 118 annual reports of the 600 survey companies.

The classification of stock distributions as between stock dividends and stock splits, for the purposes of this survey, is generally based on the terminology employed in the company reports, describing such distributions. Examples of the various presentations of these distributions follow.

TABLE 3: STOCK DIVIDENDS AND STOCK SPLITS

	Stock Dividends		Stock Splits	
Distribution Recorded as:	1965	1955	1965	1955
Debit retained earnings	8	21	7	4
Debit retained earnings and credit capital surplus	49	53	—	—
Debit capital surplus	—	1	21	15
Debit retained earnings and debit capital surplus	—	1	1	9
Credit capital surplus	—	—	1	3
	57	76	30	31
Increase in Number of Shares Only:				
Set forth in:				
Financial statements	—	—	4	—
Letter to stockholders	—	—	11	4
Accompanying footnotes	—	—	20	7
Total Transactions	57	76	65	42

Number of Companies showing*	1965	1955
A: Stock dividends	53	68
B: Stock splits	61	36
C: Stock dividends and stock splits	4	6
Dividends-in-kind	—	2
Total companies with distributions	118	112
Reports not showing distributions	482	488
Total	600	600

*Refer to Company Appendix Section—A: 3, 7, 12, 34, 38, 53, 56, 60, 75, 88, 117, 151, 172, 185, 190, 193, 194, 195, 201, 231, 255, 264, 267, 299, 300, 314, 328, 336, 339, 344, 351, 364, 381, 384, 386, 391, 395, 404, 405, 413, 436, 447, 453, 465, 474, 479, 481, 498, 510, 525, 526, 531, 550; B: 27, 30, 100, 109, 114, 121, 122, 136, 143, 144, 156, 166, 169, 171, 182, 191, 197, 203, 205, 214, 228, 238, 242, 256, 260, 271 278, 279, 281, 308, 309, 312, 325, 337, 343, 352, 358, 360, 385, 398, 416, 420, 421, 427, 437, 438, 461, 471, 473, 476, 493, 497, 523, 534, 541, 546, 552, 555, 566, 567, 595; C: 55, 217, 443, 527.

1965 STOCK DIVIDENDS

Retained Earnings

ALLIED CHEMICAL CORPORATION
Retained Earnings

Deduct:

Dividends paid in cash	$50,685,566
Dividends paid in stock	$27,834,040

Notes to Financial Statements

Capital: The increase of $29,245,707 in Capital—Common Stock during the year ended December 31, 1965 resulted from the following:

Fair value (equivalent to $52 per share) of 535,270 shares of common stock issued as a dividend	$27,834,040
Amount received upon exercise of stock options	1,411,667
	$29,245,707

CRANE CO.
Retained Earnings

Dividends:

Preferred shares—$3.75 per share	$ 290,522
Common shares:	
Cash—$1.15 per share ($1.00 in 1964)	2,418,045
Stock—par value of 1,035,550 shares issued in October 1965 as 100% stock distribution	$25,888,750

*Refer to Company Appendix Section.

CALIFORNIA PACKING CORPORATION

Retained Earnings

Transfer to Capital at the time of stock dividend—(Note C)	$(16,300,000)

Note C: *Capital*—On June 4, 1964 the Board of Directors declared a stock dividend of one share of capital stock for each twenty shares of the 10,838,994 shares then outstanding, making a total of 11,380,943 shares outstanding after issue of the dividend. In connection with the stock dividend $16,300,000 was transferred from earnings retained for use in the business to capital, or approximately $30 per share for each of the 541,949 shares issued as a stock dividend.

WALT DISNEY PRODUCTIONS

Stockholders' Equity

Invested Capital:	
Balance at beginning of year	$19,340,377
Market value of shares issued as stock dividend (53,628 and 51,844 shares respectively) (Note 6)	2,512,186
Proceeds from exercise of stock options (32,059 and 4,823 shares respectively) (Note 6)	989,246
Balance at end of year	22,841,809
Accumulated Earnings:	
Balance at beginning of year	22,153,445
Net income for the year	11,378,778
Less—Dividends paid	
In cash	(736,798)
In stock	(2,512,186)
Balance at end of year (Notes 3 and 6)	30,283,239
Total Stockholders' Equity	$53,125,048

Note 6 (in part): *Stockholders' Equity*—A 3% stock dividend declared on November 20, 1964 was paid on January 1, 1965 to holders of record on December 3, 1964. This resulted in a $2,512,186 transfer to invested capital from accumulated earnings. A 3% stock dividend was declared on November 11, 1965, payable January 1, 1966 to holders of record on December 1, 1965.

Retained Earnings and Capital Surplus

ANCHOR POST PRODUCTS, INC.

Consolidated Capital in Excess of Par Value of Common Stock:	
Balance at beginning of year	$1,533,480
Excess of sales price over par value of common stock sold under option plan	34,068
Excess of stock dividend over par value of common stock issued therefor	286,868
Balance at end of year	1,854,416
Consolidated Earnings Retained and Used in the Business:	
Balance at beginning of year	5,703,002
Net earnings for the year	763,860
	6,466,862
Dividends:	
Cash—$.80 a share	288,845
Stock—5% paid in common stock at value determined by Board of Directors (includes $8,493 cash paid in lieu of issuing fractional shares)	334,793
	623,638
Balance at End of Year	$5,843,224

COLUMBIA BROADCASTING SYSTEM, INC.

Retained Earnings:	
Balance at Beginning of Period	$100,493,214
Add:	
Net income	49,050,762
	149,543,976
Less:	
Cash dividends: 1965, $1.20 per share; 1964, $1.05 per share	23,839,296
Stock dividends, two per cent: 1965, 401,137 shares; 1964, 388,519 shares	15,339,479
Balance at End of Period (Note 5)	$110,365,201
Capital Surplus:	
Balance at Beginning of Period	$ 82,670,350
Add:	
Excess of proceeds from sales of common stock under option agreements, over par value of shares sold	2,560,556
Excess of market value over par value of shares issued in payment of stock dividends	14,336,637
Balance at End of Period	$ 99,567,543

DURA CORPORATION

Statement of Retained Earnings

Amount at beginning of year (excluding transfers to capital in prior years)	$13,174,511
Net earnings	1,918,000
	15,092,511
Dividends:	
Cash dividends—$.70 a share in 1965; $.60 a share in 1964 (on basis of shares outstanding at declaration dates)	677,388
10% stock dividend, including cash in lieu of fractional shares	2,696,758
	3,374,146
Amount at end of year	$11,718,365

Notes to Financial Statements

Note 5: Changes in other capital during fiscal year 1965 are summarized as follows:

Balance July 31, 1964	$ 7,142,575
Excess of fair value over par value of 97,923 shares of capital stock issued as 10% stock dividend	2,558,239
Credits arising from issuance of 21,811 shares of capital stock in acquisition of Electronics, Incorporated business as of September 1, 1964	436,368
Credits (net) arising from sundry other transactions	38,619
Balance July 31, 1965	$10,175,801

O'SULLIVAN RUBBER CORPORATION

Retained Earnings:	
Beginning of the year	$1,649,127
Discount on preferred stock reacquired	784
	1,784,416
Dividends:	
Cash dividends:	
Preferred—$1.00 per share in each year	28,239
Common—$0.10 per share in 1965 and $0.30 per share in 1964	44,156
3% Common stock dividend payable February 4, 1966 (Note 4):	
12,840 shares at $6.75 per share	86,670
Cash in lieu of fractional shares	2,750
	161,815
Retained Earnings at End of Year	$1,622,601

Notes to Financial Statements

Note 5: "Capital in excess of par value" increased $73,830 during 1965. The increase was due to a transfer from "Earnings retained in the business," of the excess of market value of $6.75 per share over par value of $1.00 per share on 12,840 shares of common stock to be issued on February 4, 1966 as a 3% stock dividend.

STOKELY-VAN CAMP, INC.
Statement of Additional Paid-in Capital

Excess of approximate market value over par value of common shares issued as a stock dividend; 126,498 shares, 1965; 109,417 shares, 1964	$2,553,995

Statement of Retained Earnings

Dividends:	
On prior preference stock, cash, per share $1.00	$ 574,106
On second preferred stock, cash per share $1.00	190,044
On common stock:	
Cash, per share $.80	2,101,523
Common stock, 5%	2,680,496
	$5,546,169

1965 STOCK SPLITS

Retained Earnings

CONSOLIDATED FOODS CORPORATION
Dr.—$3,427,884—"*Earned Surplus*: Par value of common shares issued in connection with 3 for 2 stock split."

THE EASTERN COMPANY
Dr.—$1,784,575—"*Retained Earnings*: Transfer to common stock account for par value of 71,383 shares of common stock issued as a result of the one for two stock distribution—Note C."

Cr.—$13,550—"*Capital Surplus*: Par value of 542 shares of treasury stock received—one for two stock distribution."

Note C: On May 25, 1965, the Board of Directors of the Company declared a distribution on June 25, 1965 of one share of unissued Common Stock for each two shares of stock outstanding, including stock held in the Company's treasury. This action resulted in issuance of 71,383 additional shares of the Company's Common Stock, and was accounted for as a stock split. The par amount ($1,784,575) for the shares issued was added to the Common Stock account by transfer from retained earnings.

THE KENDALL COMPANY
Dr.—$8,268,376—"*Retained Earnings*: Transferred to common stock in accordance with 3-for-2 split (Note F)."

Note F: *Common Stock & Stock Options*—In March, 1965 the shareholders authorized a 3-for-2 split of the common stock of The Kendall Company. The par value ($8,268,376) of shares issued in connection with the stock split was transferred from retained earnings to common stock.

MOTOROLA, INC.
Dr.—$6,057,753—"*Earnings and Retained Earnings*: Three-for-two share distribution—par value of 2,019,251 shares transferred to capital stock."

Capital Surplus

BURLINGTON INDUSTRIES, INC.
Dr.—$12,520,022—"*Capital in excess of par value*: Amount transferred to common stock account in connection with two-for-one stock split on July 23, 1965 (Note D-2)."

Note D: *Capital Stock and Options*—(2) On July 23, 1965 the shareholders approved an amendment to the Certificate of Incorporation increasing the authorized common stock from 17,500,000 shares to 40,000,000 shares and, in connection therewith, the issued common stock was split on a two-for-one basis. The par value ($1 per share) of the new shares issued was recorded by increasing the common stock account by a transfer of $12,520,022 from capital in excess of par value.

HARSCO CORPORATION
Dr.—$4,944,646—"*Paid-in Surplus*: Transfer to capital stock of amount equivalent to par value of 3,955,717 shares issued October 15, 1965 to change each share of issued common stock, par value $1.25, into two shares of common stock, par value $1.25 per share, as approved by stockholders on October 8, 1965."

H. H. ROBERTSON COMPANY
Notes to Financial Statements

Note 3: On May 4, 1965, the shareholders approved an increase in the number of authorized shares of common stock from 1,000,000 to 3,000,000 shares, and the Board of Directors declared a 2 for 1 stock split, in the form of a 100%, or share for share stock distribution. Upon the issuance of these shares, par value of $1.00 for each share so issued, amounting to $593,874, was charged to capital surplus and credited to common stock in the balance sheet. Accordingly, the number of shares and the prices per share in the following note have been restated to give retroactive effect to the stock split.

STRUTHERS WELLS CORPORATION
Dr.—$550,450—"*Additional Capital*: Amount transferred to common stock representing the par value of shares issued in connection with a three-for-two stock split."

Retained Earnings and Capital Surplus

PARKER-HANNIFIN CORPORATION
Statement of Shareholders' Equity

	Common Shares	Additional Capital	Earnings Retained in the Business
Balances, July 1, 1964	$990,217	$6,759,095	$20,313,717
Total			28,063,029
Net earnings for the year			6,050,959
Total			6,050,959
Adjustments in connection with stock split (Note 4)			
Transfer to common shares	330,065	(330,065)	
Cash payments			(10,200)
Total			(10,200)

Note 4: In addition, 660,129 common shares were issued in connection with a 4 for 3 stock split and the aggregate stated value of $330,065 for these shares was transferred from Additional Capital Account to Common Shares Account. Cash payments made in lieu of issuing fractional shares, aggregating $10,200, were charged to consolidated earnings retained in the business.

Change in Number of Shares Only

THE COCA-COLA COMPANY
Notes to Financial Statements

Note 4: *Capital Stock*—On January 22, 1965, the authorized common stock was increased from 15,000,000 shares to 35,000,000 shares, and one additional share of common stock was issued to stockholders for each share held on that date. The issuance of these additional shares had no effect on the amount assigned to the capital stock account. The accompanying data for 1964 has been appropriately adjusted to reflect the stock split.

EASTMAN KODAK COMPANY
Notes to Financial Statements

Common Stock: As approved by the share owners on April 27, 1965, the authorized capital stock of the company was increased and changed from 90,000,000 shares of Common Stock of $10 par value to 180,000,000 shares of Common Stock of $5 par value, and each issued share of $10 par value was split into two shares of $5 par value.

BROWN SHOE COMPANY, INC.
Notes to Financial Statements

Note B: On January 14, 1965, the authorized Common Stock of the Company was changed from 3,000,000 shares of the par value of $15.00 a share to 6,000,000 shares of the par value of $7.50 a share, and a two-for-one stock split was effected. Where applicable, appropriate adjustments to give effect to the stock split have been made in the accompanying financial statements, including the information relating to Common Stock issued and outstanding at October 31, 1955, and 1964, presented below.

	Number of Shares	
	1965	1964
Issued	3,850,648	3,841,958
In treasury	574,032	459,730
Outstanding	3,276,616	3,382,228

EMHART CORPORATION
Notes to Financial Statements

Note 8: *Capital Stock*—On April 30, 1965, the authorized capital stock of the Company was increased to 8,000,000 shares of common stock with a par value of $6.25 each and a two-for-one stock split was effected. As of December 31, 1965, 4,060,563 shares were issued (including 316,158 shares to be issued for Plymouth's minority interest), 81,288 shares were held in Treasury, and 3,979,-275 shares were outstanding.

GERBER PRODUCTS COMPANY
Notes to Financial Statements

Stock Split: In July, 1964, the shareowners approved a reduction in the par value of the Company's Common Stock from $5.00 to $2.50 and the issuance of one additional share for each share held. This change had no effect on the aggregate par value of shares outstanding.

MASONITE CORPORATION
President's Letter

During the year an increase in the number of authorized common shares from 2,000,000 to 4,000,000, and a 3 for 2 stock split were approved by the Stockholders. This resulted in the distribution of 907,618 shares on December 22, 1964. Four regular quarterly dividends were declared during the year. The first was at the rate of 37½¢ on shares outstanding before the split, the second and third at the rate of 25¢ per share, and the last at the rate of 30¢, making a total of $1.05 per share on the basis of shares currently outstanding. The annual dividend rate is now $1.20, which is the equivalent of $1.80 on the shares outstanding prior to the 3 for 2 stock split.

THE SHERWIN-WILLIAMS COMPANY
Balance Sheet

Capital Stock and Surplus:
Common — authorized 7,500,000 shares, par value $6.25 per share—Note B:
Outstanding — 5,156,621 shares in 1965; 5,144,798 shares in 1964, adjusted for 2 for 1 stock split — stated capital $34,062,574

THE SUPERIOR OIL COMPANY
President's Letter

The shareholders approved a ten-for-one stock split on May 24, 1965 and each of the corporation's issued, outstanding and treasury shares of the par value of $25 was reclassified and changed into 10 shares of the par value of $2.50. The total outstanding shares at December 31, 1965 was 4,170,000.

Comparative figures used throughout this report have been adjusted for the stock split.

TEXTRON INC.
President's Letter

At a special meeting in December, Textron stockholders approved a two for one split of Textron common shares effective December 17. At the same time the total number of authorized shares was increased to 30,000,000 to provide for possible future requirements. Textron directors also authorized an increase payable January 1, 1966, in the quarterly dividend to 25 cents, equal to 50 cents on the pre-split stock.

STOCK DIVIDENDS—DECLARED BEFORE BALANCE SHEET DATE FOR DISTRIBUTION AFTER BALANCE SHEET DATE

Eight financial reports of the 600 companies included in this survey disclosed that stock dividends had been authorized during the fiscal year for distribution in the following fiscal year. Most of these reports either recorded the transaction as though it had been completed in the current period or indicated in their statements of retained earnings the appropriation in respect of such forthcoming stock distribution.

Examples which follow illustrate the extent of the accounting recognition given in the 1965 reports of the companies in the circumstances referred to above.

The date of the fiscal year end is given under the name of each company.

DAN RIVER MILLS, INCORPORATED
January 1, 1966

Dr.—$8,806,541—"*Retained Earnings*: Appropriated for stock dividend, paid February 1, 1966 (Note 5b)."

Note 5b: On November 18, 1965, the Board of Directors declared a 5% common stock dividend payable to its common stockholders of record on December 17, 1965, which resulted in the issuance of 268,902 additional shares of Common Stock on February 1, 1966. At January 1, 1966, retained earnings of $8,806,541 ($32.75 per share) was appropriated for the issuance of this stock dividend, and on February 1, 1966, after crediting Common Stock with the par value ($5.00 per share) of each share issued, the remainder, $7,462,031 ($27.75 per share), was credited to capital in excess of par value. The amount per share ($32.75) charged against retained earnings was equal to the closing price of the Common Stock on the New York Stock Exchange on December 17, 1965.

LIBBY, McNEILL & LIBBY
July 3, 1965
Stockholders' Investment:

Common stock, $7 par value (Note 6)—
Authorized 1965 — 8,000,000 shares; 1964 — 6,000,000 shares
Outstanding 1965 — 5,055,446 shares (including 50,054 shares to be issued September 1, 1965); 1964 — 4,767,-475 shares $35,388,122

Review of Operations

Four quarterly stock dividends of 1% each were paid on the common stock, and cash dividends totaling $5.25 per share were paid on the outstanding preferred stock. In addition, a quarterly stock dividend of 1% on the common stock, and the regular cash dividend on the preferred stock were declared in June, 1965, payable on September 1, 1965.

THE McKAY MACHINE COMPANY
December 31, 1965
Comparative Statement of Retained Earnings

Retained Earnings: End of year (including at December 31, 1965, $1,003,230 appropriated for a 10% stock dividend payable January 31, 1966 (Note 5) $5,268,880

Note 5: *Capital Stock and Retained Earnings*—On October 27, 1965 the directors declared a 10% stock dividend on the Company's common stock without par value, payable January 31, 1966 to holders of record January 14, 1966, which resulted in the issuance of 22,294 additional shares of common stock on January 31, 1966. At December 31, 1965 retained earnings of $1,003,230 was appropriated for the issuance of the stock dividend and January 31, 1966 the capital stock account was credited with $1,003,230.

OTHER CHARGES AND CREDITS TO RETAINED EARNINGS AND CAPITAL SURPLUS ACCOUNTS

The various other charges and credits to the retained earnings and capital surplus accounts, as disclosed in the annual reports of the 600 survey companies for the year 1965, are summarized and classified in Table 4.

One hundred and eighty-eight companies disclosed charges and credits to the retained earnings account in addition to those entries which recorded cash dividend distributions, stock dividends, stock split-ups, or presented the net income or loss for the year. In addition to such charges and credits to the retained earnings account, 404 companies reported various charges and credits, other than entries to record stock dividends and stock split-ups, to the capital surplus or unclassified surplus accounts. In the 1965 annual reports, 492 companies presented capital surplus.

Capital Stock Transactions

In September, 1961, the American Institute of Certified Public Accountants published *Accounting Research and Terminology Bulletins, Final Edition,* which consolidated under one cover "the 1953 revisions and restatements of earlier bulletins, with all subsequent bulletins issued by the committees on accounting procedure and accounting terminology." Section B of Chapter 1 discusses "Profits or Losses on Treasury Stock," but since it also relates more or less to the corporation's capital stock transactions generally, Paragraph 7 is quoted below:

> Apparently there is general agreement that the difference between the purchase price and the stated value of a corporation's common stock purchased and retired should be reflected in capital surplus. Your committee believes that while the net asset value of the shares of common stock outstanding in the hands of the public may be increased or decreased by such purchase and retirement, such transactions relate to the capital of the corporation and do not give rise to corporate profits or losses. Your committee can see no essential difference between (a) the purchase and retirement of a corporation's own common stock and the subsequent issue of common shares, and (b) the purchase and resale of its own common stock.

1965 CHARGES AND CREDITS

Illustrative examples of some of the other charges and credits to retained earnings and capital surplus accounts (which do not include those merely presenting the net loss or income for the year) are as follows:

PREMIUM OR DISCOUNT ON INITIAL ISSUE OF CAPITAL STOCK

Capital Surplus

CONTROL DATA CORPORATION

Cr.—$1,389,302—"Additional Paid-In Capital: Excess of net proceeds from sale of common stock over par value thereof."

Cr.—$942,975—"Additional Paid-In Capital: Market value in excess of par value of common stock issued in purchase of assets."

DIGITRONICS CORPORATION

Capital:

Capital surplus (Note 9) $7,775,399

Note 9: On June 4, 1964, the stockholders of the Company approved amendments to the Certificate of Incorporation increasing the authorized capital stock ($0.10 par value) to 2,000,000 shares, and creating an additional class of capital stock designated as Class A ($5.00 par value) with an authorized issue of 240,000 shares. The 240,000 shares were sold on June 16, 1964, for $6,000,000, of which $4,780,965, representing the excess of net proceeds over the par value thereof, was credited to capital surplus. Each share of the Class A capital stock is convertible into four shares of capital stock ($0.10 par value) and will be redeemable at $25 per share, at the option of the Company, at any time after June 30, 1966.

PARKER-HANNIFIN CORPORATION

June 30, 1965

Cr.—$2,246,604—"Additional Capital: Proceeds from public sale of 100,000 shares, less expense of issue (Note 4)."

Note 4: The authorized common shares, no par value, of the company was increased from 2,100,000 shares to 3,000,000 shares in September, 1964.

In addition, 660,129 common shares were issued in connection with a 4 for 3 stock split and the aggregate stated value of $330,065 for these shares was transferred from Additional Capital Account to Common Shares Account. Cash payments made in lieu of issuing fractional shares, aggregating $10,200, were charged to consolidated earnings retained in the business.

In October, 1964, the company issued and sold through public offering 100,000 common shares for which it received net proceeds of $2,296,604.

CONVERSIONS

From Preferred Stock into Common

Capital Surplus

CITIES SERVICE COMPANY

Dr.—$135,265—"*Capital Surplus*: Excess of payments for fractional shares over assigned value thereof arising from conversion of Preferred and Preference Stocks into Common Stock."

ELTRA CORPORATION

Dr.—$1,128—"*Capital Surplus*: Cash paid in lieu of fractions of common shares upon conversion of preferred shares."

EMERSON ELECTRIC CO.

Cr.—$111,174—"Additional Paid-In Capital: Excess of par value of convertible preferred stock over par value of common stock issued in exchange therefor, less cash payments for fractional shares."

STANDARD OIL COMPANY OF CALIFORNIA

Stockholders' Equity

Capital Surplus $899,119,000

Notes to Financial Statements

Capital Surplus: Capital surplus was reduced in 1965 by $1,735,000, representing principally charges in connection with conversions of preferred stock into common stock.

TABLE 4: OTHER CHARGES AND CREDITS

Nature of Transaction Presented*	Retained Earnings Account 1965 Debit	1965 Credit	1955 Debit	1955 Credit	Capital Surplus Account 1965 Debit	1965 Credit	1955 Debit	1955 Credit
Capital Stock Transactions:								
A: Revision in capital structure	3	1	4	—	2	6	5	12
B: Premium or discount on initial issue of capital stock	2	—	—	—	1	16	1	37
C: Conversion from preferred stock or debentures to common stock (or preferred)**	4	1	—	—	6	56	2	58
D: Redemption, retirement of capital stock, warrants, scrip, etc.***	17	2	36	4	16	36	24	47
E: Treasury stock transactions	27	3	3	1	31	21	8	22
Business Combinations:								
F: Acquisition of subsidiary companies or business properties for cash or through the issuance of stock	—	3	9	3	4	41	5	53
G: Pooling of interests	21	40	2	2	30	29	2	2
H: Liquidations and dissolutions	3	2	3	10	—	—	6	11
I: Adjustments arising in consolidation	3	1	8	7	—	1	1	6
J: Sale or spin-off of a subsidiary company or division, because of F.T.C. consent order	1	2	N/A	N/A	—	—	N/A	N/A
K: Goodwill, intangible assets	—	1	7	—	—	1	—	1
L: Employee benefit plans involving sale or issue of capital stock	1	—	1	—	2	31 }	3	136
M: Stock option plans involving sale or issue of capital stock	4	1	—	—	18	295 }		
N: Appropriation or reserve—transfers thereto and transfers therefrom	12	9	17	29	—	—	1	3
O: Financing expenses	1	—	7	1	5	—	12	—
P: Merger expense	3	—	—	—	9	—	—	—
Q: Extraordinary losses or gains	29	28	8	6	—	1	—	—
R: Foreign exchange adjustments	1	—	1	—	—	—	—	1
Prior year adjustments:								
Fixed assets and depreciation	—	—	—	5	—	—	1	2
S: Tax adjustments	4	11	5	10	—	1	—	1
T: Various other adjustments	—	5	12	8	1	1	1	1
U: Miscellaneous transactions	8	7	2	7	7	10	6	5
V: Dollar changes—not described	1	1	1	—	5	26	1	10
Total Other Charges and Credits	145	118	126	93	137	572	79	408
Net loss or income for the year	18	582	21	579	—	—	—	—
Cash dividend declaration (Table 1)	568	—	586	—	—	—	—	—
Stock dividends and stock split-ups (Table 3)	65	—	88	—	22	50	26	56
Total Charges or Credits	796	700	821	672	159	622	105	464

N/A—Not Available.
**Includes 6 companies with conversions of preferred stock to debentures.
***Includes 1 company with retirement of debentures.
*Refer to Company Appendix Section (company numbers set off by semicolons refer to debits and credits to Retained Earnings and Capital Surplus)—A: 123, 199, 448; 250; 199, 250; 9, 123, 158, 400, 528, 568. B: 123, 166; 328; 60, 96, 135, 166, 185, 192, 246, 255, 296, 302, 344, 351, 420, 471, 527, 542. C: 58, 240, 519, 568; 477; 58, 136, 211, 240, 515, 519; 15, 38, 60, 65, 68, 71, 80, 93, 116, 119, 122, 131, 142, 153, 182, 184, 195, 206, 212, 230, 235, 238, 245, 254, 255, 260, 264, 275, 285, 293, 297, 298, 328, 339, 345, 352, 366, 388, 401, 408, 411, 429, 435, 443, 455, 472, 481, 506, 528, 541, 543, 550, 553, 565, 568, 598. D: 23, 46, 95, 142, 174, 245, 248, 287, 302, 306, 344, 387, 454, 476, 523, 553, 592; 413, 477; 106, 141, 160, 285, 287, 294, 302, 333, 334, 351, 387, 416, 477, 506, 523, 562; 9, 15, 33, 60, 101, 122, 131, 132, 147, 160, 171, 175, 196, 233, 253, 264, 284, 298, 305, 323, 355, 360, 371, 383, 400, 408, 416, 425, 434, 443, 460, 483, 485, 489, 541, 543. E: 31, 36, 38, 63, 121, 144, 172, 189, 196, 213, 308, 354, 375, 382, 410, 449, 460, 469, 483, 495, 509, 523, 534, 543, 553, 564, 573; 30, 172, 566; 31, 36, 59, 63, 100, 141, 213, 225, 241, 278, 299, 309, 359, 360, 375, 386, 421, 428, 447, 460, 461, 483, 485, 509, 517, 518, 523, 525, 528, 543, 561; 52, 109, 116, 140, 159, 187, 203, 235, 246, 258, 296, 297, 311, 379, 397, 466, 517, 529, 565, 577, 587. F: 78, 423, 573; 66, 275, 279, 472; 10, 11, 28, 31, 52, 60, 71, 100, 107, 110, 114, 115, 121, 125, 158, 166, 191, 201, 218, 219, 221, 222, 230, 263, 281, 309, 333, 344, 355, 368, 387, 404, 408, 461, 472, 490, 526, 567, 568, 579, 583. G: 28, 65, 68, 82, 150, 156, 166, 170, 184, 243, 302, 357, 363, 375, 400, 516, 518, 549, 577, 587, 598; 32, 36, 58, 82, 86, 89, 95, 126, 128, 152, 156, 161, 184, 202, 214, 217, 225, 230, 233, 255, 296, 302, 305, 317, 328, 330, 334, 344, 375, 400, 402, 429, 460, 466, 535, 540, 541, 549, 552, 598; 27, 60, 66, 68, 82, 89, 96, 106, 128, 150, 156, 170, 187, 217, 230, 233, 296, 302, 305, 317, 330, 334, 344, 357, 400, 516, 518, 541, 576, 577; 36, 58, 65, 86, 95, 96, 100, 156, 166, 170, 225, 243, 255, 260, 296, 302, 317, 328, 400, 402, 429, 460, 466, 488, 540, 549, 564, 587, 598. H: 248, 277, 519; 227, 528. I: 206, 381, 541; 262; 541. J: 326; 233, 416. K: 476; 598. L: 501; 285, 331; 43, 69, 92, 100, 110, 114, 115, 135, 137, 156, 200, 225, 231, 249, 250, 254, 276, 293, 297, 331, 333, 372, 404, 409, 426, 439, 454, 474, 525, 567, 576. M: 22, 501, 522, 585; 464; 11, 57, 65, 77, 94, 159, 188, 233, 274, 317, 324, 330, 331, 518, 523, 524, 541, 551; 3, 6, 7, 9, 10, 15, 18, 20, 25, 26, 27, 31, 35, 36, 37, 38, 42, 43, 47, 48, 50, 52, 53, 55, 56, 60, 61, 64, 67, 68, 69, 70, 71, 72, 74, 75, 80, 82, 83, 84, 85, 86, 89, 92, 95, 100, 101, 106, 109, 110, 111, 114, 122, 123, 128, 129, 131, 133, 135, 136, 139, 141, 142, 144, 145, 147, 150, 151, 153, 156, 160, 162, 164, 170, 174, 175, 178, 180, 183, 184, 185, 191, 194, 195, 197, 199, 203, 206, 208, 211, 212, 213, 214, 217, 218, 220, 221, 222, 225, 226, 230, 231, 232, 235, 238, 242, 245, 249, 252, 253, 254, 257, 258, 260, 262, 264, 265, 267, 272, 274, 275, 276, 278, 281, 284, 285, 287, 289, 290, 292, 293, 294, 297, 298, 299, 300, 301, 302, 303, 305, 309, 310, 311, 313, 315, 318, 320, 321, 323, 325, 328, 329, 331, 333, 338, 340, 341, 342, 343, 345, 348, 352, 353, 357, 359, 360, 361, 362, 366, 368, 372, 375, 378, 379, 381, 384, 385, 387, 388, 393, 395, 396, 398, 399, 400, 401, 402, 404, 405, 406, 407, 408, 411, 412, 415, 416, 417, 418, 419, 420, 421, 422, 426, 427, 429, 431, 433, 434, 435, 438, 442, 443, 444, 445, 449, 450, 451, 452, 454, 455, 456, 457, 459, 460, 461, 463, 465, 466, 469, 471, 472, 473, 476, 477, 478, 479, 480, 481, 484, 487, 488, 490, 492, 494, 495, 496, 498, 499, 500, 504, 505, 508, 510, 511, 512, 513, 517, 520, 523, 525, 526, 529, 530, 532, 538, 539, 540, 541, 542, 543, 544, 545, 549, 553, 554, 557, 559, 560, 564, 567, 572, 574, 576, 577, 578, 579, 580, 583, 584, 587, 591, 593, 595, 598, 600. N: 138, 172, 177, 322, 334, 366, 367, 383, 470, 528, 563, 568; 154, 253, 277, 283, 383, 424, 528, 558, 589. O: 400; 16, 96, 122, 466, 542. P: 68, 217, 296; 31, 68, 95, 150, 214, 217, 334, 400, 429. Q: 22, 24, 60, 66, 78, 81, 158, 177, 202, 210, 214, 216, 240, 242, 275, 333, 335, 349, 355, 388, 478, 485, 543, 558, 561, 580, 583, 586, 587; 44, 45, 70, 102, 119, 138, 158, 159, 166, 180, 181, 190, 215, 217, 282, 291, 301, 336, 342, 418, 478, 479, 480, 534, 544, 553, 563, 568; 171. R: 54. S: 62, 392, 508, 573; 19, 113, 132, 138, 171, 234, 268, 294, 344, 423, 573; 285. T: 54, 182, 336, 345, 416; 107; 572. U: 217, 253, 263, 294, 396, 429, 527, 548; 245, 400, 408, 416, 441, 447, 586; 213, 253, 272, 299, 400, 447, 505; 201, 217, 294, 310, 331, 429, 431, 527, 548, 587. V: 387; 253; 198, 202, 347, 436, 586; 16, 78, 98, 112, 118, 143, 148, 167, 168, 169, 176, 204, 215, 234, 237, 266, 277, 327, 350, 373, 392, 473, 519, 536, 589, 597.

SONOTONE CORPORATION

Cr.—$107,912—"Additional Paid-In Capital: Excess of par value of preferred stock surrendered for conversion over par value of common stock issued in exchange therefor (Note 4)."

Note 4: The Board of Directors adopted a resolution on November 24, 1964 to redeem all of the preferred stock outstanding on February 2, 1965 at the fixed redemption price of $27 a share ($131,139 in the aggregate) plus accrued dividends. The excess of cost over par value of stock redeemed ($33,999) was charged to additional paid-in capital on that date. Between January 1 and January 18, 1965, the date the conversion privilege expired, 33,323 shares of common stock were issued for preferred stock converted, and the excess of par value of preferred stock surrendered over common stock issued ($107,912) was credited to additional paid-in capital in January 1965. In this connection, the Company's Certificate of Incorporation was amended to reduce its authorized capital from $3,082,740 to $1,500,000 represented by 1,500,000 shares of common stock with a par value of $1 a share.

Conversion of Debentures into Common Stock
Capital Surplus

CLUETT, PEABODY & CO., INC.

Cr.—$28,738—"Capital Surplus: Excess of principal amount of 4¼% convertible subordinated debentures converted over par value of 494 shares of common stock issued."

MUNSINGWEAR, INC.
Stockholders' Equity

Capital in excess of par value (Note 4)	$3,778,753

Note 4: The increase of $541,265 during the year in capital in excess of par value consisted of $39,375 excess of option price over par value of 1,750 shares of common stock issued on exercise of stock options and $520,950 excess of principal amount of 5% convertible subordinate debentures over par value of 33,810 shares of common stock issued therefor, less applicable unamortized debenture expense of $19,060.

U. S. INDUSTRIES, INC.

Cr.—$275,701—"Additional Paid-in Capital: Amount in excess of par value of 18,299 shares of Common Stock issued upon conversion of $294,000 principal amount of debentures."

Conversion of Preferred Stock into Debentures
Retained Earnings

STANDARD PACKAGING CORPORATION

Dr.—$5,469,552—*"Earned Surplus*: Excess of the principal amount of debentures issued (plus cash paid for fractional interests and related expenses) over the par value of preferred stock exchanged therefor (Note 3)."

Note 3: *Capital Stock*—On April 27, 1965 the stockholders voted to amend the Articles of Incorporation to effect the exchange of the $20 par value convertible preferred stock, series $1.20 and 6%, for subordinated debentures of the Company, either 6% or 5.25% convertible, due in 1990 and to increase the Company's authorized common stock to 8,000,000 shares. Authorization of the $1.20 and 6% preferred series was then cancelled. As a result the Company's maximum authorized capital stock became $10,796,400 consisting of 139,820 shares of $1.60 Cumulative Convertible Preferred ($20 par value) and 8,000,000 shares of Common ($1 par value). Each share of the $1.60 preferred stock is convertible into three shares of common stock and is entitled on redemption or voluntary liquidation to $33 a share and on involuntary liquidation to $30 a share. The excess of the face value of debentures issued (or cash paid for fractional interests) over the par value of preferred stock exchanged, $5,214,808, and $260,125 of expenses of the refunding have all, except for $5,381 charged to capital surplus, been charged to earned surplus.

Shares stated as outstanding in the accompanying balance sheet are exclusive of 1,600 shares of $1.60 preferred and 129,929 shares of common stock held in the treasury in each year.

UNITED STATES SMELTING REFINING AND MINING COMPANY

Dr.—$16,483,880—*"Retained Earnings Unappropriated*: Charge resulting from exchange of 7% cumulative preferred stock (Note 6)."

Note 6: At December 31, 1964, the Company's outstanding capital stock consisted of 467,948 shares of 7% cumulative preferred stock, par value $50 per share, and 544,627 shares of common stock, par value $50 per share. In 1965 the 7% preferred stock was exchanged for 5⅝% subordinated debentures, $5.50 cumulative preferred stock and cash, and each share of the $50 par value common stock was exchanged for four shares of $1 par value common stock.

Additional Paid-In Capital

Balance at beginning of period	$ 161,634
Excess of $100 liquidating value per share over $5 par value per share of $5.50 cumulative preferred stock issued as follows:	
116,987 shares in exchange for 7% cumulative preferred stock (Note 6) .	11,113,765
40,864 shares in acquisition of Mueller Brass Co. (Note 1)	3,882,080
2,560 shares in conversion of 3⅝% convertible subordinated debentures ...	243,200
Excess of par value of common stock exchanged over par value and expenses of common stock issued (Note 6)	24,898,957
Balance at end of period	$40,299,636

Conversion of Preferred Stock into Debentures and Debentures into Preferred Stock
Retained Earnings and Capital Surplus

ARDEN-MAYFAIR, INC.

Dr.—$256,123—*"Capital Surplus*: Excess of paid in capital over stated value of preferred stock exchanged for 6% subordinated income debentures."

Dr.—$297,657—*"Retained Earnings*: Excess of principal amount of 6% subordinated income debentures exchanged for preferred stock, over paid in capital attributable to preferred stock."

REVISION IN CAPITAL STRUCTURE

Retained Earnings and Capital Surplus

J. I. CASE COMPANY
October 31, 1965
Stockholders' Equity

	1965	1964
Capital:		
7% cumulative preferred stock, par value $100 per share (Note 6)	—	$ 9,290,600
6½% second cumulative preferred stock, par value $7 per share (Note 6) ..	—	8,392,265
5¾% cumulative preferred stock, par value $100 per share—		
Authorized, issued and outstanding — 200,000 shares (Notes 1, 6 and 10)	$20,000,000	—
Common stock, par value $1 per share—		

Authorized — 6,000,000 shares		
Issued and outstanding — 4,352,289 and 3,944,170 shares, respectively (Notes 1, 6 and 8)	4,352,289	3,944,170
Capital in excess of par value	39,312,030	32,482,252
Earnings retained since October 31, 1961 (Note 7)	18,714,258	18,931,406
	$82,378,577	$73,040,693

Note 6: *Recapitalization*—At the regular annual meeting of stockholders on February 18, 1965 a plan of recapitalization was approved which had the following effects: (a) 92,906 shares, representing all of the then outstanding 7% cumulative preferred stock (including dividend arrearages of $2,850,666), were reclassified into $8,801,625 principal amount of 5½% subordinated debentures due 1990 and 383,499 shares of common stock, (b) 1,198,895 shares, representing all of the then outstanding 6½% second cumulative preferred stock (including dividend arrearages of $2,391,096), were reclassified into $11,188,513 principal amount of 5½% subordinated debentures due 1990, and (c) $20,000,000 aggregate par value of 5¾% cumulative preferred stock (callable) was issued to Kern County Land Company for $2,100,000 in cash and cancelation of the then outstanding $17,900,000 5% subordinated note held by that company.

Statement of Earnings Retained

Add (deduct):	
Net Income for the Year	$10,741,440
Excess of $19,990,138 principal amount of 5½% subordinated debentures due 1990 issued over $8,392,265 par value of 6½% second cumulative preferred stock and $5,029,500 par value of 7% cumulative preferred stock reclassified, plus $21,155 paid in lieu of fractional shares (Note 6)	(6,589,528)
Excess of $7,142,669 market value of 383,499 shares of common stock issued over $4,261,100 par value of 7% cumulative preferred stock reclassified (Note 6)	(2,881,569)
Write-off of unamortized discount applicable to 5% subordinated note converted to 5¾% cumulative preferred stock (Note 6)	(710,846)

Statement of Capital in Excess of Par Value (*Credits*)

Excess of $4,261,100 par value of 7% cumulative preferred stock reclassified over par value of 383,499 shares of common stock issued, less issuance expenses of $180,320 (Note 6)	$3,697,281
Excess of $7,142,669 market value of 383,499 shares of common stock issued over $4,261,100 par value of 7% cumulative preferred stock reclassified (Note 6)	2,881,569

Operating Review

Financing: At the Annual Meeting on February 18, in Racine, shareholders approved the proposed Plan of Recapitalization.

Following this approval, 383,499 additional shares of common stock were issued to holders of reclassified 7% cumulative preferred stock of the Company. After this issuance, there were 4,332,870 shares of common stock outstanding, of which 54.6% were owned by Kern County Land Company. (On October 31, there were outstanding 4,352,289 shares of common stock of which Kern County Land Company owns 54.4%.)

Approximately $20,000,000 principal amount of the 5½% subordinated debentures due 1990 of the Company were issued to the holders of reclassified 6½% second cumulative preferred stock and to those holders of reclassified 7% cumulative preferred stock who did not elect to receive common stock.

The newly authorized 5¾% cumulative preferred stock, par value $100 per share, was issued to Kern County Land Company on February 25, 1965, in consideration of the cancelation of the 5% subordinated note of J. I. Case Company in the principal amount of $17,900,000 held by Kern County Land Company, and $2,100,000 in cash.

Retained Earnings

PRATT & LAMBERT, INC.

Dr.—$600,000—"*Retained Earnings*: Amount transferred to capital stock resulting from change in par value from no par to $10.00 par (Note 2)."

Note 2: At a special meeting held June 18, 1965, the stockholders approved an amendment to the Articles of Incorporation authorizing a change in the par value of the capital stock from no par to $10.00 par value per share and an increase in the authorized number of shares from 500,000 to 1,000,000. In order to effect this change in par value, $600,000 was transferred from retained earnings to capital stock.

RETIREMENT OR REDEMPTION OF CAPITAL STOCK

Retained Earnings

CROWN CORK & SEAL COMPANY, INC.

Dr.—$10,248,000—"*Earned Surplus*: Excess of Cost over Par or Stated Value of Common and Preferred Stock Acquired During Year."

Letter to Stockholders

During 1965 we spent $11,144,000 net to purchase and retire 280,898 shares of common stock, at an average cost of $38.95 per share, also 6,400 shares of preferred stock, at an average cost of $46.48 per share, and issued 9,545 shares of common stock under stock options granted in prior years. There were 4,049,967 common shares outstanding at December 31, 1965, a reduction of 6.3% from the end of the prior year.

INTERLAKE STEEL CORPORATION

Dr.—$382,500—"*Retained Earnings*: Premium on redemptions of Preferred stock."

MSL INDUSTRIES, INC.

Dr.—$522,000—"*Reinvested Earnings*: Portion of cost over issue price of treasury shares retired."

Dr.—$78,000—"*Paid-In Capital*: Portion of cost over issue price of treasury shares retired."

O'SULLIVAN RUBBER CORPORATION

Cr.—$784—"*Retained Earnings*: Discount on preferred stock reacquired."

WILSON & CO., INC.

Dr.—$5,991—"*Retained Earnings*: Excess of cost over recorded value of preferred stock retired."

Capital Surplus

AMERICAN MACHINE & FOUNDRY COMPANY

Cr.—$18,397—"*Capital Surplus*: Excess of par value over cost of preferred stock retired."

COLONIAL STORES INCORPORATED

Cr.—$2,039—"Capital in Excess of Par Value of Capital Stock: Net difference between cost and par value of cumulative preferred stock retired through sinking fund."

HERCULES POWDER COMPANY

Dr.—$61,830—"*Paid-in Surplus*: Redemption premium on Class A stock, $2.00 series."

LEAR SIEGLER, INC.

Statement of Consolidated Additional Capital

Preferred Stock—Series A:	
Excess of redemption price over stated value of 6,562 shares redeemed	$26,248
Excess of cost of treasury shares over stated value of 1,347 shares retired	5,549

MELVILLE SHOE CORPORATION
Notes to Financial Statements

Note 2: Capital Stock—The Series A cumulative preferred stock of $100 par value aggregating 14,373 shares outstanding at the beginning of the year were redeemed at par on March 1, 1965 and are carried as authorized but unissued shares; 1,695 cancelled Series A shares held in treasury at the beginning of the year were eliminated from authorized shares by amendment to the certificate of incorporation.

During the year, 2,410 shares of Series B cumulative preferred stock of $100 par value were purchased at an aggregate cost of $217,000 and cancelled; 830 of such shares together with the 12,690 cancelled shares of Series B held in treasury at the beginning of the year were also eliminated from authorized shares by amendment to the certificate of incorporation. Accordingly, at December 31, 1965 there were 118,419 shares of Series B cumulative preferred stock (including 1,580 shares held in treasury) authorized and issued; such shares are redeemable at the option of the company at $101 to December 1, 1966 and $100 thereafter. At December 31, 1965, 103,350 shares of cumulative preferred stock of $100 par value were authorized but unissued.

SEABOARD ALLIED MILLING CORPORATION
Stockholders' Equity

Additional Capital (Note 5)	$2,907,043

Note 5: Additional Capital—The reduction in additional capital of $10,088 is comprised of the excess of cost over par value of 2,700 shares of treasury stock acquired less the discount on the cost of debentures acquired and retired.

TREASURY STOCK TRANSACTIONS

Opinion No. 6, Status of Accounting Research Bulletins, released in October, 1965 by the accounting principles board of the American Institute of Certified Public Accountants, contains the following revision of Chapter 1B of *Accounting Research Bulletin No. 43.*†

12. The Board considers that the following accounting practices, in addition to the accounting practices indicated in Chapter 1B, are acceptable, and that they appear to be more in accord with current developments in practice:

a. When a corporation's stock is retired, or purchased for constructive retirement (with or without an intention to retire the stock formally in accordance with applicable laws):

i. an excess of purchase price over par or stated value may be allocated between capital surplus and retained earnings. The portion of the excess allocated to capital surplus should be limited to the sum of (a) all capital surplus arising from previous retirements and net "gains" on sales of treasury stock of the same issue and (b) the prorata portion of capital surplus paid in, voluntary transfers of retained earnings, capitalization of stock dividends, etc., on the same issue. For this purpose, any remaining capital surplus applicable to issues fully retired (formal or constructive) is deemed to be applicable prorata to shares of common stock. Alternatively, the excess may be charged entirely to retained earnings in recognition of the fact that a corporation can always capitalize or allocate retained earnings for such purposes.

ii. an excess of par or stated value over purchase price should be credited to capital surplus.

b. When a corporation's stock is acquired for purposes other than retirement (formal or constructive), or when ultimate disposition has not yet been decided, the cost of acquired stock may be shown separately as a deduction from the total of capital stock, capital surplus, and retained earnings, or may be accorded the accounting treatment appropriate for retired stock, or in some circumstances may be shown as an asset in accordance with paragraph 4 of Chapter 1A of ARB 43. "Gains" on sales of treasury stock not previously accounted for as constructively retired should be credited to capital surplus; "losses" may be charged to capital surplus to the extent that previous net "gains" from sales or retirements of the same class of stock are included therein, otherwise to retained earnings.

c. Treasury stock delivered to effect a "pooling of interests" should be accounted for as though it were newly issued, and the cost thereof should receive the accounting treatment appropriate for retired stock.

13. Laws of some states govern the circumstances under which a corporation may acquire its own stock and prescribe the accounting treatment therefor. Where such requirements are at variance with paragraph 12, the accounting should conform to the applicable law. When state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or have other effects of a significant nature, these facts should be disclosed.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

Three hundred and fifteen companies reported the treatment of 399 treasury stock items or transactions in their retained earnings or capital surplus statements or in supplementary notes or in the text of the report. Two hundred and eighty-five companies did not mention having such transactions. Table 5 summarizes the various treatments found in the annual reports of the survey companies for 1965.

The examples which follow disclose charges and credits to retained earnings and capital surplus as they relate to treasury stock transactions.

Purchased for Retirement

Retained Earnings and Capital Surplus

THE L. S. STARRETT COMPANY

Dr.—$5,193,339—"*Retained Earnings*: Charge on Account of:

Stock Purchased and Retired	$5,193,339
Stock Purchased for Treasury	217,168"

Dr.—$1,154,580—"*Capital Surplus*: Deduct Portion of Capital Surplus attributable to:

Stock purchased and retained in the treasury (9,379 shares)	$ 49,206
Retirement of 220,700 shares	1,154,580"

TABLE 5: ACCOUNTING TREATMENT OF TREASURY STOCK

Difference (or excess) between Purchase Price and Par or Stated Value; or Difference Between Purchase Price and Disposal Value	ITEMS Purchased for Retirement	Not Purchased for Retirement	Issued in Purchase or Pooling of Interests	Other
Treasury Stock Purchased and Held*:				
A: Allocated between capital surplus and retained earnings	2	10	5	—
B: Charged or credited to retained earnings	1	17	2	—
C: Charged or credited to capital surplus	14	38	25	—
D: Carried at cost which includes any "difference"	4	191	—	—
E: No information disclosed as to cost or disposition of "difference"	—	20	—	—
Treasury Stock Issued to Fulfill Stock Option Requirements*:				
F: Accounting treatment of excess over carrying value not disclosed	—	—	—	7
G: Transferred to capital surplus	—	—	—	48
H: Transferred to retained earnings	—	—	—	7
I: Full amount received credited to capital surplus; the purchase price of the shares having been charged to retained earnings	—	—	—	1
J: Credited to capital stock account	—	—	—	1
Treasury Stock Used to Fulfill Incentive Compensation or Bonus Plans*:				
K: Cost of treasury shares transferred to expense	—	—	—	1
L: Transferred to capital surplus	—	—	—	3
Treasury Stock Issued in Fulfillment of Stock Dividend Requirement*:				
M: Cost charged to earned surplus	—	1	—	—
N: Cost charged to retained earnings, and credited to capital surplus	—	1	—	—
Totals	21	278	32	68

*Refer to Company Appendix Section (company numbers set off by semicolons refer to totals shown in above columns)—A: 387, 523; 31, 36, 63, 213, 375, 460, 483, 509, 523, 543; 82, 243, 302, 357, 518. B: 573; 38, 121, 144, 172, 174, 189, 247, 308, 354, 382, 410, 449, 495, 534, 553, 564, 566; 28, 331. C: 9, 106, 264, 298, 323, 333, 334, 379, 383, 400, 447, 518, 529, 562; 52, 59, 100, 114, 116, 140, 159, 187, 203, 225, 231, 235, 241, 246, 249, 275, 278, 296, 299, 309, 359, 360, 368, 386, 411, 421, 425, 428, 454, 461, 466, 485, 517, 525, 528, 561, 565, 577; 11, 33, 36, 60, 65, 71, 96, 121, 156, 187, 202, 218, 219, 222, 233, 260, 279, 309, 317, 330, 387, 402, 404, 469, 541. D: 29, 101, 323, 392; 1, 3, 11, 12, 25, 26, 28, 33, 35, 38, 39, 40, 41, 44, 45, 46, 51, 54, 55, 57, 58, 61, 65, 68, 69, 70, 71, 73, 77, 78, 79, 82, 86, 88, 94, 95, 99, 100, 101, 104, 108, 109, 112, 116, 118, 120, 127, 128, 131, 136, 141, 143, 147, 148, 151, 152, 153, 160, 162, 165, 168, 181, 195, 196, 197, 198, 201, 202, 204, 205, 207, 208, 211, 218, 219, 230, 233, 234, 237, 238, 241, 244, 258, 260, 266, 272, 275, 276, 279, 281, 282, 283, 285, 291, 293, 294, 296, 297, 303, 304, 306, 311, 312, 316, 318, 330, 332, 340, 341, 347, 348, 353, 357, 363, 370, 371, 372, 374, 377, 379, 382, 387, 393, 394, 396, 397, 398, 401, 403, 404, 412, 423, 425, 431, 433, 434, 435, 440, 441, 443, 448, 451, 452, 453, 455, 466, 468, 470, 474, 475, 479, 480, 486, 492, 501, 502, 505, 507, 516, 518, 520, 521, 522, 524, 529, 531, 532, 536, 538, 539, 540, 541, 544, 546, 551, 554, 557, 558, 563, 566, 567, 570, 571, 572, 574, 576, 578, 585, 587, 588, 589. E: 24, 87, 91, 162, 173, 223, 255, 261, 310, 325, 335, 344, 365, 403, 417, 430, 467, 544, 552, 583. F: 118, 154, 172, 248, 373, 377, 597. G: 11, 20, 60, 74, 80, 83, 94, 114, 145, 159, 184, 208, 211, 225, 233, 260, 274, 275, 276, 278, 297, 298, 309, 317, 320, 324, 331, 359, 360, 366, 402, 418, 421, 433, 450, 451, 499, 500, 524, 525, 529, 539, 541, 549, 551, 560, 593, 595. H: 22, 30, 196, 464, 501, 522, 585. I: 469. J: 152. K: 414. L: 137, 474, 567. M: 75. N: 453.

Retained Earnings

UNIVERSAL LEAF TOBACCO CO., INC.

Dr.—$6,450—"*Retained Earnings*: Premium on Preferred Stock acquired."

Capital Surplus

ALAN WOOD STEEL COMPANY

Cr.—$12,750—"Additional Paid-in Capital: Excess of par value over cost of 1,500 treasury shares of 5% Cumulative Preferred Stock retired."

Carried at Cost

THE AMERICAN DISTILLING COMPANY

Letter to Stockholders

During the current fiscal year the Company purchased in the open market 13,800 shares of its Common Capital Stock; this stock is carried as Treasury Stock.

Stockholders' Equity

Capital stock—common $10.00 par value—Note 3:	
Authorized, 2,000,000 shares	
Issued: 1965 and 1964, 1,050,790 shares	$10,507,900
Surplus:	
Capital	4,814,142
Earnings retained in the business—Note 6	14,646,742
Less: Treasury stock at cost—1965, 35,800 shares; 1964, 22,000 shares	(1,149,161)
	$28,819,623

Not Purchased for Retirement

Retained Earnings and Capital Surplus

EMERSON RADIO & PHONOGRAPH CORPORATION

Dr.—$108,011—"*Earned Surplus*: Allocation of charge resulting from treasury stock acquisitions during 1965 (Note 3)."

Note 3: Capital surplus increased $20,988 during the year resulting from the exercise of stock options, $65,746, less the charges arising from the acquisition of 27,700.56 shares of treasury stock (exclusive of portion charged to earned surplus), $44,052, and miscellaneous, $706.

RAYTHEON COMPANY

Dr.—$2,813,129—"*Earnings Reinvested in the Business*: Excess of cost over par value of reacquired shares less amount allocated to capital in excess of par value."

Dr.—$1,894,867—"*Capital in Excess of Par Value*: Applicable portion of the excess of cost over par value of reacquired shares."

SCOVILL MANUFACTURING COMPANY

Dr.—$147,127—"*Earnings Retained in the Business*: Excess of cost over par value and additional capital ascribed to 9,000 shares of common stock purchased."

Notes to Financial Statements

Note E: Additional capital paid in by stockholders was increased in 1965 by $32,630 for the excess of par value over cost of the 3.65% Cumulative Preferred Stock purchased and reduced by $61,595 for that portion of the excess of cost over par value of Common Stock purchased allocated to additional capital paid in by stockholders for a net reduction of $28,965 for the year.

SPARTON CORPORATION

Dr.—$115,646—"*Retained Earnings*: Applicable portion of excess of purchase price over par value of common shares acquired for the treasury (Note 3)."

Note 3: *Treasury Stock*—During the year the Company reacquired 22,284 shares of its common stock at a cost of $187,757. The excess of the cost over the par value of the shares acquired was charged to capital in excess of par value ($16,401) and to retained earnings ($115,646).

TRW INC.

Dr.—$956,005—"*Retained Income*: Charge resulting from purchase of stock for treasury."

Dr.—$3,688—"*Other Capital*: Charge resulting from purchase of stock for treasury."

UNITED STATES GYPSUM COMPANY

Dr.—$1,596,765—"*Retained Earnings*: Purchase of common stock for the treasury."

Cr.—$335,244—"Capital Received in Excess of Par Value: Issuance of treasury common stock for the net assets of Western Mica Company (on pooling of interests basis)."

Retained Earnings

COLGATE-PALMOLIVE COMPANY

Dr.—$7,562,000—"*Earned Surplus*: Excess of cost over stated value of 263,022 shares of common stock purchased for Treasury."

CRANE CO.

Statement of Earned Surplus

Excess of Cost Over Par Value of Reacquired Shares—Net:	
17,507 preferred shares (3,720 in 1964)	$ (170,261)
101,620 common shares (42,700 in 1964)	3,681,468

INTERNATIONAL HARVESTER COMPANY

October 31, 1965

Dr.—$1,654,710—"*Income Retained*: Premium on Preferred Stock."

Financial Review

Capital Stock Transactions: During 1965 the Company purchased as temporary investments 24,262 shares of its preferred stock, the last purchase having been made on September 17, 1965. These shares, together with 6,164 similarly purchased in 1964, are carried as treasury stock.

MARATHON OIL COMPANY

Dr.—$10,060,000—"*Retained Earnings*: Excess of cost over stated value of treasury common stock acquired."

NORTH AMERICAN SUGAR INDUSTRIES INCORPORATED

Dr.—$92,911—"*Earned Surplus*: Excess of cost over par value of 22,800 shares of the company's common stock purchased."

Capital Surplus

ANCHOR HOCKING GLASS CORPORATION

Cr.—$19,164—"Capital in Excess of Par Value: Discount on purchase of 1,568 shares of $4 cumulative preferred stock (738 shares in 1964)."

Stockholders' Equity

Preferred Stock—$4 cumulative—without par value (stated at $107 a share) Authorized 60,500 shares; issued 30,500 shares less 2,981 in treasury (1964—1,413)	$2,944,533

DENNISON MANUFACTURING COMPANY

Notes to Financial Statements

Note F: *Stockholders' Equity*—Pertinent data regarding the three classes of capital stock at December 31, 1965 is as follows:

	Number of Shares	
	Authorized	Issued
Debenture Stock, $8.00 cumulative	29,420	29,420
"A" Common Stock	1,200,000	1,145,470
Voting Common Stock	80,000	75,318

Debenture Stock is entitled in liquidation to and is callable at $160.00 a share, plus unpaid accumulated dividends, if any.

The following shares were held in the Company's treasury: "A" Common Stock—51,081 shares; Voting Common Stock—30,821 shares.

During the year, capital in excess of par value was charged $57,744 representing the cost of 6,240 shares of "A" Common Stock issued from the treasury in acquiring the minority interest in Dennison Copier Corporation, and credited $12,222, the excess of market value over cost of 385 other shares of "A" Common Stock issued from the treasury.

INTERNATIONAL SHOE COMPANY

Cr.—$201,960—"Capital in Excess of Stated Amount: Adjustments resulting from treasury stock transactions and issuance of stock under option plans."

THE PARKER PEN COMPANY

Paid-In Surplus

Excess of market value over carrying value of treasury shares issued on stock dividend (Note 4)	$ 913
Proceeds in excess of (less than) carrying value of treasury shares issued under stock option (Note 4)	19,261
Carrying value of treasury shares adjusted to par value (Note 5)	(331,565)

Note 5: *Change in Capital Stock*—By Board of Director action the carrying value of all treasury shares has been adjusted to par value, and the excess of $331,565 of cost over par value has been charged to paid-in surplus.

Treasury Shares Issued in Pooling of Interests

Retained Earnings and Capital Surplus

GENERAL CABLE CORPORATION
Dr.—$2,971,871—"*Earned Surplus*: Deduct net adjustment resulting from exchange of treasury stock for capital stock of subsidiaries acquired."
Cr.—$5,341—"Capital Surplus: Net adjustment resulting from exchange of treasury stock for capital stock of subsidiaries acquired."
Notes to Financial Statements

Note 1: The consolidated financial statements include the accounts of the Corporation and its wholly-owned domestic and Canadian subsidiaries. For accounting purposes the acquisitions in 1965, in exchange for Treasury Stock, have been treated as a pooling of interests. The operations of these acquisitions are not material within the accounts of the Corporation and prior years' figures have not been adjusted.

MARTIN MARIETTA CORPORATION
Dr.—$620,575—"*Retained Earnings*: Cost of treasury stock (less related par value and additional paid-in capital) issued for pooled company in excess of its retained earnings."
Dr.—$260,410—"*Additional Paid-In Capital*: Amount related to treasury shares issued for pooled company in excess of its paid-in capital."

Retained Earnings

AMERICAN CYANAMID COMPANY
Dr.—$433,214—"*Earnings Employed in the Business*: Excess of cost of 9,702 shares of Common Stock over the book value of the net assets acquired in a pooling of interest."

Treasury Shares Issued in Purchase of Assets

Capital Surplus

FALSTAFF BREWING CORPORATION
Cr.—$1,186,154—"Paid-In Surplus: Excess of market value of common stock over the cost of treasury shares and the par value of new shares issued in partial exchange for the net assets of Narragansett Brewing Company (Note 2)."

Note 2: *Acquisition of Narragansett*—The assets of Narragansett Brewing Company, Cranston, Rhode Island, were purchased as of the close of business July 15, 1965 for $17,500,000 cash plus 82,688 shares of Falstaff common capital stock (including treasury shares) having an aggregate market value of $2,000,000, and the assumption by Falstaff of substantially all of the liabilities of Narragansett. The cost of the assets acquired and the liabilities assumed from Narragansett, including those of its wholly-owned subsidiaries, are summarized as follows:

Property, plant, and equipment	$17,266,920
Current assets	9,566,207
Deferred charges	380,540
Total assets acquired	27,213,667
Long-term debt	2,400,000
Other liabilities	5,313,667
Total liabilities assumed	7,713,667
Net assets acquired	$19,500,000

Treasury Stock Issued in Fulfillment of Stock Option Requirements

BLAW-KNOX COMPANY
Notes to Financial Statements

Other Capital: The decrease of $34,312 resulted from issuance of treasury shares under the stock option plan.

CONSOLIDATION COAL COMPANY
Common Stock Equity

Other capital (exclusive of earnings retained in the business):		
Balance at January 1, 1965		$112,978,354
Deduct:		
Net debit resulting from sale of unissued stock or treasury stock under stock option contracts	68,595	
Less credits arising from other transactions in treasury stock	2,483	
		66,112
		$112,912,242

Treasury Shares Issued in Fulfillment of Stock Options

Accounting Treatment of Excess Over Carrying Value of Treasury Stock Not Disclosed

CONGOLEUM-NAIRN INC.
Letter to Stockholders

Net Worth (in part): Stock held in the treasury at December 31, 1965 was 131,715 shares, as compared with 146,960 a year earlier. The decrease in treasury stock was due to the issuance of 15,245 shares pursuant to the exercise of options under the Company's Employees' Incentive Stock Option Plan.

Treasury Stock Issued to Employees in Fulfillment of Stock Bonus Requirements

ROHM AND HAAS COMPANY
Notes to Financial Statements

Note 3: *Capital Surplus*—The increase during the year of $25,470,725 represents the excess of market value over par value of 153,860 shares of common stock issued as a 3% stock dividend plus $173,064 representing excess of market value on date awarded over cost of shares reacquired and issued to employees as stock bonuses.

Premium on Debentures

Retained Earnings and Capital Surplus

LITTON INDUSTRIES, INC.
Dr.—$803,603—"*Earnings Retained in the Business*: Premium on redemption of convertible subordinated debentures."
Cr.—$728,600—"Additional Paid-In Capital: Premium on sale of convertible subordinated debentures."

BUSINESS COMBINATIONS

Business combinations may be accomplished by the acquisition of subsidiaries for cash or through the issuance of stock, or otherwise by consolidation or merger. For accounting purposes such combination, depending on the factors involved, may be designated either as a *purchase* or as a *pooling of interests*.

The committee on accounting procedure of the American Institute of Certified Public Accountants in 1957 issued *Accounting Research Bulletin No. 48—Business Combinations*.† This bulletin sets forth, for accounting

†Included in *Accounting Research and Terminology Bulletins, Final Edition*, 1961.

purposes, the distinction between a *purchase* and a *pooling of interests,* from which the following excerpts have been taken:

1. Whenever two or more corporations are brought together, or combined, for the purpose of carrying on the previously conducted businesses, the accounting to give effect to the combination will vary depending largely upon whether an important part of the former ownership is eliminated or whether substantially all of it is continued. This bulletin differentiates these two types of combinations, the first of which is designated herein as a *purchase* and the second as a *pooling of interests,* and indicates the nature of the accounting treatment appropriate to each type.

3. For accounting purposes, a *purchase* may be described as a business combination of two or more corporations in which an important part of the ownership interests in the acquired corporation or corporations is eliminated or in which other factors requisite to a pooling of interests are not present.

4. In contrast, a *pooling of interests* may be described for accounting purposes as a business combination of two or more corporations in which the holders of substantially all of the ownership interests in the constituent corporations become the owners of a single corporation which owns the assets and businesses of the constituent corporations, either directly or through one or more subsidiaries, and in which certain other factors discussed below are present. Such corporation may be one of the constituent corporations or it may be a new corporation. After a pooling of interests, the net assets of all of the constituent corporations will, in a large number of cases, be held by a single corporation. . . .

8. When a combination is deemed to be a purchase, the assets acquired should be recorded on the books of the acquiring corporation at cost, measured in money, or, in the event other consideration is given, at the fair value of such other consideration, or at the fair value of the property acquired, whichever is more clearly evident. This is in accordance with the procedure applicable to accounting for purchases of assets.

9. When a combination is deemed to be a pooling of interests, a new basis of accountability does not arise. The carrying amounts of the assets of the constituent corporations, if stated in conformity with generally accepted accounting principles and appropriately adjusted when deemed necessary to place them on a uniform accounting basis, should be carried forward; and the combined earned surpluses and deficits, if any, of the constituent corporations should be carried forward, except to the extent otherwise required by law or appropriate corporate action. Adjustments of assets or of surplus which would be in conformity with generally accepted accounting principles in the absence of a combination are ordinarily equally appropriate if effected in connection with a pooling of interests; however, the pooling-of-interests concept implies a combining of surpluses and deficits of the constituent corporations, and it would be inappropriate and misleading in connection with a pooling of interests to eliminate the deficit of one constituent against its capital surplus and to carry forward the earned surplus of another constituent.

Following are examples of adjustments to retained earnings and/or capital surplus arising from business combinations, and also from the disposal of business properties resulting from liquidations and dissolutions.

PURCHASE OF SUBSIDIARIES FOR CASH OR THROUGH THE ISSUANCE OF STOCK

Capital Surplus

ASSOCIATED BREWING COMPANY
Dr.—$11,037—"*Additional Paid-In Capital*: Par value of shares of common stock issued in connection with Hampden-Harvard acquisition (Note E)."

Note E: Under the plan of acquisition of Hampden-Harvard Breweries, Inc., the Company is committed to deliver up to 24,000 shares of its common stock at a rate proportionate to Hampden-Harvard's net income (as defined) accumulated after October 1, 1961 and prior to December 31, 1971. As at December 31, 1965, 14,642 shares were issued. In 1965, based on Hampden-Harvard's net income for 1964, 11,037 shares were issued and the par value of such shares, $11,037, was transferred from additional paid-in capital to common stock. Under the plan, the remaining 9,358 shares are to be issued on or before February 21, 1966, based upon 1965 earnings.

THE BORDEN COMPANY
Notes to Financial Statements

Capital Surplus: Capital surplus was credited during 1965 with $1,962,572, the excess of the purchase price over par value of 118,221 shares newly issued pursuant to employee stock option and purchase plans, etc., with $33,129,864, the excess of fair value received over the par value of 44,524 shares reissued and 788,904 shares newly issued for businesses acquired, and with $300,000 representing an adjustment of a prior year's charge resulting from a pooling of interests. It was charged with $2,753,211, the excess of cost over par value of 71,649 shares of capital stock acquired.

BURLINGTON INDUSTRIES, INC.
Cr.—$16,069—"Capital in Excess of Par Value: Value assigned over cost of treasury common stock issued for additional investment in capital stock of subsidiary companies."

DICTAPHONE CORPORATION
Notes to Financial Statements

Note 7: During the year ended December 31, 1965, capital surplus increased $443,370, representing the excess of market value over par value of 20,000 common shares issued in connection with the acquisition of the former B. L. Marble Furniture, Inc. ($427,500) and the excess of the proceeds received from the exercise of stock options over the par value of shares issued ($15,870).

EX-CELL-O CORPORATION
Notes to Financial Statements

Note 3: The increase of $96,785 in capital in excess of par value of common stock arose from the issuance of 18,869 shares of treasury stock in acquisition of Amco Manufacturing, Inc.

HARSCO CORPORATION
Dr.—$86,529—"*Paid-in Surplus*: Excess of cost over market value of 41,300 shares of treasury stock exchanged for assets of another company."

THE NEW BRITAIN MACHINE COMPANY
Notes to Financial Statements

Note E: Capital in Excess of Par Value of Shares—The increase in capital in excess of par value of shares resulted from (1) the excess of fair value of shares issued as a stock dividend ($975,778), (2) the excess of proceeds from the sale of stock under employees' stock purchase and stock option plans ($108,369) and (3) the excess of fair value over cost of treasury stock used in the acquisition of the assets of H. Boker & Co., Inc. and Atlas Vac-Machine Corporation ($111,944).

RITTER PFAUDLER CORPORATION
Dr.—$47,000—"*Additional Paid-in Capital*: Par value of common shares issued in 1965 and 1964 in connection with the AeroChem Research Laboratories, Inc. acquisition by Pfaudler."

SHARON STEEL CORPORATION
Notes to Financial Statements

Note F (in part): *Shareholders' Equity*—Changes in common stock and capital contributed and earnings capitalized in excess of stated value of common stock during 1965 are shown below:

	Common stock	Capital contributed and earnings capitalized in excess of stated value of common stock
Balance at beginning of year	$13,461,000	$24,082,000
Issuance, in January 1965, of 34,896 shares in payment of notes arising from acquisition of Union Steel Corporation (Note D) ..	349,000	326,000
Sales of 347 shares to option holders (Note G)	3,000	6,000
Balance at end of year	$13,813,000	$24,414,000

PURCHASE OF BUSINESS PROPERTIES

Capital Surplus

AMERICAN CYANAMID COMPANY
Cr.—$492,201—"Capital Surplus: Excess of par value ascribed to mineral properties acquired over the cost of 49,435 shares of common stock issued therefor."

BROCKWAY GLASS COMPANY, INC.
Notes to Financial Statements

Note 6: *Paid in Capital*—Changes in paid in capital were as follows:

Paid in capital, beginning of year	$ 5,943,676
Add: Excess of fair value over par value of 1,000,000 shares of Class B Stock issued in the purchase of certain assets from Continental Can Company, Inc.	22,750,000
	28,693,676
Deduct: Adjustment to value of net assets acquired in a pooling of interests in a prior year	31,680
Paid in capital, end of year	$28,661,996

POOLING OF INTERESTS

Pooling of interests has already been referred to in this section under the caption "Business Combinations." However, the committee on auditing procedure of the American Institute of Certified Public Accountants issued, in 1963, *Statements on Auditing Procedure No. 33,* which contains the following significant paragraphs on consistency at the end of Chapter 8:

35. When companies have been merged or combined in accordance with the accounting concept known as a "pooling of interests," appropriate effect of the pooling should be given in the presentation of results of operations and earnings per share of years prior to the year of pooling as described in Accounting Research Bulletins No. 48 and 49. Comparative financial statements which do not give appropriate recognition to the pooling are not presented on a consistent basis. The inconsistency arises, in this case, not from a change in the application of an accounting principle in the current year but from the lack of such application to prior years.

36. When single-year statements only are presented, a note to the financial statements should adequately disclose the pooling transaction and state the net incomes of the constituent companies for the preceding year separately or on a combined basis. Omission of such a disclosure would require appropriate comment in the independent auditor's report. With either type of disclosure, the independent auditor may express the usual opinion on consistency.

The tabulation below presents a summary of the survey companies with poolings of interests in 1965 and their treatment of prior year figures as a result of the poolings:

Financial statements in comparative form:	Number of Companies
A: Previous year's figures restated* ..	48
B: Previous year's figures not restated*	35
C: Single year balance sheet only; comparative income statement restated*	1
Total	84
Financial income summary:	
D: Prior years' figures restated*	13
E: Restated only since the pooling became effective (2 years)*	24
F: Restated for a period other than those stated above*	4
G: Prior years' figures not restated* ..	35
H: No financial summary included*	8
Total	84

*Refer to Company Appendix Section—A: 27, 31, 32, 33, 36, 60, 66, 89, 95, 96, 106, 124, 150, 166, 189, 196, 212, 214, 217, 225, 254, 255, 287, 305, 331, 347, 348, 375, 387, 400, 428, 429, 430, 439, 465, 466, 469, 472, 482, 488, 535, 549, 553, 566, 576, 577, 586, 598; B: 28, 58, 65, 68, 82, 86, 126, 128, 152, 156, 161, 170, 184, 187, 202, 230, 233, 243, 260, 296, 302, 317, 328, 330, 334, 357, 363, 402, 460, 518, 540, 541, 552, 564, 587; C: 344; D: 60, 95, 106, 189, 255, 287, 305, 347, 428, 430, 472, 566, 576; E: 33, 36, 96, 124, 166, 196, 212, 225, 233, 254, 331, 344, 348, 387, 400, 439, 466, 469, 482, 535, 553, 577, 586, 598; F: 27, 32, 214, 465; G: 28, 31, 65, 68, 82, 86, 89, 126, 152, 156, 161, 170, 184, 187, 202, 230, 243, 260, 296, 302, 317, 328, 330, 334, 357, 363, 375, 402, 460, 518, 540, 541, 552, 564, 587; H: 58, 66, 128, 150, 217, 429, 488, 549.

Retained Earnings

DAN RIVER MILLS, INCORPORATED

Dr.—$722,650—"*Retained Earnings*: Excess of aggregate par value of Dan River Mills, Incorporated Common Stock, over the aggregate par values of Wunda Weve Carpet Co., Inc. and Webco Mills, Incorporated and affiliated companies capital stocks, issued in exchange for all of the outstanding capital stocks and businesses of Wunda Weve Carpet Co., Inc. and Webco Mills, Incorporated and affiliated companies (Note 1b)."

Note 1b: On June 10, 1965, the Corporation acquired, in exchange for 100,000 shares of its $5 par value Common Stock, all of the outstanding capital stock and business of Wunda Weve Carpet Co., Inc. and subsidiary and, on November 19, 1965, the Corporation acquired, in exchange for 150,000 shares of its $5 par value Common Stock, all of the outstanding capital stocks and businesses of Webco Mills, Incorporated and affiliated companies, each in a transaction treated as a pooling of interests. Accordingly, the consolidated statement of earnings for the period from January 3, 1965 to January 1, 1966 includes the results of these companies for the same period. The comparative figures for 1964 do not include these companies for that year. The consolidated sales and net earnings of Wunda Weve for 1964 aggregated $12,287,326 and $259,203, respectively; the combined sales and net earnings of Webco for 1964 aggregated $10,279,424 and $442,613, respectively. The consolidated retained earnings of Wunda Weve and the combined retained earnings of Webco at the beginning of the 1965 year have been added to the retained earnings of the Corporation, and $722,650, representing the excess of the aggregate par value of Dan River Common Stock issued in connection with the exchanges over the aggregate par value of Wunda Weve and Webco capital stocks ($85,000 as to Wunda Weve and $637,650 as to Webco), has been charged to retained earnings of the Corporation.

MARTIN MARIETTA CORPORATION

Dr.—$620,575—"*Retained Earnings*: Cost of treasury stock (less related par value and additional paid-in capital) issued for pooled company in excess of its retained earnings."

Financial Review

During 1965, the Corporation issued 56,955 shares of its common stock held in the treasury to acquire all of the capital stock of a company. This transaction has been treated for accounting purposes as a pooling of interests and its operations have been included in the consolidated financial statements from January 1, 1965. Omission of its operations from the 1964 consolidated financial statements has no significant effect upon the comparability of the statements.

SWIFT & COMPANY

Notes to Financial Statements

Note 1 (in part): *Consolidation Principles*—During 1965, the Company acquired all the outstanding shares of stock of the National Wax Company in exchange for 64,777 shares of Swift & Company common stock. This transaction has been treated as a pooling of interests for accounting purposes; accordingly, the 1964 financial statements have been restated to include the National Wax Company accounts. The adjusted shareholders' equity of National Wax Company at October 26, 1963, in excess of the par value of the Swift shares issued amounting to $128,338 has been added to consolidated accumulated earnings.

UNION CARBIDE CORPORATION

Cr.—$1,710,000—"*Retained Earnings*: Neisler Laboratories, Inc. (Note 6)."

Note 6: *Pooling of Interests*—In 1965, Union Carbide exchanged shares of its common stock for shares of Neisler Laboratories, Inc. This transaction was treated as a pooling of interests, and Retained Earnings of Neisler, after making appropriate adjustments, is displayed as an addition to Consolidated Retained Earnings in 1965.

Retained Earnings and Capital Surplus

FMC CORPORATION

Cr.—$2,198,086—"*Retained Earnings*: Retained earnings of a company acquired in a pooling of interests."

Dr.—$613,200—"*Capital in Excess of Par Value of Capital Stock*: Excess of par value of common stock issued over par value of common stock of a company acquired in a pooling of interests."

Financial Review

In July, 1965, FMC acquired 100 per cent of the outstanding stock of Gunderson Bros. Engineering Corp., plus real estate, in exchange for 96,320 shares of FMC common stock. An additional 12,500 FMC shares may be issued contingent upon Gunderson's earnings through May 31, 1966. For accounting purposes, the acquisition of Gunderson was treated as a pooling of interests; therefore, the 1965 statement of Consolidated Income includes Gunderson's operating results from January 1, and consolidated retained earnings were adjusted to include Gunderson's retained earnings as of December 31, 1964. Since Gunderson's operating results in 1964 and prior years would not have a significant impact on FMC's financial statements, 1964 and prior years have not been adjusted.

RAYTHEON COMPANY

Cr.—$5,312,738—"*Earnings Reinvested in the Business*: Pooled acquisitions (Note A)."

Notes to Financial Statements

Note A: *Principles of Consolidation*—In 1965, acquisitions of net assets of Amana Refrigeration, Inc., Edex Corporation, Dage-Bell Corporation and Macalester Scientific Corporation, in exchange for 837,992 shares of common stock were treated as "poolings of interests," and the Statement of Income and Earnings Reinvested in the Business includes the operations of these companies for the entire year 1965. The combined operations of these companies for the year 1965 resulted in net sales of $39,440,740 and net income of $701,393. The combined operations of these companies for the year 1964, not reflected in the Statement of Income and Earnings Reinvested in the Business, were not significant.

Note F: *Capital in Excess of Par Value*—Changes during the year ended December 31, 1965 were as follows:

Balance at beginning of year:	
Raytheon Company and consolidated subsidiaries	$33,647,058
Pooled acquisitions	931,637
	34,578,695
Excess of amounts received from sale of common stock under option plans over the par value thereof	722,899
Excess of amounts received from sale of common stock upon exercise of warrants over the par value thereof	1,355,429
Net excess of par or stated value of capital stock of pooled companies over the par value of Raytheon Company common stock issued in exchange (Note A)	1,844,514
Applicable portion of the excess of cost over par value of reacquired shares	(1,894,867)
Balance at end of year	$36,606,670

VASCO METALS CORPORATION

Dr.—$186,329—"*Retained Earnings*: Amounts by which the cost of the treasury shares used in the acquisition of Allvac Metals Company exceeded the paid-in capital applicable thereto."

Dr.—$75,178—"*Capital in Excess of Par Value*: Adjustments incident to the acquisition of Allvac."

Notes to Financial Statements

Note 1: In February, 1965, the Company issued 97,033 shares of its capital stock for the net assets and business of Allvac Metals Company, of which 25,033 shares were issued from the treasury. Of these treasury shares, 12,333 were acquired subsequent to June 30, 1964. For accounting purposes, the transaction has been treated as a pooling of interests. Accordingly, the financial statements include the accounts of Allvac for the year ended June 30, 1965, and the year ended June 30, 1964 has been comparably restated to give effect to the pooling. Allvac is being operated as a wholly owned subsidiary of the Company.

TRIANGLE CONDUIT & CABLE CO. INC.

Cr.—$1,018,611—"Capital Surplus: Excess of 40.8% of the net assets acquired from PWC over the stated value of 408,727 capital shares issued in exchange therefor, less the amount credited to retained earnings."

Statement of Retained Earnings

Balance at beginning of year	$23,003,480
Net Income	3,866,041
Less: Portion of net income included in the credit to retained earnings below	621,831
	3,244,210
Credit to retained earnings arising from the pooling of interests of the business and assets of PWC	1,635,075
	$27,882,765

Notes to Financial Statements

Pooling of Interests: On October 29, 1965, a new subsidiary of the company, The Plastic Wire & Cable Corporation, a Delaware corporation, acquired the net assets, after provision for certain expenses of the transaction, of The Plastic Wire & Cable Corporation, a Connecticut corporation (PWC), for $10,081,966 in cash, representing 59.2% of the consideration and 408,727 shares of Triangle Conduit & Cable Co. Inc. capital stock, representing 40.8% of the consideration, based on the value used in the negotiations.

The cash portion of the transaction is treated as a purchase and the stock portion as a pooling of interests. Accordingly, 40.8% of the income of PWC is included in the financial statements for periods prior to October 29, 1965.

The consolidated statement of net income for the year ended December 31, 1965, includes accounts of PWC, computed as described in the preceding paragraph, for the calendar year. Since PWC used a fiscal year, the consolidated statement of income for 1964 includes the accounts of PWC for the year ended October 3, 1964, and of the company for the year ended December 31, 1964.

The sales and net income for 1964, as previously published by Triangle Conduit & Cable Co. Inc., were $66,977,840 and $1,607,272 respectively.

LIQUIDATIONS AND DISSOLUTIONS

Retained Earnings

FIRST NATIONAL STORES INC.

Statement of Earnings

Net earnings	$5,560,030
Special credit—Gain on liquidation of unconsolidated wholly-owned subsidiary companies	888,390
Net earnings and special credit	$6,448,420

Letter to Stockholders

During the year the Company liquidated its two dairy manufacturing subsidiaries, Evangeline Milk Company and Casco Cheese Company, which were located in Wisconsin. For many years these operations were profitable and provided our stores with high-quality evaporated milk and cheese products. Declining consumer use of evaporated milk and availability of the product at recently developed sources of supply closer to our distribution centers, with resultant savings in transportation costs, made it desirable to discontinue our own production. Because the cheese company had always operated as a supplement to the evaporated milk plant, using the same raw milk product, it was decided to sell both of the plants while a profit could still be realized. The liquidation resulted in a special credit to earnings for the year.

ADJUSTMENTS ARISING IN CONSOLIDATION

With reference to the consolidation of financial statements, the committee on accounting procedure of the American Institute of Certified Public Accountants issued, in 1959, *Accounting Research Bulletin No. 51—Consolidated Financial Statements*† from which the following paragraphs have been taken:

7. Where the cost to the parent of the investment in a purchased[1] subsidiary exceeds the parent's equity in the subsidiary's net assets at the date of acquisition, as shown by the books of the subsidiary, the excess should be dealt with in the consolidated balance sheet according to its nature. In determining the difference, provision should be made for specific costs or losses which are expected to be incurred in the integration of the operations of the subsidiary with those of the parent, or otherwise as a result of the acquisition, if the amount thereof can be reasonably determined. To the extent that the difference is considered to be attributable to tangible assets and specific intangible assets, such as patents, it should be allocated to them. Any difference which cannot be so applied should be shown among the assets in the consolidated balance sheet under one or more appropriately descriptive captions. When the difference is allocated to depreciable or amortizable assets, depreciation and amortization policies should be such as to absorb the excess over the remaining life of related assets. For subsequent treatment of intangibles, see Chapter 5 of *Accounting Research Bulletin No. 43.*

8. In general, parallel procedures should be followed in the reverse type of case. Where the cost to the parent is less than its equity in the net assets of the purchased subsidiary, as shown by the books of the subsidiary at the date of acquisition, the amount at which such net assets are carried in the consolidated statements should not exceed the parent's cost. Accordingly, to the extent that the difference, determined as indicated in paragraph 7, is considered to be attributable to specific assets, it should be allocated to them, with corresponding adjustments of the depreciation or amortization. In unusual circumstances there may be a remaining difference which it would be acceptable to show in a credit account, which ordinarily would be taken into income in future periods on a reasonable and systematic basis. A procedure sometimes followed in the past was to credit capital surplus with the amount of the excess; such a procedure is not now considered acceptable.

9. The earned surplus or deficit of a purchased[1] subsidiary at the date of acquisition by the parent should not be included in consolidated earned surplus.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

[1] See excerpt from *Accounting Research Bulletin No. 48,* "Business Combinations," for the difference in treatment between a purchase and a pooling of interests, quoted in this section under "Business Combinations."

Retained Earnings

EATON YALE & TOWNE INC.
Statement of Income and Earnings Retained for Use in the Business

Net Income	$43,759,924
Special charge—adjustment to underlying net assets of subsidiaries at date of consolidation—Note A	8,909,989
Net Income Less Special Charge	$34,849,935

Note A (in part): *Principles of Consolidation and Equity in Subsidiaries*—Effective January 1, 1965, the Company changed its principles of consolidation to include the accounts of certain previously unconsolidated subsidiaries. Accordingly the consolidated statements include the accounts of the Company and all subsidiaries except finance subsidiaries. This change had no material effect on net income and thus the amounts for 1964 have not been restated. Income of subsidiaries in areas subject to currency restrictions has not been included in consolidated net income.

THE B. F. GOODRICH COMPANY
Cr.—$1,967,685—"Income Retained in the Business: Retained Income of Subsidiaries not Previously Consolidated."
Notes to Financial Statements

Note A (in part): *Principles of Consolidation*—The consolidated financial statements for 1965 include all active subsidiaries except four subsidiaries which are not significant in the aggregate. Appropriate rates of exchange have been used to convert foreign currency amounts into U.S. dollars.

The financial statements of five previously unconsolidated majority-owned foreign subsidiaries are included in the consolidated financial statements for 1965. Had the financial statements of these companies been included in 1964, consolidated net sales and net income would have been $914,333,000 and $35,889,000, respectively.

MONSANTO COMPANY
Dr.—$446,000—*"Retained Earnings*: One-half of deficit for period from date of acquisition of initial 50 per cent interest to December 31, 1964, of Blume Knitwear, Inc. and subsidiaries, which became wholly-owned subsidiaries in February 1965."

Retained Earnings and Capital Surplus

TEXTRON INC.
Dr.—$2,007,696—*"Earned Surplus*: Charge resulting from consolidation of Textron Electronics, Inc."
Cr.—$294,870—"Capital Surplus: Credit resulting from the consolidation of Textron Electronics, Inc."
Notes to Financial Statements

General: Common shares in the financial statements have been restated to reflect the two-for-one stock split effective December 17, 1965.

During the year Textron increased its interest in Textron Electronics, Inc. from 75% to 98%, by the issuance of 150,674 treasury shares and now consolidates the accounts of that company. Textron also acquired, through poolings of interests, two other companies in exchange for 57,000 shares of treasury stock. Operating results of these companies have been included in the statement of income for the entire year 1965.

In January 1966, Textron acquired the net assets of The Cleveland Metal Abrasive Company and has agreed to purchase in March 1966, the net assets of W. A. Sheaffer Pen Company for an aggregate of $25,300,000.

SALE OR SPIN-OFF OF SUBSIDIARY COMPANY OR DIVISION UNDER F.T.C. CONSENT ORDER

FOREMOST DAIRIES, INC.
Cr.—$1,200,000—"Statement of Consolidated Income: Net gain on sale of operating properties (Note 1)."

Note 1 (in part): *Financial Statements*—In January 1965 Foremost, pursuant to an agreement entered into in 1964, sold for cash (of which $1,800,000 was received in 1964) the properties and business which constituted its Southeastern Region. Certain other relatively minor properties were also sold in 1965 in final settlement of a Federal Trade Commission divestiture order. The excess (amounting to $1,200,000, after applicable income taxes of $437,000) of the net proceeds from these sales over the net assets sold is reflected in the accompanying statement of consolidated income as a special item. For comparative purposes, the results of operations of the Southeastern Region for 1964 are shown as a single item in the statement of consolidated income.

KENNECOTT COPPER CORPORATION
Dr.—$6,596,031—*"Earned Surplus*: Net loss on sale of The Okonite Company (Note 1)."

Note 1: *Sale of The Okonite Company*—In January, 1966, the sale of the Company's subsidiary, The Okonite Company, to Ling-Temco-Vought, Inc. was completed in compliance with the divestiture order of the United States District Court. The net loss of $6,596,031, after applicable taxes, has been charged to earned surplus. The $5,160,000 promissory note of The Okonite Company was paid in January, 1966 and has been included in current liabilities at December 31, 1965.

EMPLOYEE STOCK PLANS

In 1965 there were 352 adjustments to surplus accounts resulting from various employee benefit plans involving sale or issue of capital stock. The great majority of such adjustments—346 items—related to capital surplus accounts, and in only 6 cases were retained earnings adjusted.

Reference is made to Section 2, Tables 44 and 45, for detailed information on stock option and stock purchase plans and to the related examples shown for balance sheet presentation or other disclosure of such plans.

Illustrative examples of various benefit plans, i.e., Stock Option Plans, Incentive Stock Options, Stock Purchase Plans, Stock Bonus and Profit Sharing Plans, are as follows:

Stock Options

Capital Surplus

CUMMINS ENGINE COMPANY, INC.
Cr.—$19,728—"Capital Surplus: Amounts received in excess of par value of common stock issued in connection with stock option plan (2,275 shares in 1965 and 3,173 shares in 1964)."

THE HOBART MANUFACTURING COMPANY
Notes to Financial Statements

Note 3: The Company's stock option plans authorize the granting of options for 240,000 common shares of the Company at 100% (95% through 1963) of the market price at the date of grant. Options are exercisable in five annual installments beginning one or two years after the dates of grant. At December 31, 1965, there remained 21,071 shares available for the granting of options.

During 1965, options were exercised (by years of grant) as follows: 1959—3,220 shares, 1961—9,078 shares, 1962—3,535 shares, and 1964—1,620 shares; and options for 2,903 shares were terminated. The excess ($458,503) of the proceeds over the stated value of shares issued in 1965 was credited to capital paid-in in excess of stated value. At December 31, 1965, options for 48,997 shares were outstanding, as follows: 1959—200 at $20.78; 1961—28,037 at $33.25; 1962—14,057 at $32.66; and 1964—6,703 at $38.00.

OUTBOARD MARINE CORPORATION

Cr.—$50,367—"Capital in Excess of Par Value of Common Stock: Excess in proceeds over par value of common stock issued under the stock option plan (Note 2)."

Note 2: As approved by the stockholders on January 19, 1956, 300,000 shares of common stock were reserved for options to officers and executive employees at not less than 95% of the fair market value at date of grant, exercisable not later than 5 or 10 years after date of grant. At September 30, 1965, options had been granted for 262,600 of the reserved shares, with options on 148,700 shares not exercised. During the year options to purchase 3,900 shares were exercised at an aggregate price of $51,537 and options for 10,200 shares lapsed and are available for future grants.

PARKER-HANNIFIN CORPORATION

Cr.—$110,805—"Additional Capital: 6,614 shares issued under stock option plans (Note 5)."

Note 5: As of June 30, 1965 there were 63,343 common shares reserved for options to officers and key personnel. Under the company's stock option plans, 14,343 shares at prices aggregating $288,081 were issuable under options outstanding and 49,000 were reserved for additional options. Options for 6,614 shares were exercised during the year ended June 30, 1965 at an aggregate price of $113,919. Of the options outstanding 5,806 became exercisable on July 1, 1965. All of the foregoing figures are after adjustment for the stock split.

SCREW AND BOLT CORPORATION OF AMERICA

Notes to Financial Statements

Note 6: *Key Employees' Stock Option Plan*—At the beginning of the year, options to purchase 62,390 shares of capital stock at prices ranging from $4.35 to $7.84 per share were outstanding and exercisable. Options for 12,000 shares were exercised during 1965 at prices ranging from $4.35 to $7.30. No options were granted or canceled during the year and at December 31, 1965, options for 50,390 shares were outstanding and exercisable at prices ranging from $4.93 to $7.84; 19,700 shares remain available for future grants.

Other capital contributed upon issuance of shares was increased by $57,576 for the excess of proceeds over the par value of capital stock issued under options exercised.

Retained Earnings

AMERICAN BAKERIES COMPANY

Dr.—$33,691—*"Retained Earnings*: Cost of treasury stock in excess of option price at which reissued."

WARNER-LAMBERT PHARMACEUTICAL COMPANY

Dr.—$448,544—*"Retained Earnings*: Adjustment of treasury stock (Note 4)."

Note 4: *Stock Options*—At December 31, 1965 there were 289,600 shares of common stock and 793 shares of preferred stock reserved for sale to officers and employees under stock options. The following table summarizes the changes during 1965 in the numbers of shares under option:

	Common Stock	Preferred Stock
Options outstanding January 1, 1965	247,786	1,338
Options granted	35,700	—
Options exercised	(56,016)	(545)
Options cancelled	(7,143)	—
Options outstanding December 31, 1965	220,327	793

Options outstanding at December 31, 1965 were exercisable to the extent of 93,339 shares of common stock and 793 shares of preferred stock. The option prices of the options outstanding at December 31, 1965 aggregated $5,642,208. Option prices for options granted by Warner-Lambert ranged from $17.61 to $41.19 per common share representing 95% or more of the fair market value at dates of grant from 1959 to 1963 and 100% of the fair market value at dates of grant since 1963.

Option prices for options granted by American Chicle ranged from $33.63 to $76.50 per option representing 85% or more of the fair market value at dates of grant from 1958 to 1962; each such option now covers 2.7 shares of common stock and .12 shares of preferred stock of Warner-Lambert. For the year ended December 31, 1965, the cost of treasury stock exceeded the proceeds of stock options exercised by $448,544 which was charged to retained earnings.

Incentive Stock Options

Capital Surplus

BEECH AIRCRAFT CORPORATION

Notes to Financial Statements

Note D: *Stock Option Incentive Plan*—During the year ended September 30, 1965, options, under the Company's stock option incentive plan, were granted for 6,952 shares; options were exercised for 2,550 shares; options for 4,504 shares expired; and options for 1,653 shares were cancelled. The par value ($2,550) of the shares issued upon the exercise of options was added to Common Stock, and the difference of $35,830 between the par value and the proceeds was added to additional paid-in capital.

At September 30, 1965, options for 37,770 shares were outstanding at prices ranging from $13.75 to $22.38 a share with an aggregate option price of $690,774 and 38,670 shares were available for granting additional options.

The number of optioned and unoptioned shares and the per share prices therefor, as referred to above, will be adjusted for the 2% stock dividend referred to in Note E.

CARRIER CORPORATION

Cr.—$999,278—"Amounts Contributed in Excess of Par Value: Excess of $1,519,888, proceeds from 52,061 shares of common stock, over $520,610, par value thereof, issued under Incentive Stock Option Plan."

KUHLMAN ELECTRIC COMPANY

Cr.—$165,812—"Capital Surplus: Excess of purchase price over par value of common stock (1965—12,541 shares; 1964—7,339 shares) issued under stock option incentive plans and 2,000 shares issued in 1965 in connection with common stock purchase warrants exercised."

MIRRO ALUMINUM COMPANY

Notes to Financial Statements

Note 2: During 1965, options for 150 shares granted under the Employees' Incentive Stock Option Plan of 1954 were exercised at $22.00 per share. Options on 50 shares granted under this plan have not been exercised.

On April 12, 1961, the stockholders approved the Employees' Incentive Stock Option Plan of 1961 under which 75,000 shares of common stock were reserved for option to key employees at not less than 95% of the fair market value at date of grant. Options are exercisable after two years and within ten years of date of grant. During 1965, options for 4,450 shares granted under this plan were exercised at $24.50 per share. Options for 3,300 shares are outstanding at December 31, 1965.

Proceeds in excess of par value for options exercised during 1965, of $66,325 have been added to capital in excess of par value.

NATIONAL LEAD COMPANY

Notes to Financial Statements

Note 6: Under the Stock Option Incentive Plan adopted in 1958 options have been granted to certain officers and other key employees to purchase shares of the common stock of the Company at 95 per cent of the fair market value of the stock on the dates of granting such options. The options are exercisable over a period of seven years from date of grant. The period during which options could be granted expired in 1963.

Changes during 1965 under the Plan are summarized as follows:

	Range of Option Prices Per Share	Shares
Under option, January 1, 1965	$67.568 to $116.375	197,040
Less:		
Options exercised	67.568	6,800
Options expired	67.568 to 99.275	111,985
Under option, December 31, 1965	67.568 to 116.375	78,255

At December 31, 1965, the unpaid balances of the purchase prices of 11,575 shares are evidenced by promissory notes bearing interest at 3 per cent and payable within 10 years from the dates thereof. These shares are pledged as collateral with the Company.

Additions to capital surplus consist of the excess of the net proceeds over par value of common stock sold upon exercise of stock options (1965, $424,945; 1964, $279,909).

THE PITTSTON COMPANY

Cr.—$444,494—"Capital Surplus: Excess of selling price over par value of 17,378 shares of Common Stock issued by the Company under its Stock Option Incentive Plan."

Stock Option and Stock Purchase Plans

Capital Surplus

BRUNSWICK CORPORATION

Cr.—$624,000—"Capital Surplus: Excess of quoted value or selling price over recorded value of common stock sold under stock option (4,000 shares) and employees' stock purchase (88,171 shares) plans (Note 13)."

Note 13 (in part): *Common Stock*—In 1965, options for 106,000 shares were granted, under a stock option plan, at not less than the highest market price on the dates of grant, and options for 65,719 shares were cancelled or expired. Options for 4,000 shares were exercised during the year. At December 31, 1965, 432,072 shares of common stock were reserved for issuance to officers and key employees under options outstanding at prices ranging from $3.30 to $57.75 per share, of which options for 227,209 shares were exercisable. All options expire within ten years or less from date of grant. The Company's stock option plans have now expired and no further options may be granted thereunder.

Under the employees' stock purchase plan (which excludes key management employees), 124,157 shares of common stock are reserved for issuance to eligible employees. In 1965, the Company granted rights and employees purchased 88,171 shares at 85% of market at dates of grant.

CONSOLIDATED FOODS CORPORATION

Cr.—$2,583,367—"Capital Surplus: Excess of proceeds over par value of common shares sold under stock option and employees' stock purchase plans."

Notes to Financial Statements

Note 3: *Stock Options*—Under the Corporation's stock option plans, key executive employees may be granted options to purchase common stock at 100% of the market value at date of granting. As of June 30, 1965, there were 314,283 common shares reserved under these plans, on which options for 312,056 common shares have been granted. During the year ended June 30, 1965, options for 114,033 shares were granted, and options for 76,530 shares were exercised.

In addition, an employee stock purchase plan provides that other employees may purchase common stock in units of five shares through payroll deductions at 85% of the market value. As of June 30, 1965, there were 118,810 common shares reserved under this plan on which options for 10,540 common shares have been granted to participating employees. During the year ended June 30, 1965, options for 26,410 shares were granted, and options for 23,445 shares were exercised.

HEWLETT-PACKARD COMPANY

Cr.—$2,861,752—"Paid-in Surplus: Excess of market value or proceeds received over par value of capital stock issued under stock purchase and stock option plans less expenses in connection with issuance of capital stock."

Notes to Financial Statements

Note 7: *Employee Stock Option and Stock Purchase Plans*—During prior years, Hewlett-Packard Company reserved shares of its common stock for stock option plans. Pursuant to these plans, restricted options were granted or will be granted over a five year period and become exercisable after one year and within five years from the date of grant, at the rate of 25% a year. The option price was, or will be, the market value at the date of grant. 96,500 shares of common stock reserved for the 1964 incentive stock option plan remain to be granted to scientific and technical employees of the company and its subsidiaries. At October 31, 1965, options had been granted pursuant to the 1963 and 1964 plans as follows:

Shares	Option Price	Expiration Date
142,365	$21¾	May 5, 1968
2,000	18¾	May 21, 1969
1,375	19¼	September 17, 1969

Hewlett-Packard Company adopted in a prior year, a plan for employees to purchase the company's common stock. The plan requires the company and participating subsidiaries to contribute 25% of the purchase price (approximate market value) of such stock at dates of purchase. The shares of common stock reserved for this plan changed during the year ended October 31, 1965 as follows:

Reserved at beginning of year	13,118
Additional shares reserved	250,000
	263,118
Shares sold	96,967
Reserved at end of year	166,151

PENNSALT CHEMICALS CORPORATION

Notes to Financial Statements

Stock Option and Employee Stock Purchase Plans—As of December 31, 1965, 229,837 shares of the Company's common stock were reserved under qualified stock option plans; of the shares reserved, options were outstanding at that date to purchase 101,587 shares at a weighted average price of $34.59 per share.

As of December 31, 1965, 134,016 shares of the Company's common stock were reserved for eligible employees under an employee stock purchase plan; of the shares reserved, subscriptions were outstanding at that date to purchase 14,248 shares at $47.50 per share.

The increase of $682,650 in additional paid-in capital represents the excess of net proceeds over par value of 23,450 Company shares issued under the aforementioned plans.

STEWART-WARNER CORPORATION

Cr.—$314,212—"Capital: Proceeds from sales to officers and key employees of 14,559 shares of treasury stock under the stock purchase and stock option plans."

Notes to Financial Statements

Note 1: At December 31, 1965, 280,591 shares of the Corporation's authorized capital stock were reserved under the Corporation's stock option plans for options to officers and other key employees at not less than 95% of market price at date of grant (100% for options granted since 1963), exercisable over five- and ten-year periods.

At December 31, 1965, options were outstanding for 74,551 shares. During 1965 shares under option were increased by 3,613 shares as a result of the 5% stock dividend paid in 1965, additional options were granted for 7,900 shares, options were exercised for 12,238 shares, and options were terminated for 1,337 shares.

Qualified Stock Option Plans

Changes made by the 1964 Revenue Act with respect to employee stock option and stock purchase plans are summarized below.

Restricted stock options permitted under prior law were divided into two classes with respect to options granted in 1964 and later years:

(1) "Qualified stock options" for key employees, including officers, and

(2) "Employee stock purchase options" for all other full-time employees on a nondiscriminatory basis.

Stockholder approval of the option plans is required, including a statement as to the maximum number of shares issuable to eligible employees under each option class. The plans must be limited to employees of the corporation granting the options, its parent or subsidiaries, or in the case of corporate mergers, reorganizations, etc., of predecessor employers.

The principal provisions applicable to "qualified stock options" granted to key employees include: (1) The option must be granted within 10 years after stockholder approval; (2) The option price must be at least 100 per cent of the stock's fair market value at the grant date; (3) Option must be exercisable within 5 years of the grant date, but must not be exercisable while any other unexercised or unexpired stock options issued to the same employee are still outstanding; and (4) the stock so acquired must be held by the eligible employee for at least 3 years from date of exercise, except that the minimum holding period requirement is waived in the case of the employee's death.

The principal provisions applicable to "employee stock purchase options" for non-key-employees include: (1) The option must be exercisable by the employee (a) within 5 years from the grant date if the option price is equivalent to 85 per cent of the lesser of the stock's fair market value on the grant date or on the date of exercise or (b) within 27 months from the grant date if the option price is equivalent to less than 85 per cent of the stock's fair market value at the grant date; (2) The option must be granted to all employees, except statutorially-defined part-time employees or employees with less than 2 years' service or employees who are eligible for qualified stock options as described in the preceding paragraph; (3) All employees must have the same rights and privileges, except that the amount of stock purchasable by any employee may be a uniform percentage of compensation or the plan may limit the number of shares purchasable by any employee; (4) No employee may be permitted to purchase more than $25,000 in stock in any calendar year; (5) The 1964 Act prescribed that the optioned stock must not be sold within 6 months from exercise date or 2 years from grant date or otherwise disposed of except in the case of the employee's death or insolvency.

The 1964 Act also specified the maximum allowable percentages of a corporation's outstanding voting stock that may be owned by an individual after acquiring stock under either option plan.

Gains realized by employees on the sale of stock acquired and held by them in conformity with all applicable provisions of the U. S. Internal Revenue Code (1954) as amended by the 1964 Revenue Act generally are taxed to them as capital gains. Premature sales or other disqualifying dispositions generally will result in the taxation of all or a portion of any gain realized as ordinary income.

The 1964 Act contained provisions relating to restricted stock options granted to employees under prior law before January 1, 1964 or after December 31, 1963 if granted pursuant to binding employer-employee agreements in effect on that date.

Examples presented in this section illustrate stock option plans which qualify under the 1964 Revenue Act, according to explanations contained in the reports of the survey companies.

ALAN WOOD STEEL COMPANY

Cr.—$46,693—"Additional Paid-in Capital: Excess of proceeds over par value of shares issued on exercise of stock option (Note 4)."

Note 4: *Stock Options*—At December 31, 1965, 50,000 shares of the Company's Common Stock were reserved under the Company's Qualified Stock Option Plan. Under the Plan, which was adopted in April 1965, the option price shall not be less than the fair market value on the date of grant, options extend for a term of five years and options may not be exercised until one year from date of grant, at which time each option is exercisable in whole or in part. During 1965, options for 2,000 shares were granted at $28.75 per share.

At December 31, 1965, 31,325 shares of the Company's Common Stock were reserved for options outstanding under the Company's former Qualified Stock Option Plan for Key Employees terminated in 1964. During 1965, options for 2,650 shares were exercised at $22.62 per share; no options were cancelled or expired and options on 13,500 shares became exercisable. Of the options outstanding at December 31, 1965 (28,325 at $22.62 per share and 3,000 at $24.50 per share), options for 22,400 shares were exercisable.

An additional 12,500 shares of Common Stock were reserved at December 31, 1965 for an option exercisable to January 1, 1970 at $38.10 per share.

AMERICAN OPTICAL COMPANY

Cr.—$313,078—"Capital Surplus: Excess of proceeds over par value of common shares issued under stock option plans."

Note 3: *Stock Options*—All options issued under the Company's qualified stock option plans have been granted at 100% of the quoted market price on date of grant.

	Number of shares	
	Issuable under options granted	Available for option
Balance January 1, 1965	53,484	44,242
Changes during year:		
Options granted at $43.75 per share	9,700	(9,700)
Options exercised at prices ranging from $20.04 to $36.25 per share or a total of $325,711 as compared with quoted market prices of $38.88 to $56.00 per share or a total of $602,809	(12,633)	—
Adjustments for 10% stock dividend	5,040	3,469
Balance December 31, 1965	55,591	38,011

AUTOMATIC CANTEEN COMPANY OF AMERICA

Notes to Financial Statements

Note 4: *Stock Option Plans*—Qualified stock option plans for key employees are in effect whereby options to purchase the Company's stock become exercisable after at least one year from the date of grant for shares not exceeding in number in each year one-quarter of the total shares optioned, or, in the case of plans first effective prior to 1961, one-fifth of the total shares optioned. Option prices for options granted prior to 1964 were at least 95% of the market prices at the dates of grant. The 1961 plan was amended during 1964 to conform with changes in Internal Revenue Service regulations, providing among other minor changes that option prices for grants in 1964 and later were to be 100% of market prices. At the same time the 1956 and 1959 plans were cancelled and terminated.

During the current year options for 44,125 shares at prices aggregating $607,262 were exercised and options in respect of 101,570 shares were forfeited or cancelled. No options were granted during 1965.

At October 2, 1965 there were 133,777 shares remaining under option at an aggregate option price of $2,488,066 of which options on 45,357 shares are exercisable during fiscal 1966.

The increase of $496,732 in additional paid-in capital during 1965 comprises the excess of the proceeds of shares sold under options over the par value thereof.

BAUSCH & LOMB INCORPORATED

Notes to Financial Statements

Note 6 (in part): *Other Matters*—After shareholders' approval in 1965, the Company reserves 30,000 shares of common stock for its Qualified Stock Option Plan. Options for such shares may be granted at 100% of market value of the stock on day of grant and they will expire five years from date of issuance. Options granted prior to 1965 were at not less than 85% of market value on date of grant and expire ten years from date of issuance.

The options exercised in 1965 resulted in $50,050 being added to common stock and $104,071 being credited to capital in excess of par value. Options for 17,230 shares were exercisable at the close of 1965 and 3,250 shares were available for future grants.

	Price Range per Share	Number of Unexercised Option Shares
December 27, 1964	$14.25-$35.00	19,585
Granted under 1965 plan	$51.25	26,750
Exercised	$14.25-$51.25	(5,005)
Cancelled	$35.00	(500)
December 26, 1965	$14.25-$51.25	40,830

CITIES SERVICE COMPANY

Cr.—$2,757,895—"Capital Surplus: Excess of proceeds over assigned value of stock issued on exercise of options."

Note 3: *Stock Option Plans*—Under the qualified stock option plan of Cities Service Company, options may be granted to purchase shares of the Company's Common Stock at prices not less than the fair market value at date of grant. The options are exercisable over varying periods commencing twelve to eighteen months after grant. Those issued prior to 1964 expire ten years after grant and those issued subsequently expire five years after grant.

	Option Price Per Share
During the year options:	
Were granted to purchase 40,000 shares	$38.25
Became exercisable as to 4,738 shares	31.00-36.63
Were exercised on 110,723 shares	25.38-31.00
Terminated as to 888 shares	

At year-end there were 143,289 shares under option (74,715 of which were exercisable) at prices ranging from $25.38 to $38.25 per share, and 192,628 unoptioned shares.

Under various stock plans of companies acquired by Cities Service Company certain qualified employees have rights to purchase convertible Preferred and Preference, and Common Stocks; however, no further rights may be granted thereunder. At year-end, assuming 100% conversion, 113,947 shares of the Company's Common Stock were subject to purchase at varying prices, the major portion being at the lower of 85% of market value at date of assignment of right or date of purchase. During the year rights were terminated as to shares equivalent to 2,670 common shares and exercised on an equivalent 22,287 shares at an aggregate amount of $585,664.

INTERSTATE BAKERIES CORPORATION
Notes to Financial Statements

Note 4: *Stock Options*—The Company adopted a qualified stock option plan for employees in 1963. Transactions of the plan since its adoption are summarized as follows:

		Shares
Reserved		76,708
Less stock not optioned at January 1, 1966		11,358
Options granted, less cancellations:		
1963, at $25.65 per share	61,950	
1964, at $29.88 per share	3,400	65,350
Less options exercised in:		
1964	500	
1965	3,669	4,169
Options not exercised at January 1, 1966		61,181

The options may be exercised during certain periods set forth in the plan, but not later than December 31, 1969. Option prices were based on 100% of quoted market prices on the dates granted.

Additional paid-in capital was increased $90,376 in 1965 of which $90,441 represented the excess of proceeds over the par value of 3,669 shares of common stock issued under this plan.

VEEDER-ROOT INCORPORATED

Cr.—$151,880—"Capital Surplus: Excess of proceeds received for shares of Common Stock issued under stock option plan over par value thereof."

Note 5: Under the qualified stock option plan as revised in 1964, 86,882 shares of unissued Common Stock were reserved at December 31, 1965 and 97,053 at December 31, 1964 for purchase by key employees of the parent company and its subsidiaries under options granted, or to be granted, at prices of not less than either 95% or 100% of market at date of grant. A summary of the changes in the options outstanding during the years ended December 31, 1965 and December 31, 1964 follows:

	1965	1964
Balance at beginning of year	38,313	48,059
Options granted during the year	16,100	6,160
Options exercised during the year	(10,171)	(11,506)
Options cancelled during the year	(880)	(4,400)
Balance at end of year	43,362	38,313

The number of shares available for option amounted to 5,500 shares at January 1, 1964, 58,740 shares at December 31, 1964 and 43,520 shares at December 31, 1965. The options become exercisable in varying amounts until 1973. None of the options expired during 1964 and 1965.

The shares expressed in the foregoing for 1964 are after giving effect to the 10% stock dividend and the 2-for-1 stock split in 1964.

Stock Bonus, Profit Sharing, Incentive and Savings Plans

Capital Surplus

THE AMERICAN SHIP BUILDING COMPANY
Notes to Financial Statements

Note E: *Capital Surplus*—The increase of $29,808 in capital surplus during the year consists of $16,718, representing the excess of option price over cost of treasury shares of Common Stock sold under terms of the Restricted Stock Option Plan, and $13,090, representing the excess of fair market value over cost of treasury shares of Common Stock distributed as a stock bonus.

BURLINGTON INDUSTRIES, INC.

Cr.—$4,721,986—"Capital in Excess of Par Value: Market value over par value of authorized common stock issued to Employees' Profit Sharing (Retirement) Plan (Note D-4)."

Note D: *Capital Stock and Options*—4. The issued and outstanding common stock at October 2, 1965 is after giving effect to the issuance in November 1965 of 124,801 shares of authorized common stock in part settlement of the liability at October 2, 1965 to the Profit Sharing (Retirement) Plan for Salaried Employees.

CHRYSLER CORPORATION

Cr.—$14,074,310—"Additional Paid-In Capital: Excess of market price over par value of newly issued shares of Common Stock (308,162 in 1965, 211,036 in 1964) Sold to the Thrift-Stock Ownership Program."

FEDERATED DEPARTMENT STORES, INC.

Cr.—$237,995—"Capital in Excess of Par Value of Common Stock: Stock changes during the year:

Issued upon exercise of options	$1,888,442
Issued from treasury under contingent compensation plan	237,995
Acquired for treasury	9,081,309.*"

*Deduct

HERCULES POWDER COMPANY

Dr.—$164,198—*"Paid-in Surplus*: Excess of (cost over sales price) or sales price over cost of common stock sold to trustee of employee savings plan."

RADIO CORPORATION OF AMERICA
Notes to Financial Statements

Note 4: *Capital Surplus*—In 1965, capital surplus was increased as a result of the following transactions in RCA common stock: issuance of 448,826 shares under stock options for $6,981,000 more than stated value; distribution of 42,307 treasury shares under the RCA Incentive Plan at award values $62,000 more than cost.

APPROPRIATIONS OR RESERVES*

Retained Earnings Charges
Transfers Within Stockholders' Equity

THE E. KAHN'S SONS COMPANY

Dr.—$90,000—*"Earnings Reinvested in the Business*: Appropriated to reserve for contingencies."

Stockholders' Equity

Common stock—no par value:	
Authorized 300,000 shares, Outstanding 186,900 shares	$1,856,739
Reserve for contingencies	90,000
Earnings Reinvested in the Business	6,138,543
	$8,085,282

*Refer to Section 2, Tables 32-39 for detailed information on appropriations and reserves and to the related examples of balance sheet presentation and other pertinent disclosures.

McGRAW-HILL, INC.

Dr.—$371,831—*"Retained Income*: Increase in appropriation for unexpired subscriptions net of related Federal income taxes."

Stockholders' Equity

Retained Income:	
Appropriated	
For pensions	$ 2,000,000
For unexpired subscriptions—Net of related Federal income taxes (Note 4)	5,766,340
Unappropriated	74,970,916
	$82,737,256

THE McKAY MACHINE COMPANY

Statement of Retained Earnings

Retained Earnings: End of year (including at December 31, 1965, $1,003,230 appropriated for a 10% stock dividend payable January 31, 1966 (Note 5) $5,268,880

Note 5: Capital Stock and Retained Earnings—On October 27, 1965 the directors declared a 10% stock dividend on the Company's common stock without par value, payable January 31, 1966 to holders of record January 14, 1966, which resulted in the issuance of 22,294 additional shares of common stock on January 31, 1966. At December 31, 1965 retained earnings of $1,003,230 was appropriated for the issuance of the stock dividend and January 31, 1966 the capital stock account was credited with $1,003,230.

UNITED STATES SMELTING REFINING AND MINING COMPANY

Dr.—$824,464—*"Retained Earnings Unappropriated*: Amount appropriated to Reserve for Metal Price Fluctuations (Note 9)."

Capital

Retained Earnings Appropriated for Contingencies (Note 7)	$ 6,200,008
Retained Earnings Unappropriated (Note 5)	12,792,309

Note 7: Retained Earnings Appropriated for Contingencies at December 31, 1965, consisted of the following:

Reserve for Development (Note 3)	$4,210,373
Reserve for Metal Price Fluctuations (Note 9)	1,509,203
Other Reserves for Contingencies	480,432
	$6,200,008

Note 9: Under the Company's long established practice, the gross value of production rather than gross sales has been used in the determination of operating profit from the metal mining portion of operations. Metals produced are taken into gross value of production and into inventory at market prices prevailing at time of production at the mines (or for custom materials, at time of purchase); consequently, operating profit from this segment of the operations is unaffected by gains or losses resulting from price fluctuations subsequent to production or purchase of the metal-bearing materials. Gains or losses resulting from the sale of such metals at prices different from the average price of the respective metals in inventory, including losses arising from any reduction to market of metal inventories at the end of the period, are shown after net operating profit in the consolidated statement of income. An amount equivalent to accumulated net gains from metal price fluctuations is appropriated from retained earnings as a reserve against possible future declines in metal prices.

Transfers to Valuation and Liability Reserves

CRANE CO.

Dr.—$1,000,000—*"Earned Surplus*: Addition to Reserve for Foreign Contingencies."

Above Stockholders' Equity	1965	1964
Reserve for Foreign Contingencies	$1,482,152	$482,152

Letter to Stockholders

Operations in the United States and Canada produced 64.8% of consolidated net income and represented 89.6% of consolidated equity; comparative percentages for existing operations in 1964 were 66.8% and 89.7%, respectively. In early 1965, the reserve for foreign contingencies was increased $1,000,000, by a charge to earned surplus, for possible future devaluation losses.

CITY STORES COMPANY

Dr.—$1,500,000—*"Income Reinvested in the Business*: Anticipated loss on real estate dispositions."

Above Stockholders' Equity

Reserves—Note G $3,506,932

Note G: *Reserves*—These have been provided for the following:

Restoration of leased properties	$ 441,899
Termination of store operations	350,789
Excess rentals	219,439
Deferred compensation	994,805
Real estate dispositions	1,500,000
	$3,506,932

Reserve for termination of store operations represents the estimated expense to be incurred at vacated stores, less amounts included in current liabilities. Reserve for real estate dispositions is net of expected federal income tax reduction.

THE CUDAHY PACKING COMPANY

Dr.—$14,877,311—*"Earned Surplus*: Reserve provided equal to net book value of property and equipment at midwestern meat packing plants and eliminations of related deferred charges (Note 1)."

Property and Equipment (Notes 2 and 5):

	Cost	Reserves	
Operating property—			
Meat operations (Note 1)	$34,362,561	$31,381,084	$2,981,477
Other	9,530,535	4,683,359	4,847,176
Property held for sale	920,183	392,598	527,585
	$44,813,279	$36,457,041	$8,356,238

Note 1: *Midwestern Meat Packing Plants*—Operating income at the Company's four midwestern meat packing plants (Omaha, Wichita, Denver and Salt Lake City) has been generally unsatisfactory in recent years, and management studies give no assurance that significant long-term improvement can be expected. Earnings of these plants have not been sufficient to cover applicable depreciation, general office administrative and interest costs. In recognition of the loss in value of these plants as measured by their demonstrated lack of earning power, the Board of Directors determined that a special reserve should be provided equal to the net book value of the property and equipment at the four plants. No salvage values were reflected in view of the substantial contingent liabilities under the labor contract covering employees at these plants—see Note 4. This action was taken upon the recommendation of Arthur Andersen & Co., the Company's auditors. The special property reserve ($13,789,617) and the elimination of related deferred charges ($1,087,694) have been reflected as a special charge in the accompanying statements of income and earned surplus.

Depreciation expense for these plants has been provided for 1965 and 1964, and has been shown separately on the statement of income. Such depreciation provisions will no longer be required; however, property renewals, replacements and additions at these plants (which amounted to $175,000 in 1965 and $160,000 in 1964) will be charged directly to expense in future years.

The accompanying statement of income has been prepared to show the operations of the midwestern meat packing plants separately from other operations of the Company and its subsidiaries.

LEAR SIEGLER, INC.

Dr.—$1,859,999—*"Retained Earnings*: Provision against investment in capital stock of Subscription Television, Inc."

Notes to Financial Statements

Investments: At June 30, 1965 investments in 50% owned companies are stated at cost, $102,500, plus $250,011 equity in undistributed net earnings since acquisition. These investments are included in "Other Assets" in the Consolidated Balance Sheet. The equity in the current year's net earnings, $114,677, is included in "Other deductions (income)—net" in the Statement of Consolidated Earnings.

Due to uncertainties surrounding the future operations of Subscription Television, Inc., the company has made a provision of $1,859,999 against its investment of $1,860,000 in the capital stock of Subscription Television, Inc. (included in "Other Assets").

Retained Earnings Credits

Transfers Within Stockholders' Equity

HAZELTINE CORPORATION

Cr.—$1,241,915—"Earned Surplus: Transferred from appropriated earned surplus."

Capital:

	1965	1964
Capital stock:		
Authorized 3,000,000 shares, no par value (14,900 shares reserved for stock options at December 31, 1965, Note 4)		
Issued, 1,568,363 shares (including 700 shares treasury stock)	$ 6,176,132	$ 6,176,132
Earned surplus:		
Appropriated	—	1,241,915
Unappropriated	15,194,383	13,650,716
	15,194,383	14,892,631
	$21,370,515	$21,068,763

MOORE DROP FORGING COMPANY

Cr.—$17,845—"Earnings Retained in the Business: Credit for retirement of cumulative preferred stock charged to earned surplus in prior year for sinking fund requirement."

Notes to Financial Statements

Note 3:

	1965	1964
Preferred stock, 4¾% cumulative par value $50; Authorized and issued 7,520 shares (1965) and 7,935 shares (1964)	$376,000	$396,750
Common stock, par value $1; Authorized 500,000 shares; Issued 360,697 shares 1965 and 1964	360,697	360,697
	$736,697	$757,447

The preferred stock is redeemable in whole, or in part, at the option of the board of directors, on 30 days' notice at $52 per share, plus accrued dividends. The preferred stock is entitled to the benefit of a cumulative sinking fund payable out of the annual net earnings after preferred dividends, in an amount equal to 3% of the total par value of preferred stock outstanding July 1, 1955. During the year ended June 30, 1965, 415 shares of preferred stock were retired from shares in the treasury and $17,845.50 has been set aside for retirement of preferred stock in the year ending June 30, 1966.

UNITED FRUIT COMPANY

Cr.—$5,000,000—Unappropriated Retained Earnings: Portion no longer required in 1965 of amount appropriated in 1964 for future possible losses."

Shareholders' Equity

	(Dollars in Thousands)	
Retained Earnings—Note 3:		
Unappropriated	$ 98,560	$82,083
Appropriated for contingencies— see page 4	4,500	9,500
	$103,060	$91,583

Financial Summary

The net earnings for 1965 and 1964 exclude certain nonrecurring net profits and losses resulting from unusual charges and credits of a material nature. Consistent with past practice, these items have been added to or deducted from unappropriated retained earnings. In 1965 the charge to unappropriated retained earnings amounted to $3,365,000 and resulted primarily from the termination and preparation for termination of operations in high cost areas. With the clearing of these items, $5,000,000 of the amount appropriated for contingencies last year is no longer required and has been returned to unappropriated retained earnings. Also charged to retained earnings is the amount of $1,232,000 representing an adjustment of the provision for pensions and payments in lieu of notice of severance in certain foreign countries.

WEYERHAEUSER COMPANY

Cr.—$934,026—"Earned Surplus: Realization in 1965 of March 1, 1913, increase in timber value."

Shareholders' Interest:

Shares, par value $7.50 per share, 31,000,000 shares authorized and issued .	$232,500,000
Increase in value of timber and timberlands resulting from March 1, 1913 revaluation ($934,026 realized and transferred to earned surplus in 1965)	17,254,746
Earned surplus (income retained in the business)—see accompanying statement	378,926,513

Transfers from Valuation and Liability Reserves

CONGOLEUM-NAIRN INC.

Cr.—$2,374,311—"Earned Surplus: Credit for estimated future tax benefit on reserves for disposal of plant and equipment and for consolidation of operations and changes in product lines at January 1, 1965 (Note 2)."

Noncurrent Liabilities

Provision for estimated expenses of consolidation of operations and changes in product lines (Note 2) $962,538

Note 2: The reserves for disposal of plant and equipment and for consolidation of operations and changes in product lines were established in 1960 through a direct charge to Earned Surplus. The reserves and the related charge to Earned Surplus were not reduced for possible future tax benefits because at that time there were not sufficient assurances that such benefits would be realized in the future. Current circumstances indicate that these assurances now exist. Accordingly, the remaining balances of these reserves as of January 1, 1965, were reduced and Earned Surplus increased by $2,374,311 to give effect to the Federal income tax benefits expected from claiming as a tax deduction the charges to the reserves in 1965 and subsequent years.

During 1965 the Company had taxable income more than sufficient to take advantage of the available operating loss carryforwards and investment credit allowances. The provision for Federal income taxes in the accompanying financial statements was reduced accordingly. In addition, the Company has realized reductions in Federal income taxes payable because of deductible expenses charged to consolidation and realignment reserves. The additional tax benefits have been used to reduce the charges to these reserves in 1965.

HARNISCHFEGER CORPORATION

Cr.—$550,000—"Retained Earnings: Reduction of reserve for anticipated losses and expenses relating to discontinuance of Diesel Engine Division."

Above Stockholders' Equity

	1965	1964
Reserve for anticipated losses and expenses relating to discontinuance of Diesel Engine Division	$ —	$748,431

Notes to Financial Statements

Reserve for Diesel Engine Division: At October 31, 1965 the liquidation of the assets of the Diesel Engine Division was substantially completed and net losses and expenses totaling $874,377, including $32,808 in fiscal 1965, both net of income taxes, have been charged against the reserve since it was established in 1963. As a result of the favorable disposition of properties and other assets, the remaining reserve of $715,623 was in excess of estimated future requirements and was reduced by $550,000. This amount is included in the consolidated statement of income as a special credit and the balance of the reserve is included in other current liabilities in the consolidated balance sheet.

J. C. PENNEY COMPANY

Cr.—$5,443,031—"Retained Earnings: Special credit—self-insurance reserves transferred to retained earnings."

Noncurrent Liabilities

	January 31	
	1965	1964
Reserves for fire losses and associates' death benefits	$ —	$6,708,185

FINANCING EXPENSES

Expense of Stock and Bond Issues

Capital Surplus

ALLIS-CHALMERS MANUFACTURING COMPANY
Notes to Financial Statements

Note 6 (in part): *Share Owners' Equity and Dividend Restrictions*—In May, 1965, 300,000 shares of 4.20% cumulative convertible preferred stock were sold through a public offering. Underwriting commissions and other expenses incident to the issue and sale of these shares, totaling $653,636, were charged to capital in excess of par value of capital stock.

BLUE BELL, INC.
Notes to Financial Statements

Note 3: *Additional Paid-In Capital*—Changes in additional paid-in capital during the year ended September 30, 1965 are summarized as follows:

Balance, October 1, 1964 (including $1,908,428 of Red Kap, Inc. and subsidiaries and $500,000 adjustment resulting from pooling of interests with Red Kap, Inc. —Note 1)	$6,880,580
Add (deduct):	
Excess of proceeds over par value of 50,000 additional shares of common stock sold	1,257,500
Costs incident to foregoing sale of additional shares of stock and pooling of interests	(63,912)
Balance, September 30, 1965	$8,074,168

REX CHAINBELT INC.
Notes to Financial Statements

Note 4 (in part): *Shareholders' Ownership*—The increase of $599,769 during fiscal 1965 in capital in excess of par value consisted of (a) $38,110, the excess of the stated capital of Lund Products, Inc. over the par value of Rex Chainbelt Inc. shares issued, (b) $493,545, the excess of option price over par value of shares issued upon exercise of stock options plus (c) $108,575, excess of market value over cost of 2,000 shares of treasury stock contributed to Chain Belt Foundation, Inc. less (d) $40,461, expense of issuing stock.

THATCHER GLASS MANUFACTURING COMPANY, INC.

Dr.—$58,100—*"Paid-in Capital*: Proceeds in excess of par value from sale of common stock: In connection with public offering of 175,000 shares, less applicable expenses of $58,100."

EXTRAORDINARY LOSSES OR GAINS*

Extraordinary Losses

Retained Earnings

AMERICAN BRAKE SHOE COMPANY

Dr.—$644,012—*"Earnings Reinvested in the Business*: Loss on sale of forging facilities less related taxes on income."

Letter to Stockholders

Abex Sells Forging Business: A significant step in the long-range plans for the company was accomplished with the sale, effective November 30, 1965, of our forging business. For several years, profits from this portion of our business did not meet the company's standards for return on invested capital and we could not foresee any improvement in the future. Consequently, it was decided to withdraw from the business and to utilize the proceeds of the sale in further development and expansion of newer product lines which have exhibited greater growth and profit potentials.

The sale involved three steel forging plants, two of which were in Chicago and one in Azusa, California, employing about 1,000 people. This will reduce shipments by about $25,000,000 annually but the effect upon operating earnings will be negligible. However, the sale resulted in a loss of $644,012 after taxes which has been recorded as a special item of loss and is not reflected in the operating earnings for 1965.

We are pleased to have made the sale in a manner which assures the continuation of the business in the best interests of customers and employees.

ARMOUR AND COMPANY

Dr.—$4,204,413—*"Earnings Employed in the Business*: Loss on closing of Kansas City Meat Processing Unit, less Federal income tax reduction of $3,377,000."

ASSOCIATED BREWING COMPANY

Dr.—$103,193—*"Earnings Retained for Use in the Business*: Loss on sale of idle facilities, net of related tax reduction."

THE EAGLE-PICHER COMPANY

Dr.—$500,000—*"Retained Earnings*: Provision for loss on disposal of equipment."

Notes to Financial Statements

Note: During 1965 certain production facilities were consolidated and/or eliminated. The asset value of excess equipment was written down, net of tax effect, to estimated realizable value by a charge to retained earnings. Related expenses, such as relocating equipment, terminating and transferring personnel, and maintaining these facilities until final disposition, were charged to earnings.

EMHART CORPORATION

Dr.—$756,780—*"Earned Surplus*: Loss on sale of cordage assets (Note 4), less related inventory adjustments (Note 2)."

Note 2: *Inventories*—The inventories are summarized as follows:

	1965	1964
Finished Goods	$19,735,809	$18,436,471
Work-In-Process	21,375,241	19,513,159
Raw Materials	9,862,022	8,383,421
Supplies	1,580,080	1,740,013
Total	$52,553,152	$48,073,064

Finished goods, work-in-process, and raw materials are stated principally at standard cost, which approximates actual cost, or at market, whichever is lower. Other inventories are stated at actual cost or at market, whichever is lower. Inventories are valued on the first-in, first-out basis except a portion of cordage fibre inventories of a Canadian subsidiary which was valued on the last-in, first-out basis in 1964. The change in basis for valuation of these cordage fibre inventories resulted in an increase in inventories of $347,642, which amount has been included in a special item in the statement of consolidated income.

Note 4: *Discontinued Cordage Operations*—During the year 1965, Plymouth sold the business and substantially all the plant and equipment and inventories of its domestic cordage division which resulted in a loss of $601,666 (net of a tax benefit of $577,167). At December 31, 1965, Citadel Manufacturing Company, S.A. (50% owned by a Canadian subsidiary of Plymouth) was in process of liquidation. A provision has been made for $502,756 for Plymouth's loss therefrom, including a portion of an amount payable under a guarantee of bank loans of Citadel. The net loss from the foregoing has been included in a special item in the statement of consolidated income.

The net income (loss) of the discontinued domestic cordage operations, as shown in the statement of consolidated income, is after giving effect to income taxes (benefits) of $191,852 in 1965 and ($16,586) in 1964.

HAMILTON WATCH COMPANY

Dr.—$437,631—*"Earnings Retained and Reinvested in the Business*: Loss on disposal of certain assets of a Canadian subsidiary and a domestic division, net of related income tax benefit of $142,700."

KUHLMAN ELECTRIC COMPANY

Dr.—$195,000—*"Retained Earnings*: Price adjustments on final settlement of anti-trust claims, net of Federal income taxes."

Letter to Stockholders

Substantially all of the remaining suits against the Company arising out of the anti-trust litigation were settled in 1965. A special charge against retained earnings in the amount of $195,000 was made at the year-end to cover all payments, net of Federal income taxes, made to settle cases in 1965, plus a small estimated amount remaining to be paid in settlement of the balance of such cases.

*Presentation of extraordinary items in operating statements is discussed in Section 3, in relation to Table 12, where some further illustrative examples of such items are given.

LEHIGH PORTLAND CEMENT COMPANY

Dr.—$2,470,000—"*Retained Earnings*: Estimated loss on disposal of Bunnell plant and properties, net of income taxes."

Letter to Stockholders

During 1965 we made a number of significant revisions in our method of doing business in the state of Florida. Changing conditions over the past few years made it clear that the future of both our Bunnell and Miami plants was in serious jeopardy should we fail to broaden our scope of activity in this market. Under no circumstances could we foresee operating the two plants at rates sufficiently high to earn a fair return. Because Miami was the more efficient and lower cost facility, we elected to close Bunnell permanently and concentrate our entire Florida cement manufacturing function in Dade County.

We have already completed the sale of all machinery and equipment at Bunnell as well as 20 per cent of our real estate holdings at that location. The proceeds of these sales, plus the tax saving arising out of the write-off of undepreciated assets at Bunnell, enabled us to realize $2.5 million short of the book value of the property and plant. This loss is treated as a special charge against Retained Earnings and therefore has no effect on earnings for the year.

LUKENS STEEL COMPANY

Dr.—$875,000—"*Earnings Reinvested in the Business*: Special Charge, representing adjustment of investment in Talisman Sugar Corporation, less income tax effect."

Financial Summary

The company also recorded a special charge of $875,000, net of taxes, representing a downward adjustment of the company's investment in Talisman Sugar Corporation. Due to accelerated capital expenditures and reduced planting quotas, Talisman management approached Lukens to participate in additional financing. Because of the magnitude of Lukens own planned expenditures for capital improvements in the years ahead, the Lukens Board of Directors requested that Talisman seek new funds from other sources. In order to enhance the opportunity of securing new equity financing by Talisman, Lukens' directors decided to surrender for cancellation all of the company's preferred stock held in Talisman. After reflecting the income tax effect, the net adjustment of that transaction in Lukens' shareowners' equity was $875,000, or $.30 per share.

SEABOARD ALLIED MILLING CORPORATION

Dr.—$105,806—"*Retained Earnings*: Loss on liquidation of cattle and certain bakery operations less Federal Income taxes of $100,000 in 1965 (Notes 2 and 4)."

Note 2: *Liquidation of Cattle and Baking Operations*—During the year, the company completed liquidation of certain baking and cattle operations which were terminated prior to the current year. The loss sustained, net of the Federal tax benefit, has been reflected as a charge to retained earnings.

In connection with the sale of the plant and equipment relating to the cattle operations amounting to $600,000, the company received a down-payment of $20,000 and a 4% note, in the amount of $580,000, the terms of which provide for payments, including interest, of $10,000 on July 1, 1965, $10,000 on October 1, 1965, and $20,000 quarterly thereafter until final maturity on October 1, 1972. In the event the purchaser defaults in the payments of this note, the company can hold purchaser liable for fulfillment of note, or the company may reacquire the assets sold, but in doing so, the purchaser is released of all unpaid liability.

WAGNER ELECTRIC CORPORATION

Dr.—$480,016—"*Unappropriated Income Retained for Use in Business*: Cash payments as price adjustments on sales in prior years of power, distribution and network transformers, net of income tax."

Letter to Stockholders

With reference to the anti-trust litigation referred to in previous Annual Reports, we are pleased to advise that we have disposed of all of the cases brought against the Company by plaintiffs to whom Wagner made sales. As in prior years, expenses in connection with the settlement of these cases were paid out of current earnings. The price adjustments have been shown as a "Special Item" in the Statement of Consolidated Income and Unappropriated Retained Income appearing on page 10 of this report. There are a few remaining cases in which Wagner is named co-defendant, however no sales were made to these plaintiffs and the Company anticipates that these cases will be disposed of with little, if any, cost to Wagner.

WESTINGHOUSE AIR BRAKE COMPANY

Dr.—$2,100,000—"*Retained Earnings*: Charge for obsolete inventory and plant changes, net of income taxes (Note 4)."

Note 4: The charge to retained earnings for obsolete inventory and plant changes is a result of the decision by management to recognize, at one point in time, the estimated costs (after income taxes) to reorganize the facilities and inventories to meet the rapidly changing character of the Company's commitment to the traffic control, signaling and communication requirement of the rail and mass transit industries.

Extraordinary Gains

Retained Earnings

AMERICAN SUGAR COMPANY

Cr.—$1,380,718—"Income Retained for Use in the Business: Special Credit—Gain on sale of non-operating property, less applicable taxes."

Financial Review

Shareholders' Investment: The shareholders' investment at December 31, 1965 was $123,672,120, an increase of $9,698,365 over the $113,973,755 investment at December 31, 1964. The increase consists of the excess of net income over dividend declarations and a special credit of $1,380,718, after taxes, from the sale of the Spreckels Office Building in San Francisco, California, reduced by $1,477,075 spent during the year in the acquisition of treasury stock.

Book value of the common stock was $101,484,620 or $28.29 a common share outstanding as compared to $91,511,255 or $25.15 a common share at December 31, 1964. There were approximately 11,750 preferred shareholders and 12,675 common shareholders at December 31, 1965.

BOTANY INDUSTRIES, INC.

Cr.—$1,652,000—"Earned Surplus: Gain arising from sales of companies—Note 3."

Note 3 (in part): *Federal Income Taxes*—There is no provision for capital gain tax on the sale of net assets of Sea & Ski Company due to a capital loss carryover from prior years.

CONTROL DATA CORPORATION

Cr.—$1,905,742—"Retained Earnings: Unamortized development, systems application and acquisition costs related to leases as of July 1, 1964, less deferred income taxes (Note 2)."

Note 2 (in part): *Changes in Accounting Practices*—In order to more closely match costs against related revenues, the Company retroactively as of July 1, 1964 adopted a policy of deferring, for amortization over a three year period, allocated portions of certain product and software development costs, systems application costs and marketing expenses most directly related to the acquisition of lease orders. Comparable costs and expenses charged off as incurred in previous years which would have been unamortized under the new policy as of the beginning of the year were reinstated with a credit (net of deferred income taxes) to retained earnings. The change to this accepted alternative method of accounting had the effect, after appropriate charges for amortization of both the current and previous years' deferrals, of increasing net earnings for the year ended June 30, 1965 by approximately $2,180,000 ($0.30 per share). Had the prior year's figures been restated to give effect to this change, net earnings for the year ended June 30, 1964 would have been increased by approximately $1,050,000 ($0.15 per share).

CRADDOCK-TERRY SHOE CORPORATION

Cr.—$62,072—"Retained Earnings: Net adjustment resulting from audit of prior years' income tax returns."

HAT CORPORATION OF AMERICA

Cr.—$200,000—"Earned Surplus: Life insurance proceeds."

HOLLY SUGAR CORPORATION

Cr.—$358,093—"Earnings Invested in the Business: Excess of Life Insurance Proceeds over Recorded Cash Value."

HYGRADE FOOD PRODUCTS CORPORATION
Cr.—$1,373,373—"Retained Earnings: Special income —gain on condemnation of plant and equipment, less related Federal income taxes (Note 3)."

Note 3: Federal income tax returns, some minor subsidiaries excepted, have been examined by the Internal Revenue Service through the year ended November 2, 1963.

Depreciation claimed for Federal income tax purposes is in excess of the book provision, and the company intends to defer the gain on condemnation of plant and equipment for tax purposes. The reduction in Federal income taxes resulting therefrom has been deferred to future years.

Letter to Stockholders

Condemnation of Philadelphia Plant: The Company's Philadelphia plant has been condemned for highway construction by the Commonwealth of Pennsylvania acting through the State Highway Department and the award for compensation has been paid. Operations are continuing in the present plant under lease. Plans are being completed for the construction of a replacement meat processing plant in the Philadelphia area.

LILY-TULIP CUP CORPORATION
Cr.—$518,369—"Retained Earnings: Realized gain on disposition of fixed assets, less income taxes."

PARAMOUNT PICTURES CORPORATION
Cr.—$1,092,000—"Retained Earnings: Profit on sale of assets, less applicable income taxes."

ST. REGIS PAPER COMPANY
Cr.—$3,428,524—"Retained Earnings: Profit on sale of Consolidated Paper Corporation Limited stock, less applicable taxes."

THE SUPERIOR OIL COMPANY
Cr.—$35,224,153—"Retained Earnings: Special credit, arising principally from gain on sale of leasehold rights."
Letter to Shareholders

Financial: Consolidated net income and special credit for 1965 was $38,227,676, or $9.17 per share. The special credit of $35,224,-153 was derived principally from a gain on sale of leasehold rights relating to approximately 5,740 acres offshore of Vermilion Parish, Louisiana. The total consideration received from this sale was $42,000,000 which greatly enhanced the working capital of the Company. Net income before this item was $3,003,523, or 72 cents per share.

TIDEWATER OIL COMPANY
Cr.—$685,000—"Retained Earnings Reinvested: Special items—gain on sale of assets."
Financial Review

Additionally, cash gains of $685,000 after income taxes were realized from an exchange of oil properties in 1965. Special gains from sales of stock investments in 1964 amounted to $13,011,000 after income taxes.

Capital Surplus

CRADDOCK-TERRY SHOE CORPORATION
Notes to Financial Statements

Note 9: Additions to capital surplus in excess of par value for the year included $19,622 for the plant site at Dillwyn, Virginia, donated to the Company, and $6,118 being the excess of par value over cost of 1,466 shares of 5% cumulative preferred stock retired. The common stock split-up (two for one) effected in the form of a 100% common stock distribution accounted for a reduction of $200,000.

PRIOR YEAR ADJUSTMENTS

Prior Year Adjustments—Taxes

Retained Earnings

THE AMALGAMATED SUGAR COMPANY
Cr.—$275,000—"Retained Earnings: Investment tax credit restored for years ended prior to September, 1964."

ART METAL, INC.
Dr.—$225,000—*"Retained Earnings*: Prior years' income taxes (Note 2)."

Note 2: *Estimated Liability for Contingent Income Taxes*—During the year, the Company reached an agreement with the Internal Revenue Service (subject to approval by the Joint Committee on Internal Revenue Taxation) with respect to its disputed income tax liability for prior years, and also settled the prior years' tax liabilities of a wholly-owned subsidiary and certain predecessor corporations. As a result of these actions it was necessary to make a further provision of $225,000 to the estimated liability for contingent income taxes.

A substantial portion of the tax deficiency will be recoverable under present carry-forward provisions of the Internal Revenue Code.

CITY STORES COMPANY
Cr.—$1,416,773—"Income Reinvested in Business: Recovery of prior year's Federal income taxes less additional assessment and interest thereon."

FREEPORT SULPHUR COMPANY
Cr.—$2,300,000—"Earnings Retained in the Business: Portion of Federal income tax savings applicable to amount charged to retained earnings in 1960 on writeoff of investment in Cuban American Nickel Company (Note 3)."

Note 3: For the years 1959 through 1963, Freeport's Federal income taxes were determined on the basis of filing returns which consolidated Cuban American Nickel Company and its subsidiary, Moa Bay Mining Company, which companies were not consolidated in the financial statements. The entire investment in these companies, which were originally organized to mine and process Cuban minerals, was written off in 1960 by a charge to retained earnings. Tax deductions and resultant tax-loss carry-forwards arising from these companies have eliminated the Federal income taxes which would otherwise have been payable by Freeport. Because a portion of these reductions in taxes otherwise payable is considered to be applicable to the amount charged to retained earnings in 1960, annual charges equivalent to each year's share of such portion have been included in Taxes. Such charges amounted to $2,300,000 in 1965 compared with $1,600,000 in 1964 and were credited to retained earnings in those years. The Company has a substantial unused tax-loss carry-forward available to it and will continue to charge income and to credit retained earnings with the appropriate portion of tax savings as they are realized.

In each of the years 1960, 1961, and 1964 the Company made a forward sale of a portion of the proceeds to be received from future production at certain of its principal sulphur properties. These forward sales had the effect of preserving, for utilization in future years, the tax losses referred to above and had other benefits. Sales and related costs and expenses were reported as the sulphur was marketed except that net interest and certain other expenses, aggregating $4,470,585, relating to the forward sales, were deferred initially to be amortized as Federal income tax benefits preserved by or resulting from these forward sales were realized. Amortization commenced in 1965 and an amount of $1,860,000 was charged to Taxes. It is estimated that the balance of such interest and other expenses, which is included in prepaid and deferred items chargeable to future operations, will be amortized within approximately two years.

The charges described above, together with various other amounts, related to Federal and state income taxes, amounted to $4,387,000 in 1965 compared with $1,662,000 in 1964. In addition, Taxes include production, property and other operating taxes amounting to $4,118,000 in 1965 compared with $3,710,000 in 1964.

THE HOOVER COMPANY
Cr.—$1,413,588—"Income Employed in the Business: Deferred income taxes no longer required as a result of changes in the tax laws of the United Kingdom."

LITTON INDUSTRIES, INC.
Cr.—$1,883,426—"Earnings Retained in the Business: Reduction in Federal taxes applicable to prior year charges to earnings retained in the business."

PEDEN IRON & STEEL CO.
Cr.—$26,457—"Retained Earnings: Revenue agent's adjustments for prior years and other income tax adjustments. (Net)."

SPERRY RAND CORPORATION

Dr.—$24,618,308—*"Retained Earnings*: Provision for additional taxes and interest thereon applicable to prior years (approximately $612,000 applies to fiscal 1964)—Note C."

Note C: In April 1965, an agreement was reached with representatives of the Internal Revenue Service on a settlement of the controversy involving the allocation of taxable income between Sperry Rand Corporation and its former subsidiaries which operated in Puerto Rico during the period from April 1, 1952 to December 31, 1960. Under this settlement, which is subject to final approval by Internal Revenue Service officials, the Company will pay additional U. S. federal income taxes of $20,000,000. The liability for these additional taxes and the corresponding additional state taxes, together with interest less appropriate tax credits was recorded as of March 31, 1965 in the aggregate amount of $25,230,671, of which $24,618,308 was charged to Retained Earnings.

The Office of International Operations of the Internal Revenue Service has not completed its examination of returns for periods beginning July 1, 1955 in respect of matters other than the Puerto Rican operations. The result of this examination is not expected to affect materially the financial statements of the Company.

UNIVERSAL LEAF TOBACCO COMPANY, INC.

Dr.—*$55,179—"Retained Earnings*: Additional Federal Tax Assessment on prior years."

Cr.—$61,443—"Retained Earnings: Refund Foreign Taxes on prior years."

Prior Year Adjustments—Various Other

Capital Surplus

BROCKWAY GLASS COMPANY, INC.

Dr.—$31,680—*"Paid-in Capital*: Adjustment to value of net assets acquired in a pooling of interests in a prior year."

Retained Earnings

CUTLER-HAMMER, INC.

Cr.—$736,390—"Earnings Retained in the Business: Adjustment of prior year's income based on settlement with the Internal Revenue Service."

Notes to Financial Statements

Note 2: A settlement has been made with the Internal Revenue Service in connection with the dispute regarding the Company's long established method of valuing certain of its inventories which resulted in the revaluation of such inventories on the "Last-in First-out" (LIFO) basis. The net effect of this revaluation, after provision for the additional tax thereon, for all years prior to 1965 has been reflected as a special credit of $736,390 to retained earnings. This change in method had no significant effect on the results from operations for 1965 and 1964.

The additional tax on other agreed issues had been provided for out of earnings in previous years and was charged to accrued Federal income taxes.

Certain other issues remain to be resolved with respect to the years subsequent to 1956 but their ultimate determination is not expected to have a material effect on the financial statements of the Company.

LESLIE SALT CO.

Cr.—$148,885—"Retained Income: Development costs expensed in prior years, less applicable Federal income taxes (Note 2)."

Note 2: In 1965 the Companies adopted the practice of including in the cost of real estate under development the engineering, planning and other consulting fees, property taxes and interest directly related to the development program of Leslie Properties, Inc. Previously such costs had been charged against income as incurred. Costs of $289,349 expensed in prior years (1964 and 1963) have been added to the cost of real estate under development, and are shown, less applicable Federal income taxes, as a special credit in the statement of income and retained income for the year ended December 31, 1965. Had the 1965 practice been in effect in 1964, net income for that year would have been greater by $86,485.

LOCKHEED AIRCRAFT CORPORATION

Retained Earnings

Balance at Beginning of Year	$163,767,000
Earnings for the Year and Special Credit	53,689,000
	$217,456,000

Notes to Financial Statements

Note 8: The major portion of the Company's sales is to the U.S. government and is subject to the Renegotiation Act of 1951 which provides for the recovery by the U.S. government of any profits found to be excessive. During 1965 the Renegotiation Board's claims that excessive profits had been realized in the years 1953 to 1956 were settled, resulting in a gross reduction of $3,800,000 from the amount previously provided. The net reduction, after related taxes and expenses, of $2,172,000 has been shown as a special credit on the statement of consolidated earnings.

Clearances have been received for the years 1957 through 1962. It is anticipated that earnings for subsequent years will not be considered excessive by the Renegotiation Board and, therefore, no provisions for renegotiation refunds are required.

OWENS-ILLINOIS, INC.

Cr.—$9,536,566—"Retained Earnings: Credits arising from consolidation of additional subsidiaries and changes in accounting policy (Note 3)."

Note 3 (in part): *Retained Earnings*—The adjustment of retained earnings in 1965 included the following:

Equity in retained earnings and deficits at December 31, 1964, of companies first consolidated in 1965 and of National Petro Chemicals Corporation (see Note 1)	$2,966,350
Credit relating to prior years arising from extension of tax allocation procedures	6,570,216
	$9,536,566

MISCELLANEOUS OTHER ADJUSTMENTS

Retained Earnings

THE GOODYEAR TIRE & RUBBER COMPANY

Dr.—$507,000—*"Retained Earnings*: Portion of retained earnings of a foreign subsidiary acquired by minority interests."

Notes to Financial Statements

Foreign Subsidiary Companies: The foreign currency accounts of the foreign subsidiary companies were translated to U.S. dollars at appropriate exchange rates. In prior years, inventories were translated at year-end rates and in 1965 the Company adopted the method of translating inventories at rates of exchange prevailing at the time of acquisition; this change had no material effect on net income in 1965.

After deducting $24,894,000 for minority shareholders' equity, the net foreign assets amounted to $362,570,905 at December 31, 1965. Profits of foreign subsidiary companies included in consolidated net income for 1965 amounted to $36,450,623.

THE HOOVER COMPANY

Dr.—$1,075,419—*"Income Employed in the Business*: Transfers to other capital by foreign subsidiaries."

Cr.—$1,075,419—"Other Capital: Transfers from income retained in the business by foreign subsidiaries."

MSL INDUSTRIES, INC.

Dr.—$522,000—*"Reinvested Earnings*: Nonoperating charge."

NATIONAL LEAD COMPANY

Dr.—$3,934,008—*"Earned Surplus*: Adjustments relating to changes in ownership of subsidiaries (Note 1)."

Note 1: The consolidated financial statements include the accounts of the Company and all wholly owned domestic subsidiaries and of the major wholly owned foreign subsidiaries. In November, 1965, the Company sold one-half of its interest in certain Canadian subsidiaries and the accounts of such subsidiaries have been included in consolidated operations only to the date of sale.

Foreign currency amounts have been translated at appropriate rates of exchange.

Capital Surplus

DURA CORPORATION
Cr.—$38,619—"Other Capital: Credits (net) arising from sundry other transactions."

GULF OIL CORPORATION
Dr.—$437,576—*"Other Capital*: Adjustments resulting from changes in ownership interest in a subsidiary."

HUNT FOODS AND INDUSTRIES, INC.
Dr.—$11,000—*"Capital Surplus*—Other changes."

FOREIGN EXCHANGE LOSSES

The committee on accounting procedure of the American Institute of Certified Public Accountants has stated, as referred to in Section 2 of this publication, in connection with the Foreign Activity Reserves: "that most foreign assets stand in some degree of jeopardy, so far as ultimate realization by United States owners is concerned." In Chapter 12 of *Accounting Research and Terminology Bulletins, Final Edition,* 1961, the committee adopted, in part, the following paragraphs:

10. Realized losses or gains on foreign exchange should be charged against or credited to operations.

11. Provision should be made, ordinarily by a charge against operations, for declines in translation value of foreign net current and working assets (unrealized losses). Unrealized gains should preferably be carried to a suspense account, except to the extent that they offset prior provisions for unrealized losses, in which case they may be credited to the account previously charged.

21. While the possibility of losses from currency devaluation may ordinarily be considered to be a risk inherent in the conduct of business in foreign countries, the world-wide scope and unprecedented magnitude of devaluations that have occurred in recent years are such that they cannot be regarded as recurrent hazards of business. Accordingly, exchange adjustments arising from such extraordinary developments, if so material in amount that their inclusion in the income statement would impair the significance of net income to an extent that misleading inferences might be drawn therefrom, appear to be of such nature that they might appropriately be charged to surplus.

During the past several years, foreign exchange losses have been incurred by companies doing business or owning assets in a number of countries, including Canada, Brazil, Argentina, and other Latin American countries. In the current survey, 43 companies reported foreign exchange losses, a substantial drop from the 112 companies reporting such losses in the 1963 survey. The information given in the 1965 reports did not always clearly identify the country whose currency was responsible for the losses. Such information as was available in the reports of the survey companies is given in the following tabulation:

	Countries*	Number of Companies
A:	Canada	5
B:	Brazil	4
C:	Latin American countries	11
D:	Country not identified	21
E:	Other	2
	Total	43

*Refer to Company Appendix Section—A: 175, 353, 446, 477, 499; B: 72, 80, 588, 592; C: 54, 205, 246, 317, 347, 419, 470, 487, 552, 563, 567; D: 31, 44, 100, 135, 142, 170, 174, 186, 226, 263, 289, 341, 343, 368, 377, 414, 421, 469, 517, 523, 560; E: 416, 516.

The methods of recording the foreign exchange losses applied by the above-mentioned 43 of the 600 companies included in this survey, have been summarized and are presented in the tabulation below. With reference to the accounting treatment of the related Federal income taxes, the analysis disclosed that 31 companies showed the full amount of the loss without any tax allocation. The remaining 12 companies did not clearly indicate their procedure in this respect.

	Account Charged:**	Number of Companies
A:	Income	32
B:	Reserve previously provided	1
C:	Income and reserves	1
D:	Account not disclosed	3
E:	Only on books of foreign subsidiary	6
	Total	43

**Refer to Company Appendix Section—A: 44, 54, 72, 100, 135, 142, 170, 174, 175, 186, 226, 263, 289, 341, 343, 353, 368, 377, 414, 416, 419, 421, 446, 469, 477, 499, 516, 517, 523, 560, 563, 567; B: 470; C: 31; D: 246, 588, 592; E: 80, 205, 317, 347, 487, 552.

Examples

Examples, which supplement the company number references indicated in the tabulations, showing the nature and extent of the information disclosed by the various companies, are presented herewith.

Charge to Income

P. R. MALLORY & CO., INC.
Notes to Financial Statements

Note 1: Principles of Consolidation—The consolidated financial statements include the accounts of the company and two wholly-owned subsidiaries (a Canadian company and a small domestic company). All significant intercompany items have been eliminated in the consolidation. Two wholly-owned Mexican subsidiaries, which are not of significant size have not been consolidated. Accounts of the consolidated Canadian subsidiary have been converted to United States dollar equivalents at appropriate exchange rates, and consolidated income has been charged with the resultant unrealized losses (minor amounts).

CHRYSLER CORPORATION
Statement of Net Earnings

Equity in net loss of unconsolidated subsidiaries (dividends and interest received amounted to $2,359,449 in 1965 and $2,260,684 in 1964)	$3,671,716

Notes to Financial Statements

International Operations: Current assets and liabilities of subsidiaries outside the United States have been converted to United States dollar equivalents generally at the lower of official rates of exchange or free rates of exchange at balance sheet date. Noncurrent assets and liabilities are converted generally at historical rates of exchange. Consolidated net earnings have been charged with exchange losses; gains are not recognized as income except to the extent of prior period losses. The Corporation provides for income taxes on unremitted profits of consolidated subsidiaries. The International Operations Reserve is available to absorb any extraordinary losses due to currency devaluation, exchange restrictions or other extraordinary risks.

THE PARKER PEN COMPANY
Year End: February 28, 1965
Notes to Financial Statements

Note 1: *Consolidated Statements*—Financial statements have been consistently prepared on a consolidated basis to include all wholly-owned domestic and foreign subsidiaries.

The accounts of foreign subsidiaries have been converted to United States dollars at market exchange rates. Net plant and equipment is carried substantially at acquisition costs; other net assets are converted at rates of exchange in effect at the end of the respective years. The income accounts, except for depreciation, have been converted at the average of monthly exchange rates. The net loss on conversion has been charged against income.

The reserve for foreign investments has been provided from income in prior years to absorb any extraordinary losses which might arise from foreign operations, including those associated with currency revaluation. On April 20, 1965, the Argentine currency was officially devalued, which results in a loss of approximately $100,000; this will be charged against the reserve in fiscal year 1966.

Earnings of foreign subsidiaries are included in consolidated net income after provision for foreign taxes on income. These earnings are subject to United States income taxes (after recognition of applicable foreign tax credits) when transferred to the parent company as dividends.

STANDARD OIL COMPANY (NEW JERSEY)
Notes to Financial Statements

Principles Applied in Consolidation: The consolidated financial statements include the accounts of the company and of those subsidiaries whose outstanding voting shares are owned directly or indirectly more than 50 per cent.

The general procedures followed in translating accounts of foreign subsidiaries into dollars are: (1) inventories, property, plant, equipment, intangibles, and permanent investments at rates prevailing at acquisition; (2) other assets and liabilities at year-end rates; and (3) revenues and expenses at average rates during the year except for provisions for depreciation, depletion, amortization, and retirements which are based on dollar equivalents of related assets. Foreign exchange differences arising from these procedures are included in consolidated net income.

UNITED MERCHANTS AND MANUFACTURERS, INC.
Year End: June 30, 1965
Notes to Financial Statements

Note A (in part): *Foreign Subsidiary Companies*—Net income of foreign subsidiaries included in consolidated net income amounted to $6,567,270 which was after deducting $4,178,495 net loss arising from translation of their financial statements to United States dollars.

There was a decline, from July 1, 1965 to September 23, 1965, in foreign rates of exchange used in translating the accounts of certain foreign subsidiaries. If the rates of exchange in effect on September 23, 1965 were applied at June 30, 1965, the stated amount of net assets of foreign subsidiaries would decrease by approximately $800,000.

Investments in foreign countries are subject to exchange regulations, but, within certain limitations, the transfer of funds from these countries is not restricted at the present time.

Charge to Reserve Previously Provided

RICHARDSON-MERRELL INC.
Statement of Earnings

Earnings for the year, including foreign income	$21,147,847
Adjustment for foreign operations	(731,000)
Earnings for the year	$20,416,847

Notes to Financial Statements

Note: The adjustment for foreign operations results from the policy of excluding from earnings for the year all unremitted income arising in countries having remittance restrictions or where danger of major currency devaluation appears to exist. Such unremitted income is included in earnings in the year of remittance. Major losses arising from devaluation are charged to the reserve applicable to foreign operations; in accordance with this policy, in 1965 a charge of $385,139 (1964—$228,050) was made to the reserve, for devaluation losses in certain Latin American countries.

Charge to Income and Reserve

AMERICAN HOME PRODUCTS CORPORATION
Income Statement

Cost of goods sold	$328,489,818
Selling, administrative and general expenses	256,433,824
Employees' insurance, annuities, etc.	8,055,764
Interest	2,125,098
Other deductions, including foreign losses and exchange adjustments	7,998,583
	603,103,087
Income before federal and foreign taxes on income	$153,694,211

Schedule of Net Foreign Assets as of December 31, 1965 and Foreign Net Income for the Year Ended December 31, 1965

Locations:	Net Assets	Net Income
Canada	$16,567,855	$ 3,641,143
England, India, Western Europe	21,276,349	7,452,772
Latin America	21,313,636	4,216,592
Australia, New Zealand, South Africa, Far East	6,335,442	1,285,962
	65,493,282	16,596,469
Provision for foreign losses and exchange adjustments	5,000,000	2,547,357*
	$60,493,282	$14,049,112

*The provision of $2,547,357, charged to 1965 consolidated net income, brought the balance in the reserve for foreign losses and exchange adjustments to $5,000,000 at December 31, 1965. This reserve had been charged during 1965 with exchange conversion adjustments of $1,047,357.

Charges Shown Only on Books of Foreign Subsidiary

EASTMAN KODAK COMPANY
Financial Review Outside the United States

Earnings from operations totaled $81.3 million, an increase of 21 percent over last year. This improvement resulted largely from operating economies, and from the favorable effect of increased volume on manufacturing costs in the plants abroad. Significantly lower income tax rates in England also contributed to the improvement in net earnings. Deterioration in the value of a few foreign currencies, chiefly in Latin America, resulted in losses of $0.9 million when financial statements of the overseas companies were translated into U.S. dollars.

LONE STAR CEMENT CORPORATION
Summary of Income and Net Assets
(Latin American Subsidiaries)

Income before exchange adjustments	$4,261,603
Net foreign exchange adjustments	(2,029,076)
Net income	$2,232,527

SHORT-FORM AUDITORS' REPORT

The short-form type of report outlines in general terms the scope of the examination made and states concisely the opinion of the independent certified public accountant regarding the fairness of the financial statements. The committee on auditing procedure of the American Institute of Certified Public Accountants is continuing its efforts to encourage uniformity in the manner in which this opinion is stated. The present form, or framework upon which each report is built, has been in use since 1948.

The committee on auditing procedure of the American Institute of Certified Public Accountants issued *Statements on Auditing Procedure No. 33* in 1963, stating in Chapter 10 that "Because of the weight which the independent auditors' opinion carries with the investing and lending public and the responsibilities he assumes in expressing it, reasonable uniformity in the manner of stating the opinion is important both to the auditor and to those who rely on his findings."

Recommended Short-Form

The recommended short-form of auditors' report reads as follows:

> We have examined the balance sheet of X Company as of June 30, 19— and the related statement(s) of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the accompanying balance sheet and statement(s) of income and retained earnings present fairly the financial position of X Company at June 30, 19—, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In *Accounting Terminology Bulletins, Review and Résumé, Number 1*,† the committee on terminology of the American Institute of Certified Public Accountants has recommended that the use of the term "surplus" be discontinued, and that the term "earned surplus" should be replaced by terms which will indicate source, such as "retained income," "retained earnings," or "accumulated earnings."

Further discussion on the use or replacement of the term "surplus" is presented in Section 1, Tables 10, 11, 12, and 13.

Modified Short-Form

The modified short-form of auditors' report differs in physical presentation from the recommended short-form, the principal change being one of formation. The opinion and scope are usually combined in a single paragraph, with the opinion sentence appearing first.

The modified short-form is shown in the following typical example:

> In our opinion, the accompanying consolidated balance sheet and related statement of consolidated income and retained earnings present fairly the financial position of Joy Manufacturing Company and its wholly owned subsidiaries at September 30, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

ADOPTION OF SHORT-FORM

The survey of the 600 annual reports for the year 1965 indicated that the reports of all of the companies contained the recommended short-form auditors' report or its modified version. The various other forms of auditors' reports formerly presented, of which there were 16 in 1950, have now been eliminated in the trend toward uniformity in this respect. In 1965 the recommended short-form has been used in 492 reports, and the modified version in 108 reports.

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

WORDING VARIATIONS

The auditors of 474 of the survey companies presented 788 minor wording variations in their reports on the financial statements for 1965. The variations are summarized in Table 1. While the wording in the auditors' report does not always follow word for word the exact wording in the classifications in the tabulation, the wording is similar and is included to avoid useless proliferation. Most of the companies using the modified short-form report, used "these" or "those" statements instead of "such" statements in the final sentence.

Since examples of wording variations will be found throughout this section where auditors' reports illustrate other procedures, no examples are given here.

TABLE 1: MINOR WORDING VARIATIONS FOUND IN AUDITORS' REPORTS

Wording Variation Used*	Wording Variation found in Recommended Form	Wording Variation found in Modified Form
A: "at" or "as at" used instead of "as of" in opening sentence of report, or "as of" or "as at" used instead of "at" in opinion paragraph	150	—
B: "as of . . . (date shown)" omitted in opening sentence, and the phrase, "for the year then ended" in scope paragraph modified to read, "for the year ended . . . (date shown)," or "for 196—," or "for the year"	39	—
C: "financial statements," or "the accompanying statements," or "statements mentioned (or listed) above" substituted for detailed listing of statements (i.e., balance sheet, etc.) in either scope or opinion paragraph	232	20
D: "similar examination for the preceding year," or similar phrase added	120	3
E: "for the fiscal year" or "for the year" or "for the year ended on that date" used in referring to calendar year closing instead of "for the year then ended"	6	84
F: "in conformity with generally accepted accounting principles" amplified to read "and were prepared in conformity with generally accepted accounting principles"	1	—
G: "generally accepted accounting principles applied on a basis consistent with that of the preceding year" replaced, in some opinions covering two years, by the phrase, "generally accepted accounting principles applied on a consistent basis"	76	2
H: the consistency phrase enlarged to include the words "in all material respects"	2	1
I: "of the company" used without stating its name	46	—
J: "of such statements" omitted	—	4
K: "in the circumstances" omitted	—	2
Totals	672	116

*Refer to Company Appendix Section—A: 33, 95, 138, 161, 257, 282, 339, 382, 429, 488, 554, 598; B: 36, 84, 108, 175, 251, 279, 354, 395, 452, 468, 568, 591; C: 60, 106, 121, 183, 246, 260, 318, 361, 446, 490, 545, 600; D: 27, 83, 134, 177, 238, 285, 341, 383, 420, 457, 530, 582; E: 16, 73, 116, 174, 200, 272, 323, 363, 418, 436, 548, 573; F: 413; G: 19, 66, 108, 151, 175, 226, 279, 332, 383, 417, 456, 548, 583; H: 54, 292, 317; I: 8, 39, 100, 176, 213, 289, 321, 340, 440, 479, 519, 586; J: 62, 263, 272, 317; K: 307, 317.

"GENERALLY ACCEPTED AUDITING STANDARDS"

The following paragraph is taken from paragraph 1 of Chapter 2 of *Statements on Auditing Procedure No. 33* which was issued in 1963 by the committee on auditing procedure of the American Institute of Certified Public Accountants.

> Auditing standards differ from auditing procedures in that "procedures" relate to acts to be performed, whereas "standards" deal with measures of the quality of the performance of those acts and the objectives to be attained by the use of the procedures undertaken. *Auditing standards* as thus distinct from *auditing procedures* concern themselves not only with the auditor's professional qualities but also with the judgment exercised by him in the performance of his examination and in his report.

None of the 600 survey companies' annual reports qualified the recommended report statement that the auditors' examination has been made "in accordance with generally accepted auditing standards."

The 1948 revision of the recommended short-form report eliminated the reference to a review of the system of internal control since it is implied in the wording "generally accepted auditing standards."

"SUCH OTHER AUDITING PROCEDURES"

The second sentence of the scope paragraph of the independent auditors' report reads as follows:

"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."

The committee on auditing procedure of the American Institute of Certified Public Accountants in Chapter 6, *Statements on Auditing Procedure No. 33* (1963), stated:

16. By vote of the Institute's membership in 1939 confirmation of receivables and observation of inventories were established as generally accepted auditing procedures, where they are practicable and reasonable and the assets concerned are material to financial position or results of operations. The procedures must be both practicable and reasonable. . . .

One of the auditors' reports (*317) of the 600 survey companies omitted reference to "such other auditing procedures." However, for the year 1965, 41 of these reports also referred to the omission of certain normal auditing procedures, stating in all cases that other procedures were employed.

Omission of Auditing Procedures

Table 2 discloses that 41 auditors' reports of the 1965 survey companies revealed 47 instances of omission of certain normal auditing procedures. All of these omissions pertained to the confirmation of accounts receivable, including 38 with regard to United States Government accounts, in which it was stated that other auditing procedures had been applied.

Nine of the 41 reports referred to above (*6, 89, 194, 221, 292, 409, 508, 525, 598) did not contain the phrase "we have satisfied ourselves by means of other auditing procedures." This wording was recommended in *Statement No. 26* issued by the Institute's committee on auditing procedure in 1956. However, in all nine reports the auditors indicated or implied their satisfaction by the use of other terms or similar wording.

Representative examples are as follows:

Confirmation of Accounts Receivable—U. S. Government

Board of Directors,
Cutler-Hammer, Inc.:

We have examined the statement of consolidated financial position of Cutler-Hammer, Inc., and Consolidated Subsidiaries as at December 31, 1965, and the related statements of consolidated income and earnings retained in the business and source and application of funds 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. It was not practicable to confirm receivables from the United States Government, but we satisfied ourselves as to their substantial accuracy by other auditing procedures.

In our opinion, the accompanying statements of consolidated financial position and consolidated income and earnings retained in the business and source and application of funds present fairly the financial position of the companies as at December 31, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Certificate of Audit—February 1, 1966.*

*Refer to Company Appendix Section.

TABLE 2: AUDITING PROCEDURES

Normal Procedures Omitted*	1965	1960	1955	1950
Confirmation of Accounts Receivable, with report—				
Stating that other procedures were employed:				
A: For government accounts	38	43	48	23
B: For foreign accounts	3	1	1	3
C: For other accounts	6	4	2	—
Detailing the other procedures employed for foreign accounts	—	1	1	1
Confirmation of Accounts Payable, with report—				
Stating that other procedures were employed for government accounts	—	—	1	1
Observation and Test of Inventories, with report—				
Stating that other procedures were employed	—	—	3	1
Detailing the other procedures employed	—	1	2	1
Not referring to other procedures	—	—	1	2
Verification of Investment in Subsidiary	—	3	1	3
Total	47	53	60	35
Normal Procedures Explained				
Confirmation of Accounts Receivable or Payable	—	—	2	6
Observation and Test of Inventories	—	1	6	12
Verification of Other Assets	—	—	—	7
Total	—	1	8	25
Number of Reports:				
Containing no reference to the omission of auditing procedures and no explanation regarding auditing procedures employed	558	549	534	552
Containing no reference to the omission of auditing procedures with supplementary explanation of certain normal auditing procedures employed	—	1	6	13
Referring to the omission of certain normal auditing procedures	41	49	59	32
D: Omitting reference to "auditing procedures"	1	1	1	3
Total	600	600	600	600

*Refer to Company Appendix Section—A: 6, 71, 89, 97, 129, 146, 166, 181, 182, 194, 212, 220, 221, 230, 245, 271, 283, 290, 292, 334, 345, 359, 385, 409, 411, 454, 460, 476, 508, 509, 514, 525, 527, 530, 543, 555, 574, 598; B: 23, 245, 509; C: 194, 208, 411, 527, 540, 543; D: 317.

The Directors,
TRW Inc.:

We have examined the consolidated balance sheet of TRW Inc. and subsidiaries as of December 31, 1965, and the related statements of income and retained income and shareholders' investment 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. It was not practicable to confirm by direct communication all amounts receivable from the United States Government and certain other customers, but we satisfied ourselves as to such amounts by means of other auditing procedures. We made a similar examination of the consolidated financial statements of the Company and subsidiaries for the year 1964.

In our opinion, the accompanying balance sheet and statements of income and retained income and shareholders' investment present fairly the consolidated financial position of TRW Inc. and its subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, it is our opinion that the accompanying statement of source and application of funds presents fairly the factors contributing to the changes in working capital.—*Accountants' Report—February 7, 1966.*

To the Stockholders of
United Aircraft Corporation:

In our opinion, the accompanying balance sheet and statements of earnings and of earnings retained in the business present fairly the financial position of United Aircraft Corporation and consolidated domestic subsidiaries at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements 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. Receivables from the United States Government were not confirmed, but we have satisfied ourselves as to these balances by means of other auditing procedures.—*Accountants' Report—February 28, 1966.*

Confirmation of Accounts Receivable—Foreign Accounts

To the Board of Directors and the Stockholders of
American Bank Note Company:

In our opinion, the accompanying consolidated balance sheet, the related statement of income and earnings reinvested and the statement of source and use of funds present fairly the financial position of American Bank Note Company and its subsidiary companies at December 31, 1965, the results of their operations for the year and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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. It was not practicable to obtain confirmation of receivables from customers in certain foreign countries by direct correspondence, but we satisfied ourselves as to these amounts by means of other auditing procedures.—*Opinion of Independent Accountants—February 17, 1966.*

The Board of Directors and Shareowners,
Sparton Corporation:

We have examined the accompanying consolidated balance sheet of Sparton Corporation and subsidiaries at June 30, 1965 and the related consolidated statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm amounts due from the U. S. and Canadian governments, as to the substantial accuracy of which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Sparton Corporation and subsidiaries at June 30, 1965 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Report—August 17, 1965.*

Confirmation of Accounts Receivable—Various Other

To the Board of Directors,
The Electric Storage Battery Company:

We have examined the consolidated statement of financial position of The Electric Storage Battery Company and its consolidated subsidiaries as of December 31, 1965 and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances; however, as to those accounts receivable for which it was not practicable to obtain confirmation, we have satisfied ourselves by means of other auditing procedures. We previously examined and reported upon the consolidated financial statements of the company and its consolidated subsidiaries for the year ended December 31, 1964.

In our opinion, the aforementioned statements present fairly the consolidated financial position of The Electric Storage Battery Company and its consolidated subsidiaries as of December 31, 1965 and 1964 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditor's Report—February 11, 1966.*

The Board of Directors,
Texas Instruments Incorporated:

We have examined the accompanying consolidated balance sheet of Texas Instruments Incorporated and subsidiaries at December 31, 1965, and the related consolidated statements of income and retained earnings and of sources and uses of working capital 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. It was not practicable to confirm certain accounts receivable, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Texas Instruments Incorporated and subsidiaries at December 31, 1965, the consolidated results of their operations, and sources and uses of their consolidated working capital for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants Report—February 10, 1966.*

STANDARDS OF REPORTING

In Chapter 2 of *Statements on Auditing Procedure No. 33* (1963), the committee on auditing procedure of the American Institute of Certified Public Accountants set forth standards of reporting as follows:

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.
2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an over-all opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

In the observance of generally accepted auditing standards, the auditor must exercise his judgment in determining the necessary procedures. This judgment is required to be the informed judgment of a qualified professional person.

PRESENTATION OF FINANCIAL STATEMENTS

In Accordance with Generally Accepted Accounting Principles

None of the 600 companies in the survey for 1965 qualified their reports with respect to generally accepted principles of accounting. Since all 600 companies conformed in this respect, references to qualifications of generally accepted principles of accounting have been omitted from Table 3.

TABLE 3: STANDARDS OF REPORTING

Auditors' Report:*	1965	1960	1955	1950
Principles Consistently Observed				
A: States that generally accepted principles of accounting have been consistently observed in the current period in relation to the preceding period	538	552	515	507
B: States that generally accepted principles of accounting have been consistently observed in the current period after the restatement of prior year's figures	23	6	—	—
C: Sets forth certain exceptions to the consistent observation of generally accepted principles of accounting in the current period in relation to the preceding period	39	41	85	92
Omits reference to consistent observation of generally accepted principles of accounting	—	1	—	1
Total	600	600	600	600
Informative Disclosures				
D: Contains informative disclosures or explanatory remarks	13	20	25	21
Does not contain informative disclosures or explanatory remarks	587	580	575	579
Total	600	600	600	600
Expression of Opinion				
Contains an unqualified expression of opinion	549	532	503	489
Contains a qualified expression of opinion	50	68	97	111
Disclaims an opinion	1	—	—	—
Total	600	600	600	600

*Refer to Company Appendix Section—A: All 600 companies not specifically listed below under captions B and C; B: 15, 27, 35, 37, 38, 63, 66, 76, 101, 246, 256, 266, 275, 294, 308, 347, 360, 450 452, 480, 496, 502, 576; C: 54, 70, 81, 82, 97, 161, 166, 181, 189, 192, 206, 215, 218, 244, 268, 269, 272, 323, 334, 336, 337, 338, 379, 383, 416, 427, 441, 445, 457, 471, 479, 483, 522, 523, 536, 553, 586, 588, 589; D: 34, 66, 97, 166, 180, 210, 297, 347, 473, 514, 522, 523, 553.

Accounting Principles Consistently Observed

The second standard of reporting requires that the independent auditors' report shall state whether such principles of accounting have been consistently observed in the current period in relation to those in the preceding period.

In *Statements on Auditing Procedure No. 33* (1963), Chapter 8, the committee on auditing procedure of the American Institute of Certified Public Accountants stated, in part, regarding consistency:

3. The objective of the consistency standard is:
   (1) To give assurance that the comparability of financial statements as between periods has not been materially affected by changes in the accounting principles employed or in the method of their application; or
   (2) If comparability has been materially affected by such changes, to require a statement of the nature of the changes and their effects on the financial statements.

> 23. When a change has been made in the accounting principles employed and the accounts have been adjusted retroactively, it is desirable to restate financial information which is presented for any prior year, or years, affected. Such a restatement places all the periods being compared on the same basis with respect to the use and application of accounting principles.

The number of reports revealing exceptions to the consistent application of generally accepted accounting principles as set forth in Table 3 indicates that there were 39 in 1965. The sharp decrease in the number of companies (from 80 in 1964 to 39 in 1965) taking exception to the consistent application of generally accepted principles of accounting was mostly due to the change in the treatment of the investment credit as permitted by the Revenue Act of 1964. Only four companies qualified their opinions as a result of the change in the treatment of investment credit in 1965, while 60 companies disclosed this qualification in 1964.

All of these reports disclosed the nature of the changes and their effect on financial statements. Twenty-three additional reports stated that generally accepted principles of accounting had been consistently observed in the current period after the restatement of prior years' figures. Representative examples of these reports are shown in this section together with examples of qualified opinions.

EXPRESSION OF OPINION

In Chapter 10 of *Statements on Auditing Procedure No. 33* (1963), the committee on auditing procedure of the American Institute of Certified Public Accountants said in part concerning *qualifications and disclosures*:

> 2. The objective of the fourth reporting standard is to prevent misinterpretation of the degree of responsibility the independent auditor is assuming whenever his name is associated with financial statements. In considering the degree of responsibility he is assuming, the auditor must bear in mind that justification for the expression of his opinion, whether qualified or unqualified, rests on the degree to which the scope of his examination conforms with generally acceptable auditing standards.
>
> 3. Although the fourth reporting standard states that "The report shall either contain an expression of opinion regarding the financial statements taken as a whole, or an assertion to the effect that an opinion cannot be expressed," this standard does not preclude the expression of separate opinions on financial position and results of operations. The independent auditor may express an unqualified opinion on one of the financial statements and disclaim an opinion or express a qualified or an adverse opinion on the others.
>
> 9. When a qualified opinion is intended by the independent auditor, the opinion paragraph of the standard short-form report should be modified in a way that makes clear the nature of the qualification. . . .
>
> 10. The use of phrases that include either "except" or "exception" in qualified opinions on financial statements is recommended. However, in certain cases where the outcome of a matter is uncertain the phrase "subject to" may be appropriate. Phrases such as "with the foregoing explanation" are generally not clear or forceful enough for a qualification and should not be used to qualify an opinion.
>
> 11. Any modifying phrases in the standard short-form opinion paragraph (or sentence) should be considered as qualifying the opinion in some manner; . . .

Table 4 reveals that in the 50 auditors' reports that expressed qualified opinions in 1965, there were 56 instances of qualifications, 43 of which related to consistency, and 13 to fair presentation.

Changes in accounting for depreciation, and for various other income and cost items, changes in principles of consolidation and in inventory pricing methods were, in 1965 as in previous years, the principal reasons for consistency qualifications.

An unqualified expression of opinion was given in 549 of the auditors' reports of the 600 survey companies. One auditor in his report on the examination of one company (*283) did not express any opinion on the financial statements taken as a whole. The remaining reports contained qualified expressions of opinion (refer to Tables 3, 4, and 5). Representative examples of such opinions are shown later on in this section.

Auditors' Specific Approval or Disapproval of Accounting Changes

Another recommendation of the committee on auditing procedure of the American Institute of Certified Public Accountants, contained in *Statements on Auditing Procedure No. 33* (1963), is that:

> 18. When the client makes a change from the use of one generally accepted accounting principle, practice or method of application to another which is generally accepted, the independent auditor need not indicate whether he approves or accepts the change. Although reference to the change is required in his opinion, the absence of qualification regarding fair presentation in conformity with generally accepted accounting principles is sufficient to indicate that the independent auditor considers the newly adopted accounting principle to be generally accepted. However, if he wishes, the independent auditor may express his approval of the change in his report. . . .

*Refer to Company Appendix Section.

TABLE 4: AUDITORS' OPINION QUALIFIED

Reason for Qualification*	1965	1960	1955	1950
Changes in Consistent Application of Generally Accepted Principles of Accounting				
Assets and Liabilities:				
Lifo inventory method—initial adoption or readoption	—	1	5	47
A: Lifo inventory method — abandonment or modification	1	5	3	14
B: Other methods of inventory valuation	4	5	7	3
C: Fixed assets	1	1	1	1
D: Other assets	2	1	2	—
E: Liabilities	1	1	—	1
F: Deferred credits or Surplus adjustments	1	5	—	—
Income and Expense:				
Deferred income	—	3	1	—
Vacation pay deduction	—	2	7	—
G: Depreciation, depletion, amortization	17	8	48	5
H: Other income and cost items	6	11	14	21
I: Investment credit	4	—	—	—
Principles of Consolidation:				
J: Change in consolidation policy	5	11	10	6
K: Preceding year statements not restated in "pooling" of interest	1	—	—	—
Total	43	54	98	98
Reasons for Qualification as to Fair Presentation:				
L: Federal income taxes	6	7	8	15
M: Contingencies, uncertainty, litigation	5	15		
Scope of examination	—	—	1	2
N: Miscellaneous	2	2	2	1
Total	13	24	11	18
Number of Auditors' Reports Containing:				
An unqualified expression of opinion	549	532	503	489
A qualified expression of opinion	50	68	97	111
Disclaimer of an opinion	1	—	—	—
Total	600	600	600	600

*Refer to Company Appendix Section—A: 269; B: 54, 97, 445, 553; C: 379; D: 441, 586; E: 383; F: 416; G: 70, 166, 181, 189, 215, 218, 244, 337, 338, 416, 471, 479, 522, 536, 553, 588, 589; H: 81, 192, 336, 457, 523, 553; I: 161, 268, 323, 427; J: 206, 272, 334, 416, 483; K: 82; L: 102, 251, 387, 508, 514, 571; M: 194, 210, 470, 522, 572; N: 392, 514.

Table 5 reveals that in 33 instances the auditors expressed their approval of accounting changes made, while in 10 instances the changes were neither approved nor disapproved.

According to *Statements on Auditing Procedure No. 33* (1963), previously referred to, the use of the approval clause is also optional with regard to restated financial statements. Seven out of 23 auditors' reports referring to statements restated because of changes in accounting principles employed, expressed approval of the changes (*15, 37, 38, 76, 246, 294, 496) while in the remaining 16 reports the auditors used no such expression.

Qualifications as to Fair Presentation

Statements on Auditing Procedure No. 33 (1963), previously mentioned, contains the following statement regarding "Unusual Uncertainties" affecting financial position and results of operations:

> 45. The management of a company ordinarily is expected to evaluate matters affecting financial position and results of operations. In cases where the probable effects of a matter are not reasonably determinable at the time of the opinion, such as in the case of certain lawsuits, tax matters, and other contingencies which may have a material effect upon the financial statements, and the final outcome is dependent upon the decision of parties other than management, the independent auditor should appropriately qualify his opinion. In such instances use of the phrase "subject to" is appropriate. . . .
>
> 46. Occasionally, uncertainties arising from questions of valuation or realizability of assets dependent upon management's judgment may require a qualification of opinion. In such cases, use of the phrase "subject to" is also considered appropriate. . . .

Twelve auditors' reports of the survey companies, as may be noted from Table 4, disclosed 13 qualifications as to fair presentation of certain items. The main causes for qualifications were specific contingencies with regard to Federal income taxes, matters in litigation, or uncertainty as to the valuation of specific assets.

Eleven of these reports used the recommended phrase "subject to" (*102, 194, 210, 251, 387, 392, 470, 508, 522, 571, 572); in one other report (*514) the phrase "except for" was employed.

Examples of Qualified Opinions

The examples which follow were selected from the 1965 annual reports and are illustrative of the presentation of the qualified opinions indicated in Tables 4 and 5, including opinions on restated financial statements referred to in Table 3.

*Refer to Company Appendix Section.

TABLE 5: AUDITORS' SPECIFIC APPROVAL OR DISAPPROVAL OF CHANGES IN CONSISTENT APPLICATION OF GENERALLY ACCEPTED PRINCIPLES OF ACCOUNTING

	1965*			1960*			1955*			1950*		
Nature of Change**	A	D	N	A	D	N	A	D	N	A	D	N
Assets and Liabilities:												
Lifo inventory method—initial adoption or readoption	—	—	—	—	—	—	5	—	—	41	—	6
Lifo inventory method—abandonment or modification	1	—	—	1	—	4	3	—	—	13	—	1
Other methods of inventory valuation	4	—	—	3	—	2	7	—	—	3	—	—
Fixed assets	1	—	—	—	—	1	1	—	—	1	—	—
Other assets	2	—	—	1	—	—	1	—	1	—	—	—
Liabilities	1	—	—	1	—	—	—	—	—	—	—	1
Deferred credits or Surplus adjustments	—	—	1	5	—	—	—	—	—	—	—	—
Income and Expense:												
Deferred income	—	—	—	2	—	1	1	—	—	—	—	—
Vacation pay deduction	—	—	—	2	—	—	4	—	3	—	—	—
Depreciation, depletion, amortization	12	—	5	8	—	1	37	—	11	4	1	—
Other income and cost items	6	—	—	8	—	3	8	1	5	17	2	2
Investment credit	3	—	1	—	—	—	—	—	—	—	—	—
Principles of Consolidation:												
Change in consolidation policy	3	—	2	9	—	2	7	—	3	3	—	3
Preceding year statements not restated in "pooling" of interest	—	—	1	—	—	—	—	—	—	—	—	—
Total	33	—	10	40	—	14	74	1	23	82	3	13

*Summary of Auditors' Approval or Disapproval	1965	1960	1955	1950
A—Approved	33	40	74	82
D—Disapproved	—	—	1	3
N—Neither approved nor disapproved	10	14	23	13
Total	43	54	98	98

**Refer to Table 4 for reference to company numbers.

CONSISTENCY IN APPLICATION OF ACCOUNTING PRINCIPLES

Changes in Inventory Pricing

The Board of Directors,
Anderson, Clayton & Co.:

We have examined the consolidated balance sheet of Anderson, Clayton & Co. and consolidated subsidiaries as of July 31, 1965, the combined balance sheet of the Latin American subsidiaries of Anderson, Clayton & Co. as of July 31, 1965 and the related statements of income and retained earnings for the year then ended. 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 accompanying consolidated balance sheet and statements of consolidated income and retained earnings of Anderson, Clayton & Co. and consolidated subsidiaries and the combined balance sheet and statements of combined income and retained earnings of the Latin American subsidiaries of Anderson, Clayton & Co. present fairly their respective financial positions at July 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change in pricing of inventories of the Latin American subsidiaries as described in Note 3 to the combined financial statements, with which we agree, were applied on a basis consistent in all material respects with that of the preceding year.—*Accountants' Report—September 15, 1965.*

Notes to Combined Financial Statements

Note 3: Cotton inventories are valued on the basis of world market prices with allowances for freight, compression and other items. Other inventories are valued as follows: coffee and sisal, which are included in finished products, at market less selling cost and other items; other finished products, work-in-process and raw materials at the lower of cost or market; and supplies at cost or less. The companies changed their method of inventory pricing for finished products other than coffee and sisal during the year resulting in a reduction in net income of approximately $594,000.

The President and Board of Directors,
Graniteville Company:

We have examined the balance sheet of Graniteville Company as of January 1, 1966, and the related statement of income and earnings retained for use in the business 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 accompanying balance sheet and statement of income and earnings retained for use in the business, together with the notes thereto, present fairly the financial position of Graniteville Company at January 1, 1966, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change to an accepted alternative method of valuing a portion of its inventories, which we approve, described in Note 4.—*Report of Certified Public Accountants—January 22, 1966.*

Note 4: *Accounting Change and Taxes*—During the year the Company began valuing the synthetic fiber content of its inventories or raw materials, stock in process and finished goods on the basis of the lower of average cost or market, a change from the prior use of the Lifo method. The effect of this change was an increase in inventory value of $1,753,173 at January 1, 1966, and an increase in 1965 net income of approximately $848,263.

Had the lower of average cost or market method been consistently applied, over the years, the 1965 net income would have been approximately $5,506,800 and the 1964 net income would have been approximately $4,783,729.

To Polaroid Corporation:

In our opinion, the accompanying Consolidated Statement of Financial Condition and Related Statement of Earnings, and the Notes relating thereto, fairly present the condition of Polaroid Corporation and its Consolidated Subsidiaries at December 31, 1965 and the results of their operations for the year ended December 31, 1965 in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except as stated in Note C, in which change we concur.

Our examination of these statements 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.—*Auditor's Certificate—February 1, 1966.*

Note C: Merchandise and Supplies Inventories were valued at cost (first in, first out) or market value, whichever was lower. Classification of inventories for the respective years was as follows:

Raw Materials, Supplies and Work in Process	$12,210,033
Finished Goods	8,834,338
	$21,044,371

In the pricing of the December 31, 1965 inventory, applicable amounts of depreciation were included which in former annual reports to stockholders were not so included. This resulted in an increase in inventory value of $207,785. As a result of such change in the method of valuing inventory, net earnings were increased by $92,300 or about ½¢ per share.

Changes in the Accounting for Other Assets and Liabilities

The Shareowners,
Mohasco Industries, Inc.:

We have examined the consolidated balance sheet of Mohasco Industries, Inc. and subsidiaries as of December 31, 1965 and the related statements of earnings, retained earnings and capital surplus and the statement of source and application of funds 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 accompanying consolidated balance sheet and statements of consolidated earnings, retained earnings and capital surplus present fairly the financial position of Mohasco Industries, Inc. and subsidiaries at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change, which we approve, in the method of accounting for certain leased properties explained in note 4 to the consolidated financial statements, were applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds for the year ended December 31, 1965 presents fairly the information shown therein.—*Report of Independent Certified Public Accountants—February 16, 1966.*

Note 4: *Property, Plant and Equipment*—In 1965 and prior years the company entered into several long-term leases for manufacturing facilities to be constructed by various local government bodies from the proceeds of the sale of industrial revenue bonds. Inasmuch as the leases provide for annual rentals over the initial terms in amounts sufficient to cover bond principal and interest, and for renewals at substantially reduced annual rentals, the company, in accordance with recommendations of the Accounting Principles Board of the American Institute of Certified Public Accountants, capitalized as of January 1, 1965, the remaining principal payments ($10,390,341 at December 31, 1965) under such leases and reflected the related liability. The capitalized amounts are included in property, plant and equipment and are being depreciated over their estimated useful lives. The effect of this change on consolidated net earnings for 1965 was not significant.

To the Shareholders of
Westinghouse Air Brake Company:

We have examined the consolidated balance sheet of Westinghouse Air Brake Company and its consolidated subsidiaries as of December 31, 1965 and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of certain foreign subsidiaries not consolidated, but we were furnished with reports of other accountants on their examinations of the statements of those subsidiaries. Our opinion expressed below, insofar as it relates to the amounts included for equities in net assets and net incomes of those subsidiaries, is based solely upon such reports.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the financial position of the companies at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied (except for the change, which we approve, to the equity method of accounting for investments in subsidiaries not consolidated, as explained in Note 1 to the financial statements) on a basis consistent with that of the preceding year.—*Accountants' Opinion—January 27, 1966.*

Note 1: The consolidated financial statements include the Company and all its domestic and Canadian majority-owned subsidiaries.

At December 31, 1964, investments in capital stocks and advances to subsidiaries not consolidated were carried principally at cost or written down value less a reserve of $1,097,051. Commencing in 1965, investments in subsidiaries not consolidated are carried at the Company's equity in the net assets of such subsidiaries, after providing for taxes which may be payable if the undistributed earnings were transferred to the parent Company, less a reserve of $1,097,051 for possible losses. The excess of net assets of such subsidiaries over the carrying value thereof as of January 1, 1965 of $6,758,614 was credited to retained earnings in 1965. The Company's equity in the net income of these subsidiaries for the year 1965 was credited to income. This credit was $1,005,807 in excess of dividends received during the year from such subsidiaries.

Other security investments are carried at cost or written down values less a reserve for possible losses of $353,541. The Company's equity in the net assets of other security investments at December 31, 1965 and 1964 exceeded the carrying value thereof by $19,900,000 and $17,900,000 respectively.

To the Board of Directors of
Moore Drop Forging Company:

We have examined the statement of financial position of Moore Drop Forging Company as of June 30, 1965, and the related statements of operations, capital surplus and earnings retained in the business 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. We have made a similar examination for the year ended June 30, 1964.

In our opinion, the accompanying statement of financial position and the related statements of operations, capital surplus and earnings retained in the business present fairly the financial position of Moore Drop Forging Company at June 30, 1965 and 1964, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, which we approve, in the method of handling a long-term lease as described in Note 4 to the financial statements.—*Report of Certified Public Accountants—August 5, 1965.*

Note 4: The company entered into a lease agreement for manufacturing facilities in Hillsboro, Ohio during 1960. The lease runs for 20 years with two ten-year renewal options. Under the terms of the lease, the lessee is granted an option to purchase the property at the landlord's depreciated tax cost at any time prior to one year before the expiration date of the lease or any renewal period. In order to conform with accounting principles, which during the period since the last fiscal year of the company have become generally advocated, the company, as of June 30, 1965, changed its accounting practice to reflect the leasehold interest as an asset and the commuted value of the company's liability to pay rent (for the initial and extended periods of the lease) plus the estimated cost of exercising the purchase option at the expiration of the lease as long-term debt.

Pittsburgh Plate Glass Company,
Its Shareholders and Directors:

We have examined the financial statements of Pittsburgh Plate Glass Company and its consolidated subsidiaries for the year ended December 31, 1965. 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. We did not examine the financial statements of certain Canadian subsidiaries consolidated and certain jointly-owned foreign companies the investments in which are carried at equity, but we were furnished with reports of other accountants on their examinations of the financial statements of such companies for the year. Our opinion expressed below, insofar as it relates to the amounts included for such companies, is based solely upon such reports.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated earnings, earnings retained for use in the business, and sources and uses of funds present fairly the financial position of Pittsburgh Plate Glass Company and consolidated subsidiaries at December 31, 1965 and the results of their operations and sources and uses of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent (except for the change, which we approve, to the equity method of accounting for investments in jointly-owned companies, as explained in Note 1 to the financial statements) with that of the preceding year.—*Accountants' Opinion—February 2, 1966.*

Note 1: *Principles of Consolidation*—The consolidated financial statements include all majority-owned domestic, Canadian and European subsidiaries. Beginning in 1965, the Company's equity in the undistributed earnings of jointly-owned companies located in the aforementioned geographical areas are included in the financial statements. The effect of this change in policy was to increase 1965 earnings by $268,000. Items in foreign currencies have been converted into United States dollars generally at the current rate of exchange as to current assets and current liabilities and at the average rate of exchange for the year as to profit and loss accounts. Property, investments, long-term liabilities, and capital accounts have been converted on the basis of rates of exchange at the date acquired or incurred.

Changes in the Accounting for Depreciation, Depletion, and Amortization

The Stockholders and Board of Directors,
Automatic Canteen Company of America:

We have examined the consolidated balance sheet of Automatic Canteen Company of America and subsidiaries as of October 2, 1965, the consolidated balance sheet of Commercial Discount Corporation and subsidiaries as of September 30, 1965 and the related statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Automatic Canteen Company of America and subsidiaries at October 2, 1965 and of Commercial Discount Corporation and subsidiaries at September 30, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change (which we approve) in the method of computing depreciation of Automatic Canteen Company of America described in note 3 to the related financial statements, were applied on a basis consistent with that of the preceding year.—*Auditors' Report—December 7, 1965.*

Note 3: *Depreciation and Federal Income Taxes*—Following changes in Treasury Department regulations in 1965, the Company changed its method of computing depreciation from a composite account to a year of addition basis resulting in a decrease in depreciation expense of approximately $2,600,000 and an increase in net earnings of approximately $1,300,000 equivalent to 20¢ a share.

Deferred federal income taxes result primarily from computing depreciation on certain assets acquired in 1962 and 1965 on an accelerated basis for tax purposes only, which amount has been offset in part by future tax benefits of certain items which have been expensed in the financial statements but not for tax purposes.

Federal income taxes provided for 1965 and 1964 were reduced by the application of investment credits of approximately $700,000 and $350,000, respectively. The Company has a carryover of investment credits which could not be utilized in prior years; $190,000 of this was included in the foregoing reduction of 1965 federal income taxes and the balance of $1,165,000 may become allowable for offset against future taxes.

The Internal Revenue Service is examining the federal income tax returns of the Company and certain subsidiaries for the years 1958 through 1962. Deficiencies, if any, that may be proposed are not expected to materially affect the consolidated financial statements.

To the Shareowners of
Diamond International Corporation:

We have examined the statement of consolidated financial condition of Diamond International Corporation and its subsidiaries as of December 31, 1965 and the related statements of consolidated income and earnings retained and of consolidated source and disposition of funds 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 accompanying statements present fairly the financial position of Diamond International Corporation and its subsidiaries at December 31, 1965 and the results of their operations and the source and disposition of their funds for the year then ended, in conformity with generally accepted accounting principles applied, except for the change in the method of computing depreciation described in note 2 to the financial statements, on a basis consistent with that of the preceding year.—*Report of Certified Public Accountants—February 24, 1966.*

Note 2: As of January 1, 1965, the Company changed its method of computing depreciation for most property, plant and equipment acquired since December 31, 1953, from the declining balance method or the sum-of-the-years-digits method to the straight line method and continued to use the straight line method for its other properties. The accelerated methods and "Guidelines" depreciation were continued for income tax purposes. The effect of this change was to decrease depreciation in 1965 by $2,148,000 and, after provision for deferred Federal income taxes, to increase net income for the year by $1,117,000.

Board of Directors,
Eversharp, Inc.:

We have examined the accompanying consolidated balance sheet of Eversharp, Inc. and subsidiary companies as of December 31, 1965 and the related statements of earnings and retained earnings and additional paid-in capital for the year then ended, and the statement of changes in working capital. 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 financial statements referred to above present fairly the consolidated financial position of Eversharp, Inc. and subsidiary companies at December 31, 1965 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, with respect to depreciation (Note 3). Further, it is our opinion that the statement of changes in working capital presents fairly the information therein set forth.—*Auditors' Report—February 17, 1966.*

Note 3: *Change in Accounting Method*—Because of the substantial additions to property in the last three years, the Company as of January 1, 1965, changed its method of computing depreciation on substantially all property acquired subsequent to 1962 from the declining balance method to the straight-line method. The declining balance method was continued for property acquired prior to 1963. Had the prior method of depreciation been continued, net earnings, as reported, would have been reduced by approximately $340,000.

To the Stockholders and Directors of
West Virginia Pulp and Paper Company:

In our opinion, the statements on pages 14 through 18 present fairly the financial position of West Virginia Pulp and Paper Company and its consolidated subsidiary company at October 31, 1965, the results of their operations and the supplementary information on working capital for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in computing depreciation as described in Note B to the financial statements. Our examination of these statements 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.—*Opinion of Independent Accountants—November 24, 1965.*

Note B: On November 1, 1964, the Company changed, for financial accounting purposes, from an accelerated method of computing depreciation to the straight-line method. Principally as a result of this change, reported depreciation for the year was reduced $6,851,000 and after providing for the related deferred federal income taxes, net income was increased $3,540,000.

Use of the accelerated method as well as the depreciation guidelines established by the U.S. Treasury Department in 1962 is being continued for income tax purposes, and as a result, 1965 income tax payments are reduced $5,122,000. This did not affect 1965 net income, however, since the 1965 provision for federal income taxes includes an equivalent amount as deferred federal income taxes.

The investment tax credit allowed under the Internal Revenue Code amounted to $1,721,000 in 1965 (1964—$1,529,000) and has been included in net income as a reduction of the provision for federal income taxes.

Board of Directors,
R. G. LeTourneau, Inc.:

We have examined the consolidated statement of financial position of R. G. LeTourneau, Inc. and Subsidiaries as of December 31, 1965 and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the consolidated financial position of R. G. LeTourneau, Inc. and Subsidiaries at December 31, 1965 and the consolidated results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, in which we concur, in the method of depreciation of fixed assets as described in Note 5 to the consolidated financial statements.—*Report of Certified Public Accountants—February 18, 1966.*

Note 5: In 1965, the Company adopted the accelerated method of depreciation on current additions to fixed assets for both financial reporting and federal income tax purposes. Had the Company not changed from the straight-line method to the accelerated method on current additions, net income would have been increased by approximately $127,500.

Shareholders and Board of Directors,
Libbey-Owens-Ford Glass Company:

We have examined the balance sheet of Libbey-Owens-Ford Glass Company as of December 31, 1965, and the related statements of net earnings, additional paid-in capital, and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of net earnings, additional paid-in capital, and retained earnings present fairly the financial position of Libbey-Owens-Ford Glass Company at December 31, 1965, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles, which, except for the change (in which we concur) as explained in Note A of notes to financial statements, have been applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying statement of source and application of funds presents fairly the information shown therein.—*Auditors' Certificate—January 24, 1966.*

Note A: *Accelerated Depreciation Policy*—Commencing October 1, 1965, the Company discontinued its policy of providing accelerated depreciation on new facilities. The effect of this change was to increase net earnings for the year by $1,923,219.41.

To the Shareholders,
Weyerhaeuser Company:

We have examined the consolidated balance sheet of Weyerhaeuser Company (a Washington corporation) and its subsidiary companies at December 31, 1965, and the related statements of consolidated income, earned surplus (income retained in the business) and funds 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 accompanying consolidated balance sheet and statements of consolidated income, earned surplus (income retained in the business) and funds present fairly the financial position of Weyerhaeuser Company and its subsidiary companies at December 31, 1965, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied, except for the change to an acceptable alternative depreciation method as described in Note 3 to the financial statements, on a basis consistent with that of the preceding year.—*Opinion of Independent Public Accountants—February 4, 1966.*

Note 3: Effective January 1, 1965, the company changed its method of recording depreciation from accelerated to the more suitable straight-line method for all plants and equipment. This change had the effect of increasing net income for 1965 by approximately $6,500,000, or $.21 per share, after considering the related income tax effect.

Other Income and Cost Items

To the Board of Directors and Stockholders,
Bayuk Cigars Incorporated:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income and retained earnings present fairly the financial position of Bayuk Cigars Incorporated and its subsidiaries at December 31, 1965, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in accounting for the sales of certain tobacco as described in Note 3 to the Financial Statements. Our examination of these statements 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. —*Accountants' Report—February 25, 1966.*

Note 3: Prior to 1965, proceeds from the sales of tobacco grown on the Company's farms were reflected as a reduction in the inventory account. During 1965 substantial sales of this tobacco were made at prices in excess of cost and accordingly the gain on these sales has been separately recognized in the consolidated statement of income and retained earnings. As a result of this change in the method of recording sales of tobacco grown on the Company's farms, net income for the year ended December 31, 1965 was increased by approximately $230,000.

To the Board of Directors,
The Rath Packing Company:

We have examined the consolidated balance sheet of The Rath Packing Company and its subsidiary as of October 2, 1965 and the related consolidated statements of income (loss) and retained earnings and funds for the 52-week fiscal 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. We approve of the change from the cash basis to a level cost basis of reporting for pension costs as adopted by the Company for the current and subsequent years. We made a similar examination for the 53-week fiscal year ended October 3, 1964.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income (loss) and retained earnings and funds present fairly the financial position of The Rath Packing Company and its subsidiary at October 2, 1965, and the results of their operations and funds for the 52-week fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis, except as noted above, consistent with that of the preceding 53-week fiscal year.—*Report of Independent Accountants—November 8, 1965.*

To the Board of Directors and Stockholders of
Digitronics Corporation:

We have examined the consolidated balance sheet of Digitronics Corporation and Subsidiaries as of March 31, 1965 and the related consolidated statement of income (loss) and earned surplus (deficit) 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 accompanying financial statements present fairly the consolidated financial position of Digitronics Corporation and Subsidiaries at March 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change (with which we concur) relating to deferred marketing costs as described in Note 2.—*Report of Independent Certified Public Accountants—July 2, 1965.*

Note 2: During the year ended March 31, 1965, the Company discontinued its policy of deferring the costs of marketing Dial-o-verter equipment and amortizing such costs over the lives of firm rental contracts. The balance of deferred marketing costs at the beginning of the year ($811,715) has been written off to income as an extraordinary charge. If the Company had continued its previous practice, the loss for the year would have been approximately $930,000 less.

Amortization of Dial-o-verter start-up costs was completed during the year ended March 31, 1965. Such costs had been incurred principally during the year ended March 31, 1962.

The depreciable lives of certain jigs, test equipment and patterns were reduced effective April 1, 1964, from ten to four years. The effect of this change on the loss was not material.

To the Stockholders and Directors of
The L. S. Starrett Company:

We have examined the accompanying consolidated balance sheet of The L. S. Starrett Company and its subsidiaries at June 30, 1965 and the related consolidated statements of income and retained earnings and capital surplus 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 above mentioned financial statements present fairly the consolidated financial position of The L. S. Starrett Company and its subsidiaries at June 30, 1965 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes, of which we approve, to provide a reserve for unusual risks of foreign operations and to provide a more level annual retirement plan charge. The after-tax effect of these changes has been to reduce the current year's income by $280,000.—*Auditors' Report—August 11, 1965.*

Changes in Basis of Consolidation—Prior Year's Figures Not Restated

Board of Directors,
Eaton Yale & Towne Inc.:

We have examined the statement of financial position of Eaton Yale & Towne Inc. and consolidated subsidiaries as of December 31, 1965, and the related statement of income and earnings retained for use in the business and the summary of source and application of funds 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 accompanying statement of financial position and statement of income and earnings retained for use in the business present fairly the financial position of Eaton Yale & Towne Inc. and consolidated subsidiaries at December 31, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change, which we approve, in the principles of consolidation as explained in Note A, have been applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying summary of source and application of funds presents fairly the information shown therein.—*Accountants' Report—February 11, 1966.*

Note A: *Principles of Consolidation and Equity in Subsidiaries*—Effective January 1, 1965, the Company changed its principles of consolidation to include the accounts of certain previously unconsolidated subsidiaries. Accordingly the consolidated statements include the accounts of the Company and all subsidiaries except finance subsidiaries. This change had no material effect on net income and thus the amounts for 1964 have not been restated. Income of subsidiaries in areas subject to currency restrictions has not been included in consolidated net income.

Investments in unconsolidated finance subsidiaries are carried at equity and associate companies are carried at cost.

Financial statements of foreign divisions and subsidiaries have been translated at the appropriate rates of exchange into United States dollars, and the resulting gains or losses (which were not material in amount) were included in the income statement. Net current assets and net assets of such divisions and subsidiaries amounted to approximately $39,200,000 and $61,600,000, respectively, at December 31, 1965, and their net sales and net income for 1965 were approximately $140,400,000 and $5,800,000, respectively.

To the Shareholders and Board of Directors of Gulf Oil Corporation:

In our opinion, the accompanying consolidated statement of financial position and the related statements of consolidated income and ownership interest present fairly the position of Gulf Oil Corporation and its consolidated subsidiaries at December 31, 1965 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the inclusion of the accounts of all subsidiaries operating in the Eastern Hemisphere, which we approve. 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. We did not examine the consolidated financial statements of The British American Oil Company Limited and its subsidiaries; our opinion, insofar as it relates to the amounts included for these companies, is based upon the report of other independent accountants.—*Opinion of Independent Accountants—February 22, 1966.*

Financial Review

In 1965, Gulf changed its consolidation policy to bring into the consolidated financial statements the accounts of marketing, refining and transportation subsidiaries operating in the Eastern Hemisphere. This change was made because of the increasing size and scope of these activities in the Eastern Hemisphere; also, Gulf's substantial production activities in that area have for many years been consolidated. All subsidiary companies over 50 per cent owned are now consolidated.

The consolidation of these Eastern Hemisphere companies did not change the net income reported for 1965 because any losses of these companies would have been charged against consolidated net income in any case, corresponding to the procedure followed in 1964 and previous years. In the financial statements, 1964 accounts have not been restated for comparative purposes since the effect relatively was not material. The investment in subsidiary companies not consolidated of $215,321,000 shown in the 1964 Consolidated Statement of Financial Position was replaced in the 1965 statement by the appropriate asset and liability accounts of the Eastern Hemisphere subsidiaries. Revenues and deductions in 1965 were each increased approximately $200,000,000 by this change. Volume data as shown by the 10-year summary of operations were not affected by the change as such data, in past years, included Gulf's share in all operations in which it had an interest.

Board of Directors, Lear Siegler, Inc.:

We have examined the consolidated balance sheet of Lear Siegler, Inc. (a Delaware corporation) and subsidiary companies as of June 30, 1965 and the related statements of consolidated earnings, retained earnings, additional capital and change in working capital 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. It was not practicable to confirm receivables from government agencies, as to which we have satisfied ourselves by means of other auditing procedures. We made a similar examination for the year ended June 30, 1964.

In our opinion, the accompanying financial statements present fairly the financial position of Lear Siegler, Inc. and subsidiary companies at June 30, 1965 and the results of operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change during the year ended June 30, 1965, referred to in the notes to financial statements entitled "Principles of Consolidation."—*Report of Certified Public Accountants—July 31, 1965.*

Notes to Financial Statements

Principles of Consolidation: Prior to fiscal 1965 only wholly-owned subsidiary companies were fully consolidated. The investments in majority-owned subsidiaries were carried at cost plus equity in undistributed earnings. The consolidated financial statements for the year ended June 30, 1965 include the accounts of all subsidiaries, both foreign and domestic. This modification of consolidation policy had no effect on net earnings for the year ended June 30, 1965, and does not materially affect the comparability of the current year's financial statements with those of prior years.

The accounts of foreign subsidiaries have been translated into U.S. dollars at appropriate exchange rates.

At June 30, 1965 the equity in the net assets of these subsidiaries exceeded the investment therein by $3,977,872. This amount has been included in the consolidated financial statements as follows:

Retained earnings		$5,955,184
Other assets—excess of cost of investment over equity in net assets at acquisition dates	585,748	
Property, plant and equipment—arising from company acquired by purchase	336,562	
Additional capital—arising from merger with Hypro, Inc.	1,055,002	
		1,977,312
		3,977,872
Charge to additional capital as shown above	1,055,002	
Additional merger expenses paid by the company	48,917	
As shown on Statement of Consolidated Additional Capital		$1,103,919

During the current year the company acquired the net assets of Hypro Engineering, Inc. (now Hypro, Inc.) in exchange for 12,000 shares of $4.50 Series B preferred stock and 120,502 shares of common stock. This transaction was consummated on a pooling of interests basis and, accordingly, the 1965 consolidated financial statements include the operations of Hypro from July 1, 1964. The omission of Hypro from the 1964 consolidated financial statements has no significant effect upon the comparability of the statements.

Board of Directors and Stockholders, Scovill Manufacturing Company:

We have examined the consolidated balance sheet of Scovill Manufacturing Company and consolidated subsidiaries as of December 26, 1965, the related statement of earnings and earnings retained in the business and the statement of source and disposition of funds for the fiscal 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.

Statements of the English branch and subsidiary, which were not examined by us, have been incorporated in the financial statements on the basis reported by Chalmers, Impey & Co., chartered accountants in England.

In our opinion, the accompanying balance sheet and statement of earnings and earnings retained in the business present fairly the consolidated financial position of Scovill Manufacturing Company and consolidated subsidiaries at December 26, 1965, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles which, except for the inclusion, which we approve, of the accounts of certain foreign subsidiaries not previously consolidated as explained in Note A, have been applied on a basis consistent with that of the preceding year. It is also our opinion that the statement of source and disposition of funds for the fiscal year ended December 26, 1965, presents fairly the information shown therein.—*Auditors' Report—February 2, 1966.*

Note A: The consolidated financial statements for 1965 include the accounts of all subsidiaries of the Company except its Brazilian subsidiary. The investments in the Brazilian subsidiary and a fifty per cent owned Company are carried at cost. Two wholly-owned and two majority owned foreign subsidiaries consolidated in 1965 were not consolidated in 1964. Net sales of those four companies for 1964 and their total assets as of December 27, 1964 amounted to approximately $5,709,132 and $7,311,806, respectively. The Company's share of the undistributed net earnings of the four companies as of December 27, 1964 amounted to approximately $63,000, which amount has been included in "Other Income" for 1965.

Changes in Basis of Consolidation— Prior Year's Figures Restated

The Board of Trustees,
American Optical Company:

We have examined the consolidated balance sheet of American Optical Company and subsidiaries as of December 31, 1965 and the related statement of consolidated income 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 accompanying consolidated balance sheet and statement of consolidated income present fairly the financial position of American Optical Company and subsidiaries at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the inclusion in the consolidation, which we approve, of the accounts of a domestic subsidiary as explained in note 1 to the financial statements.—*Accountants' Report—February 4, 1966.*

Note 1: *Principles of Consolidation*—The consolidated financial statements include the accounts of the Company, its two domestic subsidiaries and one Canadian subsidiary. The accounts of one domestic subsidiary are included in the consolidated financial statements for the first time in 1965 and the 1964 statements have been restated accordingly. This change in practice has no effect on net earnings as prior years' statements included the results of operations of this subsidiary. The accounts of the Canadian subsidiary are converted to United States dollars at appropriate rates of exchange.

Excluded from the consolidated financial statements are the accounts of all foreign subsidiaries, other than the Canadian subsidiary referred to above. The accounts of these subsidiaries, in the aggregate, are not significant in relation to the consolidated accounts. The Company's equity in the net assets of its nonconsolidated subsidiaries exceeded its investment therein by $1,538,661, based on financial statements at September 30, 1965. The equity in net income for the year then ended amounted to $507,476. Dividends received and included in consolidated income during the year amounted to $27,329.

Board of Directors,
Basic Incorporated:

We have examined the statement of consolidated financial position of Basic Incorporated and consolidated subsidiaries as of December 31, 1965, and the related statements of consolidated income, retained earnings and the summary of consolidated source and application of funds 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 accompanying statement of financial position and statements of income and retained earnings present fairly the consolidated financial position of Basic Incorporated and consolidated subsidiaries as of December 31, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the inclusion, which we approve, of the accounts of a subsidiary as explained in the note pertaining to acquisition and consolidation. It is also our opinion that the accompanying summary of consolidated source and application of funds presents fairly the information therein shown.—*Independent Accountants' Report—February 18, 1966.*

Notes to Financial Statements

Acquisition and Consolidation: On May 24, 1965 Elgin Electronics Incorporated, formerly Regulus Inc., a wholly-owned subsidiary not previously consolidated, acquired substantially all of the assets and business of Elgin Laboratories, Inc. The accounts of this subsidiary have been consolidated for 1965, and the financial statements for 1964 have been retroactively restated for comparative purposes.

The Board of Directors and Stockholders,
Pullman Incorporated:

We have examined the accompanying consolidated balance sheet of Pullman Incorporated and consolidated subsidiaries at December 31, 1965 and the related consolidated statements of income and earned surplus and source and disposition of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Pullman Incorporated and consolidated subsidiaries at December 31, 1965 and the results of their operations and the source and disposition of their working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after restatement of that year as explained in Note 1.—*Report of Certified Public Accountants—February 16, 1966.*

Note 1: *Principles of Consolidation and Investment in Subsidiary*—The consolidated financial statements include the accounts of all wholly-owned subsidiaries. Prior to December 1965, the Corporation did not consolidate the accounts of Trailmobile Finance Company but included the investment in that subsidiary in the consolidated balance sheet at net asset value. The change in consolidation policy has been retroactively reflected in the accompanying financial statements and, accordingly, certain of the figures for 1964 have been restated to place them on a basis comparable to those for 1965. However, this restatement did not change amounts previously reported as consolidated net income for 1964 or consolidated earned surplus at December 31, 1964.

The accounts of Unimation, Inc., 80% owned, are not consolidated. The minority stockholder has the option to purchase additional shares of Unimation's authorized but unissued capital stock which, if exercised, would reduce the Corporation's equity in Unimation to 51%. The option is exercisable only during a one-year period commencing January 1, 1967. The investment in Unimation is carried at an estimate of the Corporation's equity in Unimation's net assets (exclusive of deferred development costs and expenses which, in Unimation's accounts, are capitalized).

The Quaker Oats Company:

We have examined the financial statements of The Quaker Oats Company and its subsidiaries, except six foreign subsidiaries, for the year ended June 30, 1965. 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. We were furnished reports of other accountants on their examinations of the financial statements for the year of the six foreign subsidiaries, which are deemed to be not significant either individually or in the aggregate.

In our opinion, based on our examination and the reports of other accountants referred to above, the accompanying consolidated balance sheet and statement of consolidated income and earnings retained in the business present fairly the financial position of The Quaker Oats Company and its subsidiaries at June 30, 1965 and the results of their operations for the years then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the restatement of prior years' financial statements as described in the notes to financial statements; and the accompanying statement of consolidated source and use of funds for the year ended June 30, 1965 presents fairly the information shown therein.—*Accountants' Opinion—August 26, 1965.*

Note: The consolidated financial statements include The Quaker Oats Company and all its subsidiaries. The balance sheet at June 30, 1964 and the statements of income and earnings retained in the business for previous years have been restated to reflect the inclusion of foreign subsidiaries not formerly consolidated. Also, certain previously reported adjustments relating to prior years were reassigned which changed net income for fiscal years ending June 30 as follows: 1964—decrease $731,000; 1963—decrease $281,000; 1962—increase $237,000.

To the Stockholders and Board of Directors of Signode Corporation:

We have examined the consolidated balance sheets of Signode Corporation (a Delaware corporation) and Subsidiaries as of December 31, 1965 and 1964, and the related consolidated statements of earnings, earned surplus and funds for the two years 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 accompanying consolidated balance sheets and consolidated statements of earnings, earned surplus and funds present fairly the financial position of Signode Corporation and Subsidiaries as of December 31, 1965 and 1964, and the results of their operations and the source and disposition of funds for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the two years, after giving retroactive effect in 1964 to the inclusion, which we approve, of the accounts of certain foreign subsidiaries as explained in Note 1 to the financial statements.—*Auditors' Opinion—February 14, 1966.*

Note 1: The consolidated financial statements include the accounts of the parent company and all domestic and foreign subsidiary companies. Prior to 1965, foreign subsidiaries, other than Canadian and British, were not consolidated in detail. For comparative purposes, the accompanying consolidated financial statements for 1964 have been restated to include all foreign subsidiaries on a consolidated basis. The inclusion of such subsidiaries does not change consolidated net income or net worth for 1964, since the investments in such subsidiaries were previously carried at the book value of the respective companies. However, the restatement to include the accounts in detail results in increasing operating revenues by $5,423,000 and total assets by $2,164,000 in 1964 over those previously reported. All significant transactions between the companies have been eliminated in consolidation.

Qualifications as to Fair Presentation

(a) Federal Income Taxes

To the Stockholders and Board of Directors, Botany Industries, Inc.:

We have examined the consolidated balance sheet of Botany Industries, Inc. and subsidiary companies as at July 31, 1965, and the related consolidated statements of income and earned surplus/deficit 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. We have previously examined the consolidated financial statements of the Company and its subsidiaries as at and for the period ended July 31, 1964. Our opinion on such financial statements was similar to that expressed below.

In our opinion, subject to the final determination of the income tax liability as referred to in Note 3 to the consolidated financial statements, the accompanying consolidated balance sheet and consolidated statements of income and earned surplus/deficit, together with the notes to consolidated financial statements, present fairly the consolidated financial position of Botany Industries, Inc. and subsidiary companies at July 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—October 5, 1965.*

Note 3: *Federal Income Taxes*—Upon examination by the Internal Revenue Service of the consolidated Federal Income tax returns filed by the Company and its subsidiaries for the years 1958 and 1959, the examining agents proposed deficiencies in tax which, if finally sustained, would aggregate approximately $4,360,000 for 1958 and $1,190,000 for 1959, plus interest. Some of the adjustments would also affect subsequent years.

The proposed adjustments involve the tax treatment of certain transactions and also the use of the net operating loss carryover from prior years although the latter had been the subject of favorable tax rulings received by the Company from the Service's national office and had been approved in prior years' returns.

The Company does not agree with the proposed deficiencies. The issues are now before the Appellate Division of the Internal Revenue Service upon Protest filed by the Company. Hearings have been held and further hearings are scheduled. The Appellate Division is independently reviewing the merits of the issues and is considering with the Company the possibilities of settlement. If the matter is not resolved before the Appellate Division, the Company intends to litigate the case in the courts.

Although the Company is contesting the proposed adjustments vigorously, it recognizes that a portion of the proposed deficiencies may be upheld by the Appellate Division or the courts. It is also recognized that the lengthy negotiations and litigation could result in substantial expense even if the matters ultimately are favorably resolved. It is management's belief, however, that at this stage in the proceedings, neither the amount of the tax liability which ultimately may be agreed to nor the costs involved in contesting the proposed adjustments can be predicted. In view of all of the uncertainties surrounding the matter, the Company provided, in the prior period, a reserve for contingencies of $2,000,000.

Deferred Federal income taxes represent (1) provisions for taxes on income in connection with the installment method of reporting income from certain retail installment credit sales for tax purposes, and (2) provisions for taxes in connection with the policy, adopted effective as at August 1, 1964, of computing depreciation for book purposes on a straight-line basis uniformly for the Company and all of its subsidiaries, which results in a lesser amount of depreciation for book purposes than that computed for tax purposes. Had this change in method of computing depreciation for book purposes not been made, consolidated net income for the year ended July 31, 1965 would have been approximately $100,000 less.

There is no provision for capital gain tax on the sale of net assets of Sea & Ski Company due to a capital loss carryover from prior years.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

To the Stockholders of
General Refractories Company:

We have examined the consolidated financial statements of General Refractories Company and subsidiaries for the year ended December 31, 1965. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements for the year ended December 31, 1964.

In our opinion, subject to the effect upon the statements of income of adjustments which may be required upon ultimate settlement of income tax liabilities, as explained in Note 2 to the consolidated financial statements, the accompanying consolidated balance sheets and statements of income and retained earnings present fairly the financial position of General Refractories Company and subsidiaries at December 31, 1965 and 1964 and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have made similar examinations of the accompanying consolidated statements of source and application of funds, which, in our opinion, when considered in relation to the basic financial statements, present fairly the source and application of funds of General Refractories Company and subsidiaries for the years ended December 31, 1965 and 1964.—*Report of Certified Public Accountants—February 21, 1966.*

Note 2: *Federal Income Tax Liabilities*—The company has initiated the steps necessary to sue for the recovery of approximately $900,000 of additional federal income taxes for the years 1954 through 1960 (including interest) arising out of the partial disallowance of foreign tax credits and in this connection the related cost to the company of $801,239 has been deferred pending adjudication of the proposed legal action.

Provisions for income taxes, which are deemed adequate, have been made in the accompanying income statements; however, a final determination of the company's federal income tax liabilities for years after 1960 is not now possible. The applicability of percentage depletion allowance to the minerals mined by the company is dependent upon regulations under the Internal Revenue Code of 1954, which have not yet been issued. Further, the method of computing the company's foreign income tax credits for those years may be affected by the results of the above described proposed legal action. Presently, the company's tax returns for the years 1961 and 1962 are being examined by the U.S. Treasury Department.

In 1965, a foreign subsidiary's income tax liabilities for the years 1962 through 1964 were redetermined, resulting in the net refund of approximately $750,000 of foreign income taxes, which amount has been deferred and not taken into income pending settlement of income tax liabilities for years after 1960.

In the event the company's position in respect to both the percentage depletion and foreign tax credit issues should not be sustained and after giving effect to the aforementioned subsidiary's income tax redetermination, the foreign tax credit which would otherwise have been unused and available as a carry forward at December 31, 1965, would be exhausted and consolidated net income for the years 1965 and 1964 would be decreased approximately $550,000 and $350,000, respectively. Consolidated net income for the years 1961 through 1963 would not be materially affected.

To the Shareholders,
MSL Industries, Inc.:

We have examined the consolidated balance sheet of MSL Industries, Inc. (a Minnesota Corporation) and Subsidiaries as of December 31, 1965, and the related statements of consolidated earnings, reinvested earnings, paid-in capital and source and use of funds 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, subject to the effect, if any, of the disposition of the Federal income tax matters described in Note 4 to the Consolidated Financial Statements, the accompanying consolidated balance sheet and statements of consolidated earnings, reinvested earnings, paid-in capital, and source and use of funds present fairly the financial position of MSL Industries, Inc. and Subsidiaries as of December 31, 1965, and the results of their operations and sources and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. —*Auditors' Opinion—February 14, 1966.*

Note 4: *Federal Income Taxes*—As a result of the sale of its railroad assets and business, the Company claimed a loss in its 1960 Federal income tax return of approximately $30,000,000. The Company applied approximately $5,000,000 of this loss as a carryback to the years 1957, 1958 and 1959, and received a refund of income taxes paid for those years of about $2,630,000. The Company applied the balance of the loss, approximately $25,000,000, as a carryover to offset taxable income for the years 1961 through 1964 and a part of 1965. The Company's right to the carryback and carryover of the loss is currently being reviewed by the Internal Revenue Service. Tax returns for 1960 through 1965 and returns for years prior to 1960, at least to the extent of the carryback, remain open for review. To date no report has been received from the Internal Revenue Service.

In the opinion of tax counsel for the Company, the sale of the Company's railroad assets and business produced a net operating loss for 1960 which is properly carried back to the taxable years 1957, 1958, and 1959 and carried over to the taxable years 1961 through 1965, to the extent available. Tax counsel have advised that while carryovers of the net operating loss may be challenged by the Internal Revenue Service, it is, in their opinion, probable that the carryovers will be upheld.

Tax counsel further state that the amount of the net operating loss available for carryover from 1960 depends in part upon historical data with respect to properties acquired prior to 1916 and cannot be precisely determined at this time. However, it is probable, in their opinion, assuming that the loss may properly be carried over and after leaving a reasonable margin for difference of opinion as to the historical data used in computing the loss claimed in 1960, that the amount of 1960 net operating loss remaining after carryback to 1957, 1958, and 1959 will be sufficient, when carried over, to offset all taxable income of the Company for the period from January 1, 1961, through December 31, 1964, and substantial part of the taxable income for the year ending December 31, 1965. Tax counsel's opinion is based on accounting records and data supplied by the Company and its accountants.

The Company provided a reserve for future taxes payable arising from the use of accelerated depreciation for tax purposes.

Board of Directors,
United Whelan Corporation:

We have examined the accompanying consolidated balance sheet of United Whelan Corporation and subsidiaries as of January 1, 1966 and the related statements of loss and of retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the income tax matter referred to in Note 4, the financial statements referred to above present fairly the consolidated financial position of United Whelan Corporation and subsidiaries at January 1, 1966, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—March 29, 1966.*

Note 4: *Taxes*—The Company is protesting the Internal Revenue Service's proposed disallowance of deductions taken in the Company's 1959, 1960 and 1961 consolidated federal income tax returns for post-acquisition losses of Crawford Clothes, Inc. ("Crawford"), a former subsidiary. The proposed disallowance is based upon the contention of the Internal Revenue Service that the principal purpose of the acquisition of Crawford was tax evasion or avoidance. It is the opinion of the Company's counsel, based upon their discussions of the facts surrounding the acquisition with various officers and directors of the Company, and upon their examination of relevant documents and records made available to them, that tax evasion or avoidance was not the principal purpose of the acquisition and that the Company should be entitled to the deduction of the subsidiary's losses in such consolidated returns. Accordingly, no provision for the proposed tax deficiency (approximately $2,000,000), or interest thereon, has been made in the accompanying financial statements.

(b) Litigation

To the Board of Directors and Stockholders of Richardson-Merrell Inc.:

In our opinion, subject to any adjustments which may result from the final disposition of the claims and lawsuits referred to in a note on page 15, the accompanying consolidated balance sheet, the related statement of consolidated earnings and earnings reinvested in the business and the statement of source and application of funds present fairly the financial position of Richardson-Merrell Inc. and its subsidiaries at June 30, 1965, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.—*Opinion of Independent Accountants—August 16, 1965.*

Notes to Financial Statements

Note: See comments on page 3 concerning the claims and lawsuits which have been filed against the company for damages alleged to have resulted from use of *MER/29* and thalidomide. The company is presently unable to predict the outcome of such claims and lawsuits. However, it is the best current judgment of management, in view of the probability that such litigation will be spread over a number of years, and in view of the product liability insurance carried by the company, and based on the opinion of legal counsel as to a realistic estimate of the merits of these claims and lawsuits, that the company's financial position will not be materially affected by any settlement of such claims or by any judgments which may be rendered against the company in such lawsuits.

To the Directors and Stockholders of National Company, Inc.:

We have examined the consolidated balance sheet of National Company, Inc. and its wholly-owned subsidiary, National Radio Company, Inc., as at December 31, 1965, and the related consolidated statements of income, of deficit and of changes in working capital 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, subject to the future realization of the deferred charges described in Note 2, the accompanying consolidated financial statements fairly present the financial position of the companies at December 31, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Opinion of Independent Accountants—March 7, 1966.*

Note 2: The parent company and National Radio Company, Inc. provide for amortization of product development costs based on sales of the specific products for which the costs were incurred. This policy has been followed by the companies over a period of years. At December 31, 1965, the balance sheet includes as a non-current asset $440,288 of deferred product development charges, of which $364,937 applies to advanced technical products of the parent company and $75,351 applies to commercial products of the subsidiary.

(c) Valuation of Various Assets

To the Stockholders and Board of Directors, Douglas Aircraft Company, Inc.:

We have examined the statement of consolidated financial position of Douglas Aircraft Company, Inc. and consolidated subsidiaries as of November 30, 1965, and the related statements of consolidated income and stockholders' equity 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. We were unable to confirm by direct correspondence certain amounts included as receivable from the U. S. Government and other customers, but we satisfied ourselves as to such amounts by other means.

In our opinion, subject to the ultimate realization on the investment in and advances to affiliate referred to in Note F, the accompanying statements of financial position, income, and stockholders' equity present fairly the consolidated financial position of Douglas Aircraft Company, Inc. and consolidated subsidiaries at November 30, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—January 14, 1966.*

Note F: Investment in and Advances to Affiliate—In 1962, the Company made a $299,000 investment in an affiliate, and subsequently, through November 30, 1965, made advances to the affiliate in the amount of $7,880,000 to finance its activities. In December 1965, the Company increased its stock ownership to 80%, principally through conversion of $2,730,000 of advances into the affiliate's common stock.

The activities of the affiliate to date have been totally involved in the development of cryogenic processes and equipment, and all costs incurred have been capitalized. It is the opinion of management of the Company that no loss will be sustained on the investment or advances.

To the Stockholders and Directors of Universal American Corporation:

We have examined the consolidated balance sheet of Universal American Corporation and its subsidiaries as of December 31, 1965, and the related consolidated statements of income, shareholders' equity and source and application of funds 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. We made a similar examination of the 1964 financial statements, with respect to which our opinion also was subject to the matters corresponding to Note 3.

In our opinion, subject to the adjustments, if any, that may result from the outcome of the matters set forth in Note 3, the statements mentioned, together with the accompanying notes, present fairly the consolidated financial position of Universal American Corporation and its subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. —*Report of Certified Public Accountants—March 7, 1966.*

Note 3: Investment in Paul Hardeman, Inc.—(a) The Company's investment in 708,233 shares (42%) of the stock of Paul Hardeman, Inc. ("Hardeman") is carried at its adjusted cost, on a pooling of interest basis, of $384,885, the equivalent of 54¢ per share (See Note 4 in 1964 Annual Report). The closing price of Paul Hardeman, Inc. stock on the New York Stock Exchange on December 31, 1965 was $3.75 per share. Hardeman's consolidated financial statements at December 31, 1965 indicate a capital deficit of $8,883,435, or a deficit of $5.31 per Hardeman share.

(b) The Company is indemnitor on bonds for payment of costs to complete Hardeman construction contracts. On December 31, 1965 the estimated remaining costs to complete contracts so bonded were $25,000,000 and unpaid costs for work performed on contracts so bonded were $21,000,000. These amounts are being reduced as work is performed and progress payments are received and applied on bonded contracts. The Company anticipates no actual liability will be incurred by it under these indemnities.

(c) Hardeman has pledged all of the stock of its wholly-owned subsidiary Young Spring & Wire Corporation ("Young") as security for the surety company under its construction bonds referred to in (b), and as security for its bank loans (including $12,000,000 guaranteed by the Company) and its debentures. In the event of a default by Hardeman and the sale of the pledged stock, the Company is committed to bid a minimum of $12,000,000 which is the approximate book equity of the capital stock of Young at December 31, 1965. The bid amount would be payable $2,500,000 by December 31, 1967 and $1,000,000 annually thereafter with interest at 5¼% per annum.

(d) Other Contingencies

To the Shareholders of
Elgin National Watch Company:

We have examined the consolidated balance sheet of Elgin National Watch Company (an Illinois corporation) and Subsidiaries as of February 28, 1965, and the related consolidated statements of earnings and retained earnings (deficit) 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. We had made a similar examination for the preceding year.

In our audit report dated May 26, 1964, we qualified our opinion with regard to the recovery, through claims against the United States Government, of certain manufacturing costs included in inventory at February 29, 1964. A substantial number of these claims have now been settled and, as explained in Note (2) to this year's consolidated financial statements, the excess of cost over the amount received has been written off as a special charge against earnings in the year ended February 28, 1965.

During the year ended February 28, 1965, the Company sustained a loss, including special charges, of $8,354,730. The Company also had a substantial loss in the previous year. Realization of the amounts included in the consolidated balance sheet for receivables, inventories, prepaid expenses and plant and equipment is dependent upon the Company attaining successful future operations of the business. During 1965, the Company has received a number of proposals for the sale or merger of certain of its consumer and industrial products divisions. Some of these proposals are still being considered by the Board of Directors. The loss, if any, on receivables, inventories, prepaid expenses and plant and equipment from the sale or merger of any of the consumer or industrial products divisions is not now determinable.

Subject to any adjustments which might be required for possible losses on realization of the Company's assets, either through future operations or through sale or merger, as discussed in the preceding paragraph, in our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings (deficit) present fairly the financial position of Elgin National Watch Company and Subsidiaries as of February 28, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Certificate—May 19, 1965.*

To the Board of Directors and Stockholders,
Standard Kollsman Industries Inc.:

In our opinion, except for the effects of the final determination of the company's proposal for equitable adjustment on a long-term fixed price U. S. Government contract and the outcome of certain tax matters as described in Notes 2 and 4, the accompanying balance sheet, the related statement of income and retained earnings and the statement of source and application of funds present fairly the consolidated financial position of Standard Kollsman Industries Inc., and subsidiaries at December 31, 1965, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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. It was not practicable to obtain confirmation of certain receivables from the U. S. Government by direct correspondence, but we satisfied ourselves as to these amounts by application of other auditing procedures.

The consolidated financial statements, presented for comparative purposes, for the year ended December 31, 1964 were examined by other independent public accountants whose report thereon was qualified with respect to the matters discussed in Notes 2 and 4.—*Accountants' Opinion—March 8, 1966.*

Note 2: Proposal for Equitable Adjustment of Long-Term Contract Price—Costs incurred of approximately $3,400,000 in excess of the fixed price under a long-term contract with the U. S. Government are included in "unreimbursed costs and estimated profits." Additional costs to be incurred under this contract are presently estimated not to exceed $2,000,000. In management's opinion such costs result from directed contract changes subsequent to the issuance of the original contract and the company is therefore entitled to prompt recovery plus a reasonable profit. Negotiations of the company's proposal for equitable adjustment of the contract price were recently terminated when the contracting officer made an unacceptable offer of settlement. Under the "disputes" article of the contract, the company has appealed to the Armed Services Board of Contract Appeals. The ultimate outcome of this matter is not now determinable.

Stockholders and Board of Directors,
Stanray Corporation:

We have examined the consolidated balance sheet of Stanray Corporation and subsidiary companies as of December 31, 1965, and the related consolidated statements of earnings, retained earnings and source and use of funds 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.

The Company has made substantial investments in property, plant and equipment in connection with its new boat manufacturing facility in Danville, Illinois. Material losses have been incurred in the production and distribution of boats, including costs related to the transfer of operations to the new plant in the early part of 1965, and losses are expected to continue into 1966.

In our opinion, subject to the ability of the Company to recover its substantial investment in boat related assets, the accompanying financial statements referred to above present fairly the consolidated financial position of Stanray Corporation and subsidiary companies at December 31, 1965, the consolidated results of their operations and source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change to an accepted alternative method of depreciation as described in Note A.—*Report of Certified Public Accountants—February 16, 1966.*

INFORMATIVE DISCLOSURES

The third standard of reporting referred to earlier in this section states:

> Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

The committee on auditing procedure of the American Institute of Certified Public Accountants, in *Statements on Auditing Procedure No. 33* (1963), expresses the following comment on this standard.

> 41. Information essential for a fair presentation should be set forth in the financial statements (which include the related notes). When such information is set forth elsewhere in a report to shareholders, or in a prospectus, proxy statement, or other similar report, it should be referred to in the financial statements. When the client declines to disclose data considered essential to a fair presentation or to incorporate it by reference in the notes, the independent auditor should provide the necessary supplemental information in his report, usually in a middle paragraph, and appropriately qualify his opinion.
>
> 43. There may be instances where the independent auditor may wish to include in his report additional explanatory matter (which is not required for adequate disclosure) to highlight certain circumstances or to aid in the interpretation of the financial statements. Since such additional disclosure is not intended to qualify the scope of examination or the opinion on the statements, no reference thereto should be made in the opinion paragraph of the independent auditor's report.

Additional explanatory matter not intended as qualification was disclosed by the auditors in 13 reports, as shown in Table 3.

The examples which follow illustrate informative disclosures.

Disclosure of Explanatory Matter

The Board of Directors,
Control Data Corporation:

We have examined the consolidated balance sheet of Control Data Corporation and subsidiaries as of June 30, 1965 and the related consolidated statements of earnings, retained earnings and additional paid-in capital 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. It was not practicable to confirm accounts receivable from Government departments and agencies by direct communication with them but we satisfied ourselves as to such accounts by means of other auditing procedures.

As explained in note 2 to the consolidated financial statements, certain development and application costs and marketing expenses, heretofore charged off as incurred, have been deferred and are being amortized over a period of three years. Also, as of January 1, 1965, the Company changed from an accelerated method of recording depreciation of computing systems and related equipment to the straight-line method with no change in estimated lives. The effect of these changes was to increase net earnings for the year ended June 30, 1965 by approximately $3,390,000.

In our opinion, such financial statements present fairly the consolidated financial position of Control Data Corporation and subsidiaries at June 30, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the changes which significantly increased net earnings as described in the preceding paragraph, have been applied on a basis consistent with that of the preceding year.—*Accountants' Report—August 16, 1965.*

Note 2: Changes in Accounting Practices—In order to more closely match costs against related revenues, the Company retroactively as of July 1, 1964 adopted a policy of deferring, for amortization over a three year period, allocated portions of certain product and software development costs, systems application costs and marketing expenses most directly related to the acquisition of lease orders. Comparable costs and expenses charged off as incurred in previous years which would have been unamortized under the new policy as of the beginning of the year were reinstated with a credit (net of deferred income taxes) to retained earnings. The change to this accepted alternative method of accounting had the effect, after appropriate charges for amortization of both the current and previous years' deferrals, of increasing net earnings for the year ended June 30, 1965 by approximately $2,180,000 ($0.30 per share). Had the prior year's figures been restated to give effect to this change, net earnings for the year ended June 30, 1964 would have been increased by approximately $1,050,000 ($0.15 per share).

As of January 1, 1965, the Company changed from an accelerated method of recording depreciation of computing systems and related equipment to the straight line method with no change in estimated lives of the assets. This change in method resulted in an increase of $1,210,000 in net earnings ($0.16 per share) for the year ended June 30, 1965. Had this change in depreciation method been made as of January 1, 1964, it would have resulted in an increase of approximately $980,000 in net earnings ($0.14 per share) for the year ended June 30, 1964.

In the case of both of the foregoing changes, the former methods of accounting or computation will continue to be used for income tax purposes. Accordingly, appropriate provisions have been made for related income tax deferments which will be charged with the increase in income taxes in future years when amounts charged against earnings in the accounts exceed amounts deductible for tax purposes.

At June 30, 1965, computing systems in final process of completion, to the extent identifiable with lease orders, have been classified as property, plant and equipment rather than inventory work in process; similar classification at June 30, 1964 was not practicable.

The Board of Directors and Stockholders,
Howmet Corporation:

We have examined the accompanying consolidated balance sheet of Howmet Corporation and subsidiaries at December 31, 1965 and the related consolidated statements of income and retained earnings, capital surplus and source and disposition of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Howmet Corporation and subsidiaries at December 31, 1965 and the consolidated results of their operations and the source and disposition of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the prior year, which were examined by other independent public accountants, have been reclassified for comparative purposes.—*Report of Certified Public Accountants—February 17, 1966.*

To the Shareholders of
H. H. Robertson Company:

We have examined the financial statements for the year ended December 31, 1965 of H. H. Robertson Company and its subsidiaries except foreign subsidiaries. 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. As to the foreign subsidiaries, we were furnished reports of Thorne, Mulholland, Howson & McPherson as to their examination of the financial statements of the Canadian subsidiaries (whose assets and net sales constitute approximately 16% of the consolidated totals) and of Price Waterhouse & Co. with respect to the overseas subsidiaries (whose assets and net sales constitute approximately 39% of the consolidated totals).

In our opinion, which insofar as it relates to amounts included for foreign subsidiaries is based solely on the reports of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings present fairly the financial position of H. H. Robertson Company and its subsidiaries at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Opinion—February 18, 1966.*

To the Shareowners of
Union Oil Company of California:

We have examined the statement of consolidated financial position of Union Oil Company of California and its consolidated subsidiaries as at December 31, 1965, and the related statements of consolidated earnings and of shareowners' equity 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.

During 1965 the company merged with The Pure Oil Company. As outlined in the supplement and notes to consolidated financial statements, the merger has been treated for accounting purposes as a pooling of interests, and the accompanying 1964 consolidated financial statements have been restated to include The Pure Oil Company and its consolidated subsidiaries. We have previously examined and reported upon the 1964 consolidated financial statements of Union Oil Company of California and its consolidated subsidiaries. Those of The Pure Oil Company and its consolidated subsidiaries which are included in the accompanying (restated) 1964 financial statements were examined and reported upon by other auditors.

In our opinion, the accompanying statement of consolidated financial position and related statements of consolidated earnings and of shareowners' equity present fairly the financial position of the Union Oil Company of California and its consolidated subsidiaries at December 31, 1965, and the results of their operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for changes, in which we concur, described in the supplement and notes to consolidated financial statements.—*Accountants' Report—February 14, 1966.*

REFERENCE TO OTHER AUDITORS

The following excerpts have been taken from Chapter 10, "Expression of Opinion," of *Statements on Auditing Procedure No. 33,* published in 1963 by the committee on auditing procedure of the American Institute of Certified Public Accountants.

32. In reporting on financial statements, the independent auditor may not have examined the financial statements of one or more subsidiaries, divisions, or branches included therein, but he may have received the reports of other independent auditors with respect to such statements. Similar situations are often present in the case of business combinations. In these situations, questions arise as to the extent of the responsibility of the independent auditor reporting on the consolidated or combined statements with regard to such reports of other auditors and the financial statements covered thereby. In such cases, the principal auditor is usually willing (after following certain procedures described later) to utilize the report of the other independent auditor for the purpose of expressing his opinion on the consolidated or combined statements, but he is unwilling (unless he otherwise states) to assume responsibility for the performance of the work (to the same extent as though he had performed that work himself) which served as a basis for the opinion of the other auditor. Such utilization is considered reasonable in these circumstances (and in accordance with generally accepted auditing standards) and the principal auditor may appropriately express an unqualified opinion on the fairness of the consolidated or combined statements without assuming responsibility for the report or work of the other independent auditor, provided the basis for his opinion is adequately described. This description should include a statement in the scope paragraph or in the opinion paragraph to the effect that in the formation of his opinion, amounts applicable to the entities examined by the other independent auditor were included solely upon the basis of the report of such auditor.

11. Any modifying phrases in the standard short-form opinion paragraph (or sentence) should be considered as qualifying the opinion in some manner; however, reference to the report of other independent auditors as the basis, in part, of the opinion, whether made in the scope paragraph or the opinion paragraph, is not to be construed as a qualification of the opinion on the fairness of presentation of the consolidated financial statements or consistency, but rather as an indication of the divided responsibility for the performance of the work.

34. The following language is considered appropriate where the principal auditor is utilizing the reports of other independent auditors:

(Scope Paragraph)

. . . We did not examine the financial statements of B Company, a consolidated subsidiary, which statements were examined by other certified public accountants whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for B Company, is based solely upon such report.

In our opinion, the accompanying consolidated financial statements present fairly . . .

As an alternative, reference to the report of the other independent auditor as the basis, in part, for the opinion expressed may be placed in the opinion paragraph rather than in the last sentence of the scope paragraph. An illustration follows:

(Opinion Paragraph)

In our opinion, based upon our examination and the aforementioned report of other certified public accountants, the accompanying consolidated financial statements present fairly . . .

36. In some instances the principal auditor may be willing to assume responsibility for the work of another auditor to the same extent as though he had performed the work himself. . . .

When the principal auditor assumes responsibility for such work, he need make no reference to the other independent auditor in either the scope or opinion paragraph of his report. If reference is made, he should state that he is assuming responsibility for such work.

The following tabulation has been prepared to indicate the paragraph or paragraphs used by the auditors when referring to examinations performed by other auditors.

Particulars*	Number of Auditors' Reports
A: Adopting the scope paragraph referred to in par. 34 above	18
B: Adopting the opinion paragraph referred to in par. 34 above	33
C: Used modified short-form report	9
D: Apparently assuming full responsibility	4
E: "Reference to other auditors" adopted in separate paragraph	3
F: "Reference to other auditors" adopted in separate paragraph and in opinion paragraph referred to in par. 34 above	2
Total	69

*Refer to Company Appendix Section—A: 31, 68, 175, 226, 279, 316, 396, 398, 441, 459, 489, 497, 508, 526, 556, 563, 583, 586; B: 20, 64, 69, 96, 144, 164, 214, 252, 253, 284, 287, 294, 310, 342, 365, 374, 400, 402, 404, 414, 421, 433, 452, 467, 473, 474, 476, 480, 504, 507, 560, 566, 578; C: 62, 272, 317, 325, 363, 469, 472, 517, 594; D: 92, 429, 548, 573; E: 347, 483, 553; F: 6, 184.

It may be presumed that in many more instances the principal auditors assumed responsibility for the work of other auditors, and in compliance with paragraph 36 quoted above did not make any reference to such work.

Of the 600 auditors' reports in the survey, 69 contained references to other auditors in connection with the examination of the accounts. The significant increase in references confined to scope paragraph alone —from 10 in 1960 to 21 in 1965, with the corresponding decline of references brought out in opinion, or opinion and scope, paragraphs from 72 in 1960 to 48 in 1965—appears to be the effect of several auditors' adopting the form of report "considered appropriate," as quoted in paragraph 34 above. As in prior years, reference to other auditors occurred most frequently in connection with the examination of the accounts of consolidated subsidiary companies.

Examples

The following examples illustrate the manner in which the auditors' reports disclose references to other auditors.

Reference to Other Auditors

Domestic Subsidiaries—Consolidated

To the Board of Directors and Shareholders,
Arvin Industries, Inc.:

We have examined the consolidated statement of financial condition of Arvin Industries, Inc. and its wholly owned subsidiaries as of January 2, 1966, and the related consolidated statements of operations and retained earnings and proceeds in excess of par value 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. We did not examine the financial statements of Lok-Products Co., a consolidated subsidiary, which statements were examined by other independent certified public accountants whose report thereon has been furnished to us.

In our opinion, based upon our examination and the report of other independent certified public accountants referred to above, the accompanying financial statements on pages 14 through 17 present fairly the financial position of Arvin Industries, Inc. and its wholly owned subsidiaries at January 2, 1966, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Certificate—February 15, 1966.*

Blue Bell, Inc.:

We have examined the consolidated financial statements of Blue Bell, Inc. and subsidiaries except Red Kap, Inc. and the latter's subsidiaries, for the year ended September 30, 1965. 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. As to Red Kap, Inc. and its subsidiaries, we were furnished with a report of other accountants on their examination of the consolidated financial statements of these subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of Blue Bell, Inc. and subsidiaries at September 30, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Opinion—November 15, 1965.*

To the Board of Directors and Stockholders of
MCA Inc.:

In our opinion, based on our examination and on the report (mentioned below) of other independent accountants, the accompanying consolidated balance sheet and the related consolidated statement of income present fairly the financial position of MCA Inc. and its subsidiary companies at December 31, 1965 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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. The financial statements of Decca Records Inc., a consolidated subsidiary (now a division of MCA Inc.), and its subsidiary companies, were examined by other independent accountants whose report thereon has been furnished to us.—*Opinion of Independent Accountants—March 18, 1966.*

Foreign Subsidiaries—Consolidated

To the Stockholders of
Admiral Corporation:

We have examined the consolidated balance sheet of Admiral Corporation and Consolidated Subsidiary Companies as at December 31, 1965 and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm receivables from the United States Government, as to which we have satisfied ourselves by means of other auditing procedures.

The financial statements of the Canadian and Mexican subsidiary companies included in the accompanying consolidated financial statements were examined and reported on by other public accountants.

In our opinion, based upon our examination and upon the reports of other public accountants referred to above, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings, together with the notes to consolidated financial statements, present fairly the consolidated financial position of Admiral Corporation and Consolidated Subsidiary Companies at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—February 15, 1966.*

To the Board of Directors,
Crown Zellerbach Corporation:

We have examined the consolidated financial statements (pages 25 to 29) of Crown Zellerbach Corporation and its Subsidiaries for the year ended December 31, 1965. 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. We did not examine the financial statements of Crown Zellerbach Canada Limited and its Subsidiaries, which statements were examined by Canadian chartered accountants whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to amounts included for Canadian companies, is based solely upon such report. We previously examined and reported upon the consolidated financial statements of the company and its subsidiaries for the year ended December 31, 1964.

In our opinion, the above-mentioned financial statements present fairly the consolidated financial position of Crown Zellerbach Corporation and its Subsidiaries at December 31, 1965 and 1964, and the consolidated results of their operations and the changes in working capital for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Report—January 24, 1966.*

To the Stockholders of
Emhart Corporation:

We have examined the consolidated balance sheet of Emhart Corporation and its subsidiaries as of December 31, 1965 and the related statements of consolidated income, consolidated surplus, and source and application of consolidated working capital 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. As to the overseas subsidiaries, we were furnished with reports of other accountants on their examinations of the financial statements of those subsidiaries for the year ended October 31, 1965.

In our opinion, based on our examination and the reports of other accountants referred to above, the accompanying statements present fairly the financial position of the Company and its subsidiaries as of December 31, 1965 and the results of their operations and the source and application of their working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Opinion—February 7, 1966.*

To the Board of Directors and Stockholders of
The Kendall Company:

In our opinion, based on our examination and the report mentioned below of other independent accountants, the accompanying consolidated balance sheet and the related statements of consolidated income and retained earnings present fairly the financial position of The Kendall Company and consolidated subsidiaries at December 25, 1965 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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. The financial statements of the Canadian subsidiary were examined by other independent accountants, and their report on the examination has been reviewed by us.—*Report of Independent Public Accountants—February 2, 1966.*

Board of Directors,
The Black and Decker Manufacturing Company:

We have examined the statement of consolidated financial condition of The Black and Decker Manufacturing Company and subsidiaries as of September 26, 1965, and the related consolidated statements of earnings, capital in excess of par value of Common Stock, earnings retained and used in the business, and source and application of funds 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. The financial statements of the foreign subsidiaries were examined by independent accountants resident in the foreign countries and copies of their reports have been submitted directly to us. We have reviewed and accepted the reports of these accountants.

In our opinion, the accompanying statements of financial condition, earnings, capital in excess of par value of Common Stock, and earnings retained and used in the business present fairly the consolidated financial position of The Black and Decker Manufacturing Company and subsidiaries at September 26, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying statement of source and application of funds presents fairly the information shown therein.—*Accountants' Report—October 29, 1965.*

Domestic and Foreign Subsidiaries—Consolidated

To the Board of Directors and Stockholders,
Art Metal Inc.:

In our opinion, based on our examination and on the reports mentioned below of other independent public accountants, the accompanying consolidated balance sheet, the related statement of consolidated income and retained earnings, and the statement of funds present fairly the consolidated financial position of Art Metal, Inc. and its subsidiaries at May 31, 1965, the results of their operations, and the supplementary information on funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. 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. We did not examine the consolidated financial statements of Knoll Associates, Inc. and Knoll International, Ltd. (consolidated subsidiaries of Art Metal, Inc.) which statements were examined by other independent accountants whose reports thereon have been furnished to us.—*Accountants' Report—July 27, 1965.*

To the Board of Directors of
Simmons Company:

We have examined the consolidated balance sheet of Simmons Company as of December 31, 1965 and the consolidated statement of income and earned surplus 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. We did not examine the financial statements of the foreign and certain domestic subsidiaries, which statements were examined by other public accountants whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely upon such reports. We previously made a similar examination and reported upon the consolidated financial statements of the Company for the year 1964.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of Simmons Company at December 31, 1965 and 1964, and the consolidated results of operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Independent Auditors' Report—March 2, 1966.*

Domestic and/or Foreign Subsidiaries—Unconsolidated

To the Board of Directors of
Johnson & Johnson:

In our opinion, the accompanying consolidated statements present fairly the financial condition of Johnson & Johnson and domestic subsidiaries, and of foreign subsidiaries, at December 31, 1965 and 1964, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied in all material respects on a consistent basis. Our opinion is based upon our examinations, made in accordance with generally accepted auditing standards, and the reports of other public accountants on the financial statements of certain foreign subsidiaries.—*Accountants' Report—February 25, 1966.*

Notes to Financial Statements

Note 3: The financial statements for foreign subsidiaries are not consolidated with those of domestic companies. Dividends from such subsidiaries are recognized in domestic income as received. The equity of Johnson & Johnson in foreign subsidiaries at December 31, 1965 exceeded the carrying values of the Company's investments in such subsidiaries by $38,451,002.

Board of Directors,
Reynolds Metals Company:

We have examined the consolidated balance sheet of Reynolds Metals Company and consolidated subsidiaries as of December 31, 1965, and the related statement of income and retained earnings for the year then ended. We also examined the consolidated summary of source and application of funds. 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 respect of the equity in the undistributed net income of the principal associated companies and certain unconsolidated subsidiaries, we were furnished financial statements of those companies for their fiscal years ended in 1965, and reports thereon by their auditors.

In our opinion, based upon our examination and the aforementioned reports of other auditors, the accompanying balance sheet and statement of income and retained earnings present fairly the consolidated financial position of Reynolds Metals Company and consolidated subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying consolidated summary of source and application of funds for the year ended December 31, 1965, presents fairly the information shown therein.—*Independent Accountants' Report—February 11, 1966.*

To the Board of Directors of
Lone Star Cement Corporation:

We have examined the consolidated balance sheets of Lone Star Cement Corporation and its consolidated domestic subsidiaries as of December 31, 1965 and the related statement of income and earned surplus 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 of the companies, and such other auditing procedures as we considered necessary in the circumstances.

We previously examined and reported upon the consolidated statements of the Corporation for the year 1964; as indicated in Note 1 to the consolidated statements, data as to 1964 income as previously reported is provided for information purposes only. Otherwise, all 1964 amounts presented herein have been restated to reflect the inclusion of Pacific Cement & Aggregates, Inc. Our opinion expressed herein, insofar as it relates to amounts so included for PC&A, is based solely upon reports of other certified public accountants who examined the 1964 financial statements of Pacific.

With respect to each of the wholly-owned Latin American subsidiaries included in the accompanying combined summaries, we have reviewed financial statements for 1965 and 1964 reported upon by foreign public accountants. Based upon such review, we approve the computations made and the procedures followed in translating into United States dollars and combining in said accompanying summaries the information and representations contained in the statements of the individual subsidiaries.

In our opinion, the accompanying consolidated financial statements, when read in conjunction with the combined summaries of Latin American subsidiaries referred to in the preceding paragraph, present fairly the consolidated financial position of Lone Star Cement Corporation and its consolidated domestic subsidiaries at December 31, 1965 and 1964 and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report—February 23, 1966.*

Branches or Divisions

To the Shareholders of
Harsco Corporation:

We have examined the consolidated financial statements of Harsco Corporation and subsidiary companies for the year ended December 31, 1965. 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. We previously examined and reported upon the consolidated financial statements of Harsco Corporation and subsidiary companies for the year 1964. We did not examine the financial statements of certain consolidated foreign subsidiary companies and a foreign branch for 1965 or 1964, which statements were examined by other public accountants whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for such foreign subsidiaries and foreign branch, is based solely upon such reports.

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of income, paid-in surplus and retained earnings present fairly the financial position of Harsco Corporation and subsidiary companies at December 31, 1965 and 1964 and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Certified Public Accountants —February 22, 1966.*

Board of Directors and Stockholders,
Scovill Manufacturing Company:

We have examined the consolidated balance sheet of Scovill Manufacturing Company and consolidated subsidiaries as of December 26, 1965, the related statement of earnings and earnings retained in the business and the statement of source and disposition of funds for the fiscal 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.

Statements of the English branch and subsidiary, which were not examined by us, have been incorporated in the financial statements on the basis reported by Chalmers, Impey & Co., chartered accountants in England.

In our opinion, the accompanying balance sheet and statement of earnings and earnings retained in the business present fairly the consolidated financial position of Scovill Manufacturing Company and consolidated subsidiaries at December 26, 1965, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles which, except for the inclusion, which we approve, of the accounts of certain foreign subsidiaries not previously consolidated as explained in Note A, have been applied on a basis consistent with that of the preceding year. It is also our opinion that the statement of source and disposition of funds for the fiscal year ended December 26, 1965, presents fairly the information shown therein.—*Auditors' Report—February 2, 1966.*

IDENTIFICATION OF FINANCIAL STATEMENTS

Both the recommended short-form and the modified form of auditors' report reproduced on the opening page of this section call for the identification of financial statements upon which opinion is expressed by listing separately the title of each such statement.

As will be noted in Table 6, most of the 600 auditors' reports for the year 1965 included in this survey, that is, 579 reports, listed the titles of the statements examined. However, 21 reports used group references only, such as "the accompanying financial statements," etc., possibly implying in many cases that all of the comparative statements, miscellaneous schedules and summaries included in the company's report were examined by the auditors.

Table 6 discloses that 292 auditors referred in their reports to additional statements examined; several others, however, instead of such reference in their regular report, expressed an opinion on additional statements in a separately presented auditors' report (*37, 58, 122, 135, 184, 351, 357, 429, 430, 488, 493, 598).

Of the total of 103 reports referring to the accompanying footnote or footnotes, 62 reports included references to specific footnotes rather than to the footnotes in general (*38, 81, 161, 194, 244, 283, 336, 387, 400, 536, 586).

*Refer to Company Appendix Section.

TABLE 6: IDENTIFICATION OF FINANCIAL STATEMENTS

Statements Identified in Auditors' Reports* by:	1965	1960	1955	1950
A: Title listing of customary statements	265	396	478	469
B: Title listing of customary statements and specific mention of accompanying footnote(s)	41	96	44	66
Title listing of customary statements and specific mention of accompanying footnote(s) with:				
C: Title listing of additional statements	52	3	1	—
D: Group reference to additional statements	1	3	—	1
Title listing of customary statements with:				
E: Title listing of additional statements	218	17	9	12
F: Group reference to additional statements	2	4	6	7
	579	519	538	555
G: Group reference to customary statements	2	65	48	35
Group reference to customary statements and specific mention of accompanying footnote(s)	—	11	12	3
Group reference to customary statements with:				
H: Title listing of additional statements	3	2	1	1
I: Title listing of additional statements and specific mention of accompanying footnote(s)	2	—	—	—
J: Group reference to additional statements	7	3	1	6
K: Group reference to additional statements and specific mention of accompanying footnote(s)	7	—	—	—
	21	81	62	45
Total	600	600	600	600
Number of Reports Referring to:				
Additional statements	292	32	18	27
Accompanying footnote(s)	103	113	57	70

*Refer to Company Appendix Section—A: 21, 72, 113, 142, 219, 259, 329, 378, 438, 489, 523, 597; B: 6, 97, 166, 194, 234, 275, 337, 383, 400, 445, 524, 560; C: 42, 70, 174, 251, 296, 323, 379, 441, 471, 510, 589; D: 347; E: 1, 40, 111, 148, 220, 253, 306, 352, 414, 476, 558, 570; F: 64, 147; G: 60, 446; H: 222, 307, 361; I: 318, 490; J: 106, 124, 168, 304, 305, 317, 391; K: 121, 175, 183, 265, 472, 585, 588.

Of the total of 492 reports using the recommended short-form, 232 reports listed the customary statement titles in either the scope or opinion paragraph, including just a group reference to such statements in the other paragraph (*49, 97, 187, 219, 256, 369, 424, 494, 568). In the modified form, of course, the statements are identified in the opening sentence only, although in 20 instances they were referred to only as "the accompanying statements" or similar wording.

Table 6 also reveals an increase in report references to additional statements, viz., from 18 in 1955 to 292 in 1965. This may be accounted for in most cases by the addition of statements of working capital and/or source and application of funds statements which have recently been assuming increasing significance.

Although examples of the identification of financial statements may be noted from the various auditors' reports presented in this section and by reference to the reports designated by company number at the foot of Table 6, two additional illustrations from 1965 reports pertaining particularly to identification of financial statements are given below, followed by examples of auditors' opinions on source and application of funds statements.

To the Stockholders,
Crown Central Petroleum Corporation:

We have examined the consolidated balance sheet of Crown Central Petroleum Corporation and subsidiaries as of December 31, 1965, and the related statements of consolidated income and earned surplus 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 accompanying balance sheet and statements of income and earned surplus present fairly the consolidated financial position of Crown Central Petroleum Corporation and subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Report—February 4, 1966.*

To the Stockholders and the Board of Directors,
J. C. Penney Company:

We have examined the balance sheet of J. C. Penney Company as of January 31, 1965 and the related statements of earnings and retained earnings for the year then ended. We have also examined the balance sheets of J. C. Penney Credit Corporation and J. C. Penney Properties, Inc. as of January 31, 1965. 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 accompanying financial statements present fairly the financial position of J. C. Penney Company at January 31, 1965 and the results of its operations for the year then ended, and the financial position of J. C.

*Refer to Company Appendix Section.

Penney Credit Corporation and J. C. Penney Properties, Inc. at January 31, 1965, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—March 23, 1965.*

Opinions on "Funds" Statements

To the Board of Directors and Stockholders of Blaw-Knox Company:

In our opinion, the balance sheet and the related statement of income and retained earnings (pages 7 to 9, inclusive) and the statement of source and application of funds shown above present fairly the financial position of Blaw-Knox Company at December 31, 1965, the results of its operations and the supplementary information on source and application of funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

We have made similar annual examinations and reported on the company's financial statements since 1939. In our opinion, based on these examinations, the financial review on pages 10 and 11 presents fairly the financial data included therein.—*Opinion of Independent Accountants—February 25, 1966.*

The Board of Directors, Dura Corporation:

We have examined the consolidated balance sheet of Dura Corporation and subsidiaries as of July 31, 1965 and the related statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and retained earnings present fairly the financial position of Dura Corporation and subsidiaries at July 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and disposition of funds presents fairly the information shown therein.—*Accountants' Report—September 20, 1965.*

Board of Directors, Evans Products Company:

We have examined the accompanying consolidated balance sheet of Evans Products Company and Subsidiaries as of December 31, 1965, and the related statements of earnings, additional paid-in capital, retained earnings, and source and application of funds 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 financial statements referred to above present fairly the consolidated financial position of Evans Products Company and Subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Opinion of Independent Accountants—January 31, 1966.*

To the Board of Directors and Stockholders of Associated Brewing Company:

We have examined the consolidated balance sheet of Associated Brewing Company and Subsidiaries as at December 31, 1965 and the related consolidated statements of additional paid-in capital, earnings retained for use in the business and income 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. We made a similar examination of the financial statements for the year 1964, which have been restated to give effect to the merger of Drewrys Limited U. S. A. Inc. with and into Associated Brewing Company, as described in Note A to the financial statements.

In our opinion, the accompanying balance sheets and statements of additional paid-in capital, earnings retained for use in the business and income present fairly the consolidated financial position of Associated Brewing Company and Subsidiaries at December 31, 1965 and 1964 and the consolidated results of operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have made a similar examination of the accompanying consolidated statement of changes in working capital which, in our opinion, when considered in relation to the basic financial statements, presents fairly the changes in working capital of the Company and Subsidiaries for the year ended December 31, 1965.—*Auditors' Report—February 9, 1966.*

To the Stockholders and Board of Directors of General Aniline & Film Corporation:

We have examined the consolidated balance sheet of General Aniline & Film Corporation and its subsidiary companies as of December 31, 1965 and the related statements of consolidated income and retained earnings and consolidated source and use of funds 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 accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of the companies at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year; and the accompanying statements of consolidated source and use of funds presents fairly the information shown therein.—*Accountants' Opinion—January 28, 1966.*

To the Stockholders of Lehigh Portland Cement Company:

In our opinion, the accompanying statement of consolidated financial position, the related statement of consolidated earnings and retained earnings and the statement of consolidated source and application of funds present fairly the financial position of Lehigh Portland Cement Company and its subsidiaries at December 31, 1965, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.—*Accountants' Report—February 14, 1966.*

Board of Directors,
Marathon Oil Company:

We have examined the consolidated financial statements of Marathon Oil Company and subsidiaries for the year ended December 31, 1965. 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 accompanying balance sheet and statements of income, retained earnings, and source and disposition of funds present fairly the consolidated financial position of Marathon Oil Company and subsidiaries at December 31, 1965, and the consolidated results of their operations and the source and disposition of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—February 15, 1966.*

To the Directors and Stockholders of
North American Aviation, Inc.:

We have examined the consolidated balance sheet of North American Aviation, Inc. and subsidiaries as of September 30, 1965, and the related statement of consolidated income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances; it was not practicable to confirm receivables relating to United States Government contracts, but we carried out other auditing procedures with respect to such receivables.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of the companies at September 30, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also comprehended the accompanying supplemental statement of source and application of consolidated working capital for the year ended September 30, 1965, and, in our opinion, such supplemental statement, when considered in relation to the basic financial statements, presents fairly in all material respects the information shown therein.—*Accountants' Opinion—November 17, 1965.*

To the Board of Directors,
Rex Chainbelt Inc.:

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the financial position of Rex Chainbelt Inc. and its consolidated subsidiary companies at October 31, 1965 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

Our examination also encompassed the statement of source and application of funds for the year ended October 31, 1965, which is presented elsewhere herein as supplementary financial information, and, in our opinion, that statement presents fairly the information shown therein.—*Opinion of Independent Public Accountants—November 22, 1965.*

To the Board of Directors and Shareholders,
Socony Mobil Oil Company, Inc.:

We have examined the accompanying consolidated balance sheet of Socony Mobil Oil Company, Inc. at December 31, 1965, the related consolidated statements of income, earnings retained in the business and the consolidated statement of source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Socony Mobil Oil Company, Inc. and its subsidiaries at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Report of Certified Public Accountants—March 4, 1966.*

To Directors and Stockholders of
Union Carbide Corporation:

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

In our opinion, the accompanying balance sheet and statement of income and retained earnings present fairly the financial position of Union Carbide Corporation and its subsidiaries consolidated at December 31, 1965, and the results of its consolidated operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the statement of source and application of funds and, in our opinion, that statement presents fairly the information shown therein.—*Report of Certified Public Accountants—February 3, 1966.*

REFERENCE TO COMPANY

All 600 of the survey auditors' reports contained the corporate name of the client. In a small number of auditors' reports (*20, 27, 62, 98, 175, 224, 252, 363, 392, 423, 424, 480) the names of the consolidated and/or unconsolidated subsidiaries were mentioned.

Although reference to the reporting company and its subsidiaries or affiliates may be observed from the examples of auditors' reports to be found elsewhere in this section, several additional examples from the 1965 reports are given below.

Reference to Corporate Name of Company

To the Shareholders and Board of Directors,
Cummins Engine Company, Inc.:

We have examined the consolidated statement of financial condition of Cummins Engine Company, Inc. (an Indiana corporation) and its wholly owned subsidiaries as of December 31, 1965, and the related consolidated statements of earnings, earnings retained in the business, capi-

*Refer to Company Appendix Section.

tal surplus and working capital 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 accompanying consolidated statements of financial condition, earnings, earnings retained in the business, capital surplus and working capital present fairly the financial position of Cummins Engine Company, Inc. and its wholly owned subsidiaries as of December 31, 1965, and the results of their operations and the sources and uses of working capital for the year then ended, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Report—February 7, 1966.*

To the Board of Directors and Stockholders,
Loft Candy Corporation:

We have examined the consolidated balance sheet of Loft Candy Corporation and subsidiaries as at June 26, 1965 and the related consolidated statement of operations and retained earnings for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards and 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 Loft Candy Corporation and subsidiaries at June 26, 1965 and the consolidated operating results for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Report of Certified Public Accountants—August 12, 1965.*

To the Shareholders of
Oscar Mayer & Co. Inc.:

In our opinion, the accompanying statements present fairly the consolidated financial position of Oscar Mayer & Co. Inc. and its subsidiaries at October 30, 1965, the results of their operations and the supplementary information on funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal period. Our examination of these statements 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.—*Opinion of Independent Accountants—December 27, 1965.*

To the Stockholders,
Outboard Marine Corporation:

We have examined the statement of consolidated financial position of Outboard Marine Corporation (a Delaware corporation) and Subsidiaries as of September 30, 1965, and the related statements of consolidated earnings, consolidated accumulated earnings employed in the business and capital in excess of par value of common stock 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. We had made a similar examination for the year ended September 30, 1964.

In our opinion, the accompanying consolidated statements referred to above present fairly the financial position of the companies as of September 30, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—October 27, 1965.*

Board of Directors,
The Timken Roller Bearing Company:

We have examined the consolidated balance sheet of The Timken Roller Bearing Company and subsidiaries as of December 31, 1965, and the related consolidated statements of income and earnings invested in the business 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 accompanying balance sheet and statements of income and earnings invested in the business present fairly the consolidated financial position of The Timken Roller Bearing Company and subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountants' Report—February 22, 1966.*

PERIOD OF EXAMINATION

The recommended short-form of auditors' report calls for references as to period of examination in both the scope and opinion paragraphs. Table 7 discloses that all reports surveyed except two, where no period was mentioned in scope paragraph (**143, 253) followed this normal procedure.

The following supplementary tabulation summarizes the length of the period of examination disclosed in auditors' report as presented in Table 7:

	Period of Examination*	Number of Companies
A:	One year	490
B:	52-53 weeks	28
C:	Two years or more in recommended short-form report	79
D:	Two years or more in modified short-form report	3
	Total	600

*Refer to Company Appendix Section—A: 79, 91, 143, 180, 244, 273, 307, 376, 446, 490, 585, 599; B: 3, 80, 147, 193, 225, 261, 349, 393, 401, 477, 524, 535; C: 14, 53, 135, 181, 232, 285, 326, 389, 434, 460, 532, 583; D: 304, 317, 436.

Should the period of examination cover two or more years, it necessitates slight changes in the wording of the auditors' report, as will be noted from the following excerpt taken from *Statements on Auditing Procedure No. 33*, 1963, Chapter 8 under "Consistency," previously referred to in this section. It states:

> 14. The consistency standard is aimed at comparability of the financial statements of the current year with those of the preceding year (whether presented or not) and at comparability of all financial statements presented in comparative form. When the independent

**Refer to Company Appendix Section.

auditors' opinion covers the statements of two or more years, there is generally no need to disclose an inconsistency with a year prior to the years for which statements are being presented. Accordingly, the phrase "on a basis consistent with that of the preceding year" is ordinarily inapplicable whenever the opinion covers two or more years. Instead, language similar to "consistently applied during the period" or "applied on a consistent basis" should be used.

The following examples illustrate the references in auditors' reports to periods of examination covering two years.

To the Board of Directors and Stockholders,
American Home Products Corporation:

We have examined the consolidated balance sheets of American Home Products Corporation and Subsidiaries as of December 31, 1965 and 1964 and the related consolidated statements of income, retained earnings and capital surplus for the years 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. We did not examine the financial statements of foreign subsidiaries or of foreign branches of domestic subsidiaries, or the consolidated financial statements of Ekco Products Company for 1964, all of which statements were examined by other public accountants whose reports thereon have been furnished to us. Our opinion, expressed herein, insofar as it relates to the amounts reported upon by other public accountants, is based upon such reports.

In our opinion, the financial statements (pages 20 to 24) present fairly the consolidated financial position of American Home Products Corporation and Subsidiaries at December 31, 1965 and 1964 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Independent Auditors' Report—February 14, 1966.*

To the Board of Directors,
Clark Equipment Company:

We have examined the comparative balance sheet of Clark Equipment Company and its consolidated subsidiaries as of December 31, 1965 and December 31, 1964 and the related consolidated statements of income and retained earnings and source and application of funds for the years then ended. 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. We made similar examinations of the financial statements of Clark Equipment Credit Corporation and its consolidated subsidiaries as of December 31, 1965 and December 31, 1964.

In our opinion, the accompanying statements present fairly (a) the financial position of Clark Equipment Company and its consolidated subsidiaries at December 31, 1965 and December 31, 1964, the consolidated results of their operations and the source and application of funds for the years then ended, and (b) the financial position of Clark Equipment Credit Corporation and its consolidated subsidiaries at December 31, 1965 and December 31, 1964, in conformity with generally accepted accounting principles applied on a consistent basis during the two years. —*Opinion of Independent Accountants—February 9, 1966.*

TABLE 7: PERIOD OF EXAMINATION

Auditors Refer to:	1965	1960	1955	1950
One year in *scope* and *opinion* paragraphs	337	387	411	443
One year in *scope* and *opinion* paragraphs, with reference to examination of prior year contained in *scope* paragraph	50	46	43	31
One year in *opinion* paragraph—				
No period mentioned in *scope* paragraph	2	1	4	4
Modified short-form of report	97	87	79	60
Modified short-form of report, with additional comment referring to examination of prior year(s)	4	2	2	3
One year, with reference to *examination of prior year* in *scope* paragraph; two years in *opinion* paragraph	64	5	11	14
Two or three years in *scope* and *opinion* paragraphs	13	36	20	22
Two or three years in *opinion* paragraph only; in modified short-form of report	3	7	5	3
Period of 52 or 53 weeks in *scope* and *opinion* paragraphs	20	18	13	12
Period of 52 or 53 weeks in *opinion* paragraph (modified short-form of report)	4	5	3	3
Period of 52 or 53 weeks with two periods referred to in *scope* and *opinion* paragraph	2	3	—	1
Period of 52 or 53 weeks in *scope* and *opinion* paragraphs, with reference to examination of prior year contained in *scope* paragraph	3	—	—	—
Period of days stated simply as "period from October 3, 19xx to October 1, 19xx" in *scope* and *opinion* paragraph	1	—	1	—
Changes in Fiscal Years:				
Periods of more than one year in *scope* and *opinion* paragraphs	—	—	8	4
Period of less than one year in *scope* and/or *opinion* paragraphs	—	3		
Total	600	600	600	600

To the Board of Directors and Stockholders of
Inland Steel Company:

In our opinion, the accompanying statements on pages 18 to 21 present fairly the consolidated financial position of Inland Steel Company and its subsidiary companies at December 31, 1965 and December 31, 1964, the results of their operations, and the source and use of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the two years. Our examination of these statements 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.—*Opinion of Independent Accountants—February 21, 1966.*

To the Stockholders,
The Grand Union Company:

We have examined the consolidated balance sheet of The Grand Union Company and Subsidiaries as of February 27, 1965 and the related statements of income and retained earnings and of capital surplus for the fifty-two week period 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. We previously examined and reported upon the consolidated financial statements of the Company and Subsidiaries for the fifty-two week period ended February 29, 1964, which included the consolidated statements of a subsidiary company which had been examined by other certified public accountants. Our opinion expressed herein insofar as it relates to amounts included for such subsidiary company for the fifty-two week period ended February 29, 1964 is based solely upon the report of such other accountants.

In our opinion, the accompanying financial statements (pages 8 through 11) present fairly the financial position of The Grand Union Company and Subsidiaries at February 27, 1965 and February 29, 1964, and the consolidated results of their operations for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report—April 15, 1965.*

To the Stockholders,
United States Smelting Refining and Mining Company

We have examined the consolidated financial statements of United States Smelting Refining and Mining Company and subsidiary companies for the year ended December 31, 1965. 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. We previously examined and reported upon the financial statements for the year ended December 31, 1964.

In our opinion, the accompanying consolidated balance sheet, the consolidated statement of income and retained earnings unappropriated and the consolidated statement of additional paid-in capital present fairly the financial position of United States Smelting Refining and Mining Company and subsidiary companies at December 31, 1965 and 1964 and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In our opinion, the accompanying consolidated statement of source and application of funds, when considered in relation to the basic financial statements, presents fairly the source and application of funds of United States Smelting Refining and Mining Company and subsidiary companies for the years ended December 31, 1965 and 1964.—*Report of Certified Public Accountants—March 22, 1966.*

POST BALANCE SHEET DISCLOSURES

Statements on Auditing Procedure No. 33, issued by the committee on auditing procedure of the American Institute of Certified Public Accountants, 1963, dealing with the "Reporting of Subsequent Events," and "Events Subsequent to the Date of Financial Statements," contains the following:

1. An independent auditor's report is ordinarily rendered in connection with financial statements which purport to present financial position at a stated date and results of operations for a period ended on that date. Such financial statements are essentially historical in character. Financial statements for a given period represent one installment in the financial history of a business enterprise. They are so considered by the auditor in making his examination and in expressing his opinion with regard to the statements. However, events or transactions sometimes occur subsequent to the balance-sheet date which may have a material effect on the financial statements or which may be important in connection with consideration of the statements and, therefore, require adjustment or annotation of the statements.

3. The independent auditor's responsibility for reporting with regard to subsequent events or transactions is directly related to the third reporting standard, which states that informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

4. The independent auditor should consider subsequent events and require, as appropriate, adjustment of the accounts or disclosure of those matters essential to proper interpretation of the financial statements being presented.

Section 2, Table 48 lists the types of post balance sheet disclosures. Such disclosures were found most frequently in the president's report or financial review. One of the auditors' reports, however, cited certain contingencies which may have a material effect upon the company's financial condition, while another report included direct reference to notes to financial statements. A third report contained an expression of opinion on the amount set aside for the year 1965 under the Incentive Compensation Plan for officers and employees. These reports are shown below.

Board of Directors,
The Boeing Company:

We have examined the accompanying balance sheet of The Boeing Company as of December 31, 1965 and the related statements of net earnings and stockholders' investment 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. We were unable to obtain satisfactory confirmations of receivables from the United States by direct communication, but we satisfied ourselves as to such accounts by other auditing procedures.

In our opinion, the financial statements referred to above present fairly the financial position of The Boeing Company at December 31, 1965 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. Except for the change, which we approve, described in the "Inventories" note to financial statements, such principles were applied on a basis consistent with that of the preceding year.

Also, in our opinion, the action of the Board of Directors on February 28, 1966, in setting aside the sum of $2,000,000 for the year 1965 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.—*Accountants' Report—February 28, 1966.*

To the Shareholders of
Elgin National Watch Company:

We have examined the consolidated balance sheet of Elgin National Watch Company (an Illinois corporation) and subsidiaries as of February 28, 1965, and the related consolidated statements of earnings and retained earnings (deficit) 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. We had made a similar examination for the preceding year.

In our audit report dated May 26, 1964, we qualified our opinion with regard to the recovery, through claims against the United States Government, of certain manufacturing costs included in inventory at February 29, 1964. A substantial number of these claims have now been settled and, as explained in Note (2) to this year's consolidated financial statements, the excess of cost over the amount received has been written off as a special charge against earnings in the year ended February 28, 1965.

During the year ended February 28, 1965, the Company sustained a loss, including special charges, of $8,354,730. The Company also had a substantial loss in the previous year. Realization of the amounts included in the consolidated balance sheet for receivables, inventories, prepaid expenses and plant and equipment is dependent upon the Company attaining successful future operations of the business. During 1965, the Company has received a number of proposals for the sale or merger of certain of its consumer and industrial products divisions. Some of these proposals are still being considered by the Board of Directors. The loss, if any, on receivables, inventories, prepaid expenses and plant and equipment from the sale or merger of any of the consumer or industrial products divisions is not now determinable.

Subject to any adjustments which might be required for possible losses on realization of the Company's assets, either through future operations or through sale or merger, as discussed in the preceding paragraph, in our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings (deficit) present fairly the financial position of Elgin National Watch Company and subsidiaries as of February 28, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Certificate—May 19, 1965.*

Note (2): *Costs on United States Government Contracts*—At the close of the previous year, February 29, 1964, the company was preparing claims under the changes provisions of contracts with the United States Government to recover the excess of manufacturing costs over the contract selling prices of certain fixed price contracts. As of that date, $2,340,000 of such costs were included in inventories in the consolidated balance sheet. Subsequently, additional costs of $500,000 were incurred on these contracts. In May, 1965, the claims against the government on two of the three major contracts were settled. The remaining costs of $1,513,000 not recovered in the settlement have been written off as a special charge against earnings in the year ended February 28, 1965.

By May, 1965, the company had completed or discontinued work on all government contracts and had sold nearly all of the machinery and equipment used in such production. In connection therewith, the Company has provided in the accounts for any liabilities that might be incurred or losses that might be sustained in phasing out its defense business.

To the Stockholders and Board of Directors of
Sperry Rand Corporation:

We have examined the financial statements of Sperry Rand Corporation and subsidiaries consolidated for the year ended March 31, 1965. 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. Confirmations of certain accounts with United States Government departments and agencies were not obtainable, but other auditing procedures deemed appropriate were followed in respect of such accounts. We did not examine the financial statements of certain subsidiaries and divisions, which statements were examined by other public accountants whose report thereon was furnished to us. Our opinion expressed herein is based upon our examination and upon the aforementioned report of other public accountants. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheets, subject to the outcome of the tax matters described in Note C to the financial statements, and statements of income and retained earnings present fairly the financial position of Sperry Rand Corporation and subsidiaries consolidated at March 31, 1965 and 1964, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Certificate—May 27, 1965.*

Note C: In April 1965, an agreement was reached with representatives of the Internal Revenue Service on a settlement of the controversy involving the allocation of taxable income between Sperry Rand Corporation and its former subsidiaries which operated in Puerto Rico during the period from April 1, 1952 to December 31, 1960. Under this settlement, which is subject to final approval by Internal Revenue Service officials, the company will pay additional U.S. federal income taxes of $20,000,000. The liability for these additional taxes and the corresponding additional state taxes, together with interest less appropriate tax credits was recorded as of March 31, 1965 in the aggregate amount of $25,-230,671, of which $24,618,308 was charged to Retained Earnings.

The Office of International Operations of the Internal Revenue Service has not completed its examination of returns for periods beginning July 1, 1955 in respect of matters other than the Puerto Rican operations. The result of this examination is not expected to affect materially the financial statements of the company.

TITLE OF THE AUDITORS' REPORT

The title most frequently given to the report of the independent public accountants, as summarized in Table 8, continues to be "accountants' report," as disclosed by the 600 survey companies in their 1965 annual reports. Although there were many variations in the titles assigned, the word "report" was the usual term of reference. It was used in 291 annual reports in 1965, as compared with 213 in 1950. Against this it may be noted that the use of the word "certificate" has declined to 25 in 1965 from 119 in 1950. Also, the number of reports with "no title" has gradually declined to 89 in 1965, from 224 reports in 1950.

The word "opinion" was used in 193 instances in 1965, compared with 15 in 1950. In this connection the following quotation from *Accounting Terminology Bulletins, Review and Résumé No. 1,*† prepared by the committee on terminology of the American Institute of Certified Public Accountants in 1953 may be of interest:

†Included in *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

TABLE 8: TERMINOLOGY IN TITLE OF REPORT

Title Used to Identify Auditors' Report*	1965	1964	1960	1955	1950
A: Accountant's (or accountants') report	155	167	178	134	114
B: Accountant's (or accountants') certificate	3	5	8	59	64
C: Accountant's (or accountants') opinion	50	46	45	7	3
D: Auditor's (or auditors') report	59	59	77	72	49
E: Auditor's (or auditors') certificate	18	20	45	45	43
F: Auditor's opinion	41	37	N/A	N/A	N/A
G: Auditors' statement	2	N/A	N/A	N/A	N/A
H: Report of independent public accountants	8	11	16	21	12
I: Opinion of independent public accountants	10	12	17	15	7
J: Certificate of independent public accountants	3	3	1	7	12
K: Report of independent certified public accountants	11	11	10	13	10
L: Opinion of independent certified public accountants	7	4	5	5	4
M: Report of certified public accountants	29	28	21	6	5
N: Opinion of certified public accountants	3	3	—	—	—
O: Independent auditor's (or auditors') report	7	7	9	10	7
P: Report of independent auditors	2	1	4	4	3
Q: Opinion of independent auditors	2	N/A	N/A	N/A	N/A
R: Report of auditors	3	5	6	6	8
S: Report of independent accountants	17	18	16	6	5
T: Opinion of independent accountants	80	77	4	3	1
U: Various other	1	3	42	33	29
	511	517	504	446	376
No title shown	89	83	96	154	224
Total	600	600	600	600	600

1965 Reference to Auditor's(s')	1965 Reference to Report: Report	Certificate	Opinion	Other Terms	1965 Total
Accountant's(s')	155	3	50	—	208
Auditor's(s')	62	18	41	2	123
Certified public accountant's(s')	29	—	3	—	32
Independent certified public accountant's(s')	11	—	7	—	18
Independent public accountant's(s')	8	3	10	—	21
Independent accountant's(s')	17	—	80	—	97
Independent auditor's(s')	9	—	2	—	11
Auditor's(s') not referred to	—	1	—	—	1
Total	291	25	193	2	511
No title shown					89
Total					600

N/A—Not Available.
*Refer to Company Appendix Section—A: 22, 54, 127, 171, 202, 266, 324, 370, 451, 493, 531, 582; B: 228, 322, 397; C: 20, 89, 123, 157, 343, 366, 441, 479, 581, 597; D: 67, 93, 158, 191, 216, 261, 310, 347, 453, 481, 547, 577; E: 44, 64, 156, 210, 326, 357, 389, 445, 458, 508, 525, 573; F: 1, 88, 150, 160, 245, 286, 319, 374, 423, 486, 504, 600; G: 108, 575; H: 16, 78, 195, 252, 325, 414, 501, 562; I: 91, 95, 141, 169, 328, 466, 534, 538, 561, 589; J: 200, 454, 462; K: 32, 46, 114, 125, 184, 192, 372, 379, 520, 576, 598; L: 174, 233, 237, 434, 495, 567, 578; M: 40, 98, 145, 172, 234, 297, 313, 351, 435, 487, 500, 574; N: 314, 340, 532; O: 31, 185, 246, 497, 548, 569, 570; P: 449, 596; Q: 113, 367; R: 26, 151, 390; S: 4, 76, 87, 111, 205, 289, 373, 395, 437, 457, 516, 542; T: 19, 72, 139, 183, 217, 247, 315, 363, 455, 494, 536, 599; U: 249.

42. The word *opinion* is also important. In the circumstances described it is not possible for the auditor to state as a literal fact that the statements are true, or that they have been prepared "in conformity with generally accepted accounting principles." All that the circumstances warrant is an expression of opinion; and although it is true that the auditor is expected to have qualified himself to express an opinion, both by his general training and by his examination in the particular case, yet his audit properly results in a statement of opinion, not of fact.

NATURAL BUSINESS YEAR

The natural business year is the period of 12 consecutive months which ends when a business's activities have reached the lowest point in its annual cycle. New businesses generally recognize the advantages of the natural business year and have adopted it in large numbers.

For years, the accounting and legal professions, printers, the SEC, and others interested in various aspects of the year-end bottleneck have been advocating the use of the natural business year.

A total of 406 of the survey companies had fiscal year endings in December (or the week-end nearest to the end of the calendar year). Due to corporate liquidations and mergers and the necessary company substitutions from year to year it is difficult to cite any definite trend in the number of survey companies adopting the natural business year. Although it is recognized that the natural business year for many companies coincides with the calendar year, the fiscal year endings are summarized in Table 9 for the year under review as well as for 1964, 1963, and 1962. They are, for the most part, fairly consistent with those of prior years.

One company (*403) changed from a December 31 to a January 31 fiscal year end.

TABLE 9: COMPANIES' FISCAL YEAR ENDINGS

Number of Companies with fiscal years ending in	1965	1964	1963	1962
December	406	408	404	410
November	16	16	17	19
October	36	35	35	36
September	36	34	34	33
August	15	14	15	15
July	13	13	13	14
June	27	26	28	25
May	6	6	6	6
April	5	5	6	6
March	14	14	14	10
February	10	11	11	10
January	16	18	17	16
Total	600	600	600	600

Using the CPA Title

In the January, 1961 issue of *CPA*, membership bulletin of the American Institute of Certified Public Accountants, the following item appeared:

> As a matter of good public relations for the CPA himself and for the profession as a whole, the executive committee decided at its last meeting that all firms and practitioners legally entitled to do so should be urged to use "certified public accountant" in connection with the firm name on financial reports and letterheads.
>
> Tests made by the Institute have shown that opinion leaders in a business community know the difference between a CPA and a noncertified accountant, but that they frequently cannot tell whether accountants they know are certified or not. The reason appears to be the failure of many CPAs to identify themselves as they are entitled to, despite the clear benefits to be gained from being known as a certified public accountant.
>
> The Institute's public relations department has pointed out that the surest way for the public to learn to distinguish the CPA from other accountants, and to appreciate what he stands for, is by what people see when they look at CPAs around them. This recognition is retarded if they can't tell a CPA when they see one.
>
> The problem of legal restrictions on the use of the title by multi-office firms is under study by the committee on state legislation.

Above in this section is discussed the terminology used for the "Title of the Auditors' Report," wherein the question of how the auditor is identified in the stockholders' reports, either by the company or by himself, is explored. This part of the section is concerned with the terminology used to designate the auditor, either by himself or by the client, irrespective of whether it is part of the title of the auditors' report. In many reports, more than one designation is employed; in such cases if the title "Certified Public Accountant" is used, such title is given preference, to the exclusion of the others, in Table 10 which was compiled in the course of the survey of the 600 annual reports.

Addressee of the Auditors' Report

Table 11 summarizes the various addressees mentioned in the auditors' reports of the 600 survey companies since 1950. It is of interest to note the steady decline in the number of reports addressed to the "Board of Directors and the Company" as compared with the increase of reports addressed to the "Board of Directors and Stockholders (or Shareholders) of the Company." This year only one report (*269) was addressed to the President and Board of Directors. One other report (*38) (included with "Directors" in Table 11), continued to use "The Board of Trustees" as addressee.

Examples of the various forms of address used by the auditors in presenting their opinions may be observed from copies of the actual reports included in this section.

Signature on the Auditors' Report

The printed form of signature on the auditors' report which accompanies the annual financial statements still remains the most frequent presentation, although the use of the handwritten facsimile has increased considerably since 1950, from 145 reports in that year to 269 reports in 1965. Thirteen companies (*17, 26, 150, 246, 263, 323, 377, 404, 537, 542, 549, 595, 598) used both the printed form and the handwritten facsimile in 1965.

*Refer to Company Appendix Section.

TABLE 10: TERMINOLOGY USED TO IDENTIFY AUDITORS, AND LOCATION OF REFERENCE

Terminology Used*	Number of Companies 1965	1963	1961
A: Certified Public Accountants	227	218	250
B: Independent Certified Public Accountants	13	11	N/O
C: Auditors	148	145	149
D: Independent Auditors	9	15	N/O
E: Accountants	91	97	104
F: Independent Accountants	70	58	N/O
G: Independent Public Accountants	22	30	32
H: Accountants and Auditors	5	11	29
I: Public Accountants	3	1	N/O
J: No designation	12	14	14
Other	—	—	22
Total	600	600	600
Location of Reference in Annual Report*			
K: Auditors' letterhead or with signature	194	185	240
L: Title of auditors' report	223	247	213
M: With officers, directors, registrars, etc.	160	138	119
N: President's letter or financial review	12	17	14
O: No reference	11	13	14
Total	600	600	600

N/O—Not obtained in years prior to 1963.
*Refer to Company Appendix Section—A: 9, 53, 115, 169, 269, 290, 337, 372, 448, 476, 500, 583; B: 32, 46, 62, 114, 125, 174, 184, 192, 233, 495, 520, 578, 598; C: 43, 88, 173, 177, 216, 270, 357, 378, 438, 485, 566, 575; D: 31, 246, 294, 374, 422, 494, 497, 569, 596; E: 77, 85, 109, 148, 212, 265, 343, 375, 463, 493, 536, 586; F: 19, 94, 139, 180, 205, 272, 315, 363, 465, 490, 559, 599; G: 78, 95, 141, 166, 203, 211, 325, 328, 454, 466, 538, 589; H: 108, 147, 190, 243, 499; I: 16, 356, 406; J: 33, 34, 58, 71, 81, 105, 132, 241, 281, 415, 544, 555; K: 14, 41, 108, 173, 225, 239, 321, 346, 431, 450, 531, 568; L: 30, 88, 122, 194, 230, 260, 325, 395, 455, 492, 520, 596; M: 35, 98, 131, 166, 226, 286, 306, 356, 406, 422, 559, 599; N: 105, 177, 211, 291, 300, 410, 414, 448, 462, 464, 476, 506; O: 33, 34, 58, 71, 81, 132, 241, 281, 415, 544, 555.

**Refer to Company Appendix Section.

Number of Accounting Firms Represented

There were 38 certified public accounting firms or individual practitioners represented among the 600 companies included in the current survey. This is a net decrease of 7 for the year 1965.

It was noted that 14 companies had made a change of auditors during the year (**34, 123, 156, 239, 297, 328, 337, 350, 429, 444, 472, 514, 571, 572). However, it may be mentioned that a change of auditors does not necessarily mean a change in the number of accounting firms represented.

TABLE 11: ADDRESSEE OF AUDITORS' REPORT

Combined Addressee	1965	1960	1955	1950
The Company and Its:				
Directors	162	224	283	309
Directors and President	1	2	7	10
Directors and Shareholders	93	58	28	10
Directors and Stockholders	201	162	111	87
Directors and Shareowners	16	17	8	—
Stockholders	53	67	67	85
Shareholders	35	33	34	22
Shareowners	6	4	4	1
Single Addressee				
The Company	32	32	56	72
No Addressee	1	1	2	4
Total	600	600	600	600
Frequency of Reference to:				
Company with other addressees	567	567	542	524
Company—with no other addressee	32	32	56	72
Directors	473	463	437	416
President	1	2	7	10
Stockholders	254	229	178	172
Shareholders	128	91	62	32
Shareowners	22	21	12	1

APPENDIX OF 600 COMPANIES

List of 600 Companies on Which Tabulations Are Based

Co. No.		*Month in which fiscal year ends
1	Abbott Laboratories	12
2	ACF Industries, Incorporated	4
3	Acme Markets, Inc.	3
4	Adams-Millis Corporation	12
5	Addressograph Multigraph Corporation	7
6	Admiral Corporation	12
7	Air Products and Chemicals, Inc.	9
8	Air Reduction Company, Incorporated	12
9	Alan Wood Steel Company	12
10	Allegheny Ludlum Steel Corporation	12
11	Allen Industries, Inc.	12
12	Allied Chemical Corporation	12
13	Allied Kid Company†	6
14	Allied Mills, Inc.	6
15	Allied Stores Corporation	1
16	Allis-Chalmers Manufacturing Company	12
17	Alpha Portland Cement Company	12
18	Aluminum Company of America	12
19	The Amalgamated Sugar Company	9
20	Amerada Petroleum Corporation	12
21	American Air Filter Company, Inc.	10
22	American Bakeries Company	12
23	American Bank Note Company	12
24	American Brake Shoe Company	12
25	American Broadcasting Companies, Inc.	12
26	American Can Company	12
27	American Chain & Cable Company, Inc.	12
28	American Cyanamid Company	12
29	The American Distilling Company	9
30	American Enka Corporation	12
31	American Home Products Corporation	12
32	American Hospital Supply Corporation	12
33	American Machine & Foundry Company	12
34	American Maize-Products Company	12
35	American Metal Climax, Inc.	12
36	American Metal Products Company	12
37	American Motors Corporation	9
38	American Optical Company	12
39	American Potash & Chemical Corporation	12
40	American Radiator & Standard Sanitary Corporation	12
41	American Saint Gobain Corporation	12
42	American Seating Company	12
43	The American Ship Building Company	6
44	American Smelting and Refining Company	12
45	American Sugar Company	12
46	The American Tobacco Company	12
47	American Zinc, Lead and Smelting Company	6
48	Ametek, Inc.	12
49	Ampco Metal, Inc.	12

Co. No.		*Month in which fiscal year ends
50	Amsted Industries Incorporated	9
51	The Anaconda Company	12
52	Anchor Hocking Glass Corporation	12
53	Anchor Post Products, Inc.	12
54	Anderson, Clayton & Co.	7
55	Anheuser-Busch, Incorporated	12
56	Apco Oil Corporation	12
57	Archer Daniels Midland Company	6
58	Arden-Mayfair, Inc.	12
59	Armco Steel Corporation	12
60	Armour and Company	10
61	Armstrong Cork Company	12
62	Art Metal, Inc.	5
63	The Arundel Corporation	12
64	Arvin Industries, Inc.	12
65	Ashland Oil & Refining Company	9
66	Associated Brewing Company	12
67	Associated Dry Goods Corporation	1
68	The Atlantic Refining Company	12
69	Atlas Chemical Industries, Inc.	12
70	Automatic Canteen Company of America	9
71	Avco Corporation	11
72	Avon Products, Inc.	12
73	The Babcock & Wilcox Company	12
74	Baker Oil Tools, Inc.†	9
75	Barber Oil Corporation	12
76	Basic Incorporated	12
77	Basic Products Corporation	7
78	Bates Manufacturing Company, Incorporated	12
79	Bath Iron Works Corporation	12
80	Bausch & Lomb Incorporated	12
81	Bayuk Cigars Incorporated	12
82	Beatrice Foods Co.	2
83	Beaunit Corporation	3
84	Beech Aircraft Corporation	9
85	Beech-Nut Life Savers, Inc.	12
86	Belding Heminway Company, Inc.	12
87	Bell & Howell Company	12
88	Bell Intercontinental Corporation	12
89	The Bendix Corporation	9
90	Bethlehem Steel Corporation	12
91	Bigelow-Sanford, Inc.	12
92	The Black and Decker Manufacturing Company	9
93	The Blackstone Cigar Company	12
94	Blaw-Knox Company	12
95	Bliss & Laughlin Industries Incorporated	12
96	Blue Bell, Inc.	9

*Months numbered in sequence, January through December.
†Companies new to the survey.

Co. No.		*Month in which fiscal year ends
97	The Boeing Company	12
98	H. C. Bohack Co. Inc.	1
99	Bond Stores, Incorporated	7
100	The Borden Company	12
101	Borg-Warner Corporation	12
102	Botany Industries, Inc.	7
103	E. J. Brach & Sons	9
104	The Bristol Brass Corporation†	12
105	Briggs & Stratton Corporation	12
106	Bristol-Myers Company	12
107	Brockway Glass Company, Inc.	9
108	Brown & Sharpe Manufacturing Company	12
109	Brown Shoe Company, Inc.	10
110	Brunswick Corporation	12
111	Bucyrus-Erie Company	12
112	The Budd Company	12
113	The Bullard Company	12
114	Burlington Industries, Inc.	9
115	Burndy Corporation	12
116	Burroughs Corporation	12
117	California Packing Corporation	2
118	Calumet & Hecla, Inc.	12
119	Canada Dry Corporation	3
120	Cannon Mills Company	12
121	Carnation Company	12
122	Carrier Corporation	10
123	J. I. Case Company	10
124	Caterpillar Tractor Co.	12
125	Celanese Corporation of America	12
126	Central Soya Company, Inc.	8
127	Century Electric Company	12
128	Certain-teed Products Corporation	12
129	The Cessna Aircraft Company	9
130	Champion Papers Inc.	12
131	Chemetron Corporation	12
132	Cherry-Burrell Corporation	10
133	Chicago Pneumatic Tool Company	12
134	Chock Full O'Nuts Corporation	7
135	Chrysler Corporation	12
136	Cities Service Company	12
137	City Products Corporation	12
138	City Stores Company	1
139	Clark Equipment Company	12
140	The Cleveland-Cliffs Iron Company	12
141	Clevite Corporation	12
142	Cluett, Peabody & Co., Inc.	12
143	The Coca-Cola Company	12
144	Colgate-Palmolive Company	12
145	Collins & Aikman Corporation	2
146	Collins Radio Company	7
147	Colonial Stores Incorporated	12
148	The Colorado Fuel and Iron Corporation	12
149	The Colorado Milling & Elevator Company	5
150	Colt Industries Inc	12
151	Columbia Broadcasting System, Inc.	12
152	Combustion Engineering, Inc.	12
153	Commercial Solvents Corporation	12
154	Congoleum-Nairn Inc.	12
155	Consolidated Cigar Corporation	12
156	Consolidated Foods Corporation	6
157	Consolidated Laundries Corporation	12
158	Consolidated Packaging Corporation	12
159	Consolidation Coal Company	12
160	Container Corporation of America	12
161	Continental Baking Company	12
162	Continental Can Company, Inc.	12

Co. No.		*Month in which fiscal year ends
163	Continental Motors Corporation	10
164	Continental Oil Company	12
165	Continental Steel Corporation	12
166	Control Data Corporation	6
167	Cook Paint and Varnish Company	11
168	Cooper Industries, Inc.	12
169	Copperweld Steel Company	12
170	Corn Products Company	12
171	Craddock-Terry Shoe Corporation	11
172	Crane Co.	12
173	Crown Central Petroleum Corporation	12
174	Crown Cork & Seal Company, Inc.	12
175	Crown Zellerbach Corporation	12
176	Crucible Steel Company of America	12
177	The Cudahy Packing Company	10
178	Cummins Engine Company, Inc.	12
179	The Cuneo Press, Inc.	1
180	The Curtis Publishing Company	12
181	Curtiss-Wright Corporation	12
182	Cutler-Hammer, Inc.	12
183	Cyclops Corporation	12
184	Dan River Mills, Incorporated	12
185	Dayco Corporation	10
186	Deere & Company	10
187	Dennison Manufacturing Company	12
188	Detroit Steel Corporation	12
189	Diamond International Corporation	12
190	Diana Stores Corporation	7
191	Dictaphone Corporation	12
192	Digitronics Corporation	3
193	Walt Disney Productions	9
194	Douglas Aircraft Company, Inc.	11
195	The Dow Chemical Company	12
196	Dravo Corporation	12
197	Dresser Industries, Inc.	10
198	Drexel Enterprises, Inc.	11
199	The Duplan Corporation	9
200	E. I. du Pont de Nemours & Company	12
201	Dura Corporation	7
202	The Eagle-Picher Company	11
203	The Eastern Company	12
204	Eastern Stainless Steel Corporation	12
205	Eastman Kodak Company	12
206	Eaton Yale & Towne Inc.	12
207	Elastic Stop Nut Corporation of America	11
208	The Electric Storage Battery Company	12
209	Electrolux Corporation	12
210	Elgin National Watch Company	2
211	Eltra Corporation	9
212	Emerson Electric Co.	9
213	Emerson Radio & Phonograph Corporation	10
214	Emhart Corporation	12
215	Endicott Johnson Corporation	11
216	Erie Forge & Steel Corporation	4
217	Evans Products Company	12
218	Eversharp, Inc.	12
219	Ex-Cell-O Corporation	11
220	Fairchild Camera and Instrument Corporation	12
221	Fairchild Hiller Corporation	12
222	Falstaff Brewing Corporation	12
223	Fansteel Metallurgical Corporation	12
224	Fedders Corporation	8
225	Federated Department Stores, Inc.	1

*Months numbered in sequence, January through December.
†Companies new to the survey.

Co. No.		*Month in which fiscal year ends
226	The Firestone Tire & Rubber Company	10
227	First National Stores Inc.	3
228	M. H. Fishman Co., Inc.	12
229	The Flintkote Company	12
230	FMC Corporation	12
231	Foote Mineral Company	12
232	Ford Motor Company	12
233	Foremost Dairies, Inc.	12
234	Freeport Sulphur Company	12
235	Fruehauf Corporation	12
236	Gar Wood Industries, Inc.	10
237	Garlock Inc.	12
238	General American Transportation Corporation	12
239	General Aniline & Film Corporation	12
240	General Baking Company	12
241	General Box Company	12
242	General Bronze Corporation	12
243	General Cable Corporation	12
244	General Cigar Co., Inc.	12
245	General Dynamics Corporation	12
246	General Electric Company	12
247	General Foods Corporation	3
248	General Mills, Inc.	5
249	General Motors Corporation	12
250	General Plywood Corporation	10
251	General Refractories Company	12
252	General Signal Corporation	12
253	The General Tire & Rubber Company	11
254	Genesco Inc.	7
255	Georgia-Pacific Corporation	12
256	Gerber Products Company	3
257	Giddings & Lewis Machine Tool Company	12
258	The Gillette Company	12
259	Gimbel Brothers, Inc.	1
260	The Glidden Company	8
261	Goldblatt Bros., Inc.	1
262	The B. F. Goodrich Company	12
263	The Goodyear Tire & Rubber Company	12
264	The Grand Union Company	2
265	Granite City Steel Company	12
266	W. T. Grant Company	1
267	The Great Atlantic & Pacific Tea Company, Inc.	2
268	The Great Western Sugar Company	2
269	Graniteville Company†	12
270	Gruen Industries, Inc.	3
271	Grumman Aircraft Engineering Corporation	12
272	Gulf Oil Corporation	12
273	W. F. Hall Printing Company	3
274	Halliburton Company	12
275	Hamilton Watch Company	1
276	Harbison-Walker Refractories Company	12
277	Harnischfeger Corporation	10
278	Harris-Intertype Corporation	6
279	Harsco Corporation	12
280	The Harshaw Chemical Company	9
281	Hart Schaffner & Marx	11
282	Hat Corporation of America	10
283	Hazeltine Corporation	12
284	H. J. Heinz Company	4
285	Hercules Powder Company	12
286	Hershey Chocolate Corporation	12
287	Hewlett-Packard Company†	10
288	Heywood-Wakefield Company	12
289	The Hobart Manufacturing Company	12
290	Hoffman Electronics Corporation	12
291	Holly Sugar Corporation	3
292	Honeywell Inc.	12
293	Hooker Chemical Corporation	11
294	The Hoover Company	12
295	Geo. A. Hormel & Company	10
296	Houdaille Industries, Inc.	12
297	Howmet Corporation	12
298	Hudson Pulp & Paper Corp.	8
299	Hunt Foods and Industries, Inc.	6
300	Hupp Corporation	9
301	Hygrade Food Products Corporation	10
302	Indian Head Mills, Inc.	11
303	Ingersoll-Rand Company	12
304	Inland Steel Company	12
305	Interchemical Corporation	12
306	Interlake Steel Corporation	12
307	International Business Machines Corporation	12
308	International Harvester Company	10
309	International Minerals & Chemical Corporation	6
310	International Paper Company	12
311	International Shoe Company	11
312	The International Silver Company	12
313	Interstate Bakeries Corporation	12
314	Jantzen Inc.	8
315	Jim Walter Corporation	8
316	Johns-Manville Corporation	12
317	Johnson & Johnson	12
318	Jones & Laughlin Steel Corporation	12
319	Joslyn Mfg. and Supply Co.	12
320	Joy Manufacturing Company	9
321	Kaiser Aluminum & Chemical Corporation	12
322	The E. Kahn's Sons Company	12
323	Kellogg Company	12
324	Kelsey-Hayes Company	8
325	The Kendall Company	12
326	Kennecott Copper Corporation	12
327	Keystone Steel & Wire Company	6
328	Walter Kidde & Company, Inc.	12
329	Kimberly-Clark Corporation	4
330	Koppers Company, Inc.	12
331	S. S. Kresge Company	12
332	The Kroger Co.	12
333	Kuhlman Electric Company	12
334	Lear Siegler, Inc.	6
335	Lehigh Portland Cement Company	12
336	Leslie Salt Co.	12
337	R. G. LeTourneau, Inc.	12
338	Libbey-Owens-Ford Glass Company	12
339	Libby, McNeill & Libby	6
340	Liggett & Myers Tobacco Company	12
341	Eli Lilly and Company	12
342	Lily-Tulip Cup Corporation	12
343	Link-Belt Company	12
344	Litton Industries, Inc.	7
345	Lockheed Aircraft Corporation	12
346	Loft Candy Corporation	6
347	Lone Star Cement Corporation	12
348	P. Lorillard Company	12
349	Lukens Steel Company	12
350	The Macke Company	9
351	Mack Trucks, Inc.	12

*Months numbered in sequence, January through December.
†Companies new to the survey.

Co. No.		*Month in which fiscal year ends
352	R. H. Macy & Co., Inc.	7
353	P. R. Mallory & Co. Inc.	12
354	Marathon Oil Company	12
355	Maremont Corporation	12
356	Marshall Field & Company	1
357	Martin Marietta Corporation	12
358	Masonite Corporation	8
359	Maxson Electronics Corporation	9
360	The May Department Stores Company	1
361	Oscar Mayer & Co. Inc.	10
362	The Maytag Company	12
363	MCA Inc.	12
364	McCall Corporation	12
365	McCormick & Company, Incorporated	11
366	McGraw-Hill, Inc.	12
367	The McKay Machine Company	12
368	McKesson & Robbins, Incorporated	3
369	The Mead Corporation	12
370	Medusa Portland Cement Company	12
371	Melville Shoe Corporation	12
372	Merck & Co., Inc.	12
373	Meredith Publishing Company	6
374	Metro-Goldwyn-Mayer Inc.	8
375	Midland-Ross Corporation	12
376	Midwest Rubber Reclaiming Company	10
377	Minnesota Mining and Manufacturing Company	12
378	Mirro Aluminum Company	12
379	Mohasco Industries, Inc.	12
380	The Mohawk Rubber Company	12
381	Monsanto Company	12
382	Montgomery Ward & Co., Incorporated	1
383	Moore Drop Forging Company	6
384	John Morrell & Co.	10
385	Motorola, Inc.	12
386	Mount Vernon Mills, Inc.	12
387	MSL Industries, Inc.†	12
388	Munsingwear, Inc.	12
389	G. C. Murphy Company	12
390	National Biscuit Company	12
391	The National Cash Register Company	12
392	National Company, Inc.	12
393	National Dairy Products Corporation	12
394	National Distillers and Chemical Corporation	12
395	National Gypsum Company	12
396	National Lead Company	12
397	National Presto Industries, Inc.	9
398	National Starch and Chemical Corporation	12
399	National Steel Corporation	12
400	The National Sugar Refining Company	12
401	National Tea Co.†	12
402	Neptune Meter Company	12
403	J. J. Newberry Co.	1
404	The New Britain Machine Company	12
405	Nebraska Consolidated Mills Company†	6
406	Newport News Shipbuilding and Dry Dock Company	12
407	The New York Air Brake Company	12
408	Nopco Chemical Company	12
409	North American Aviation, Inc.	9
410	North American Sugar Industries Incorporated	9
411	Northrop Corporation	7
412	Olin Mathieson Chemical Corporation	12
413	O'Sullivan Rubber Corporation	12
414	Otis Elevator Company	12
415	Outboard Marine Corporation	9
416	Owens-Illinois, Inc.	12
417	Oxford Paper Company	12
418	Paramount Pictures Corporation	12
419	Parke, Davis & Company	12
420	Parker-Hannifin Corporation	6
421	The Parker Pen Company	2
422	Peabody Coal Company†	12
423	Peden Iron & Steel Co.	12
424	J. C. Penney Company	1
425	Penn Fruit Co., Inc.	8
426	Pennsalt Chemicals Corporation	12
427	Peoples Drug Stores, Incorporated	12
428	Pepperell Manufacturing Company (name changed to West Point-Pepperell, Inc.)†	8
429	PepsiCo, Inc.	12
430	Pet Milk Company	3
431	Chas. Pfizer & Co., Inc.	12
432	Phelps Dodge Corporation	12
433	Philadelphia and Reading Corporation	12
434	Philip Morris Incorporated	12
435	Phillips Petroleum Company	12
436	Phoenix Steel Corporation	12
437	The Pillsbury Company	5
438	Piper Aircraft Corporation	9
439	Pitney-Bowes, Inc.	12
440	Pittsburgh Brewing Company	10
441	Pittsburgh Plate Glass Company	12
442	Pittsburgh Steel Company	12
443	The Pittston Company	12
444	Plough, Inc.	12
445	Polaroid Corporation	12
446	Poor & Company	12
447	H. K. Porter Company, Inc.	12
448	Pratt & Lambert, Inc.	12
449	The Procter & Gamble Company	6
450	Pullman Incorporated	12
451	Purolator Products, Inc.	12
452	The Quaker Oats Company	6
453	Quaker State Oil Refining Corporation	12
454	Radio Corporation of America	12
455	Ralston Purina Company	9
456	Ranco Incorporated†	9
457	The Rath Packing Company	9
458	Raybestos-Manhattan, Inc.	12
459	Rayonier Incorporated	12
460	Raytheon Company†	12
461	The Reliance Electric and Engineering Company	10
462	Remington Arms Company, Inc.	12
463	Republic Steel Corporation	12
464	Revere Copper and Brass Incorporated	12
465	Rexall Drug and Chemical Company	12
466	Rex Chainbelt Inc.	10
467	Reynolds Metals Company	12
468	R. J. Reynolds Tobacco Company	12
469	Rheem Manufacturing Company	12
470	Richardson-Merrell Inc.	6
471	Riegel Paper Corporation†	12
472	Ritter Pfaudler Corporation	12
473	H. H. Robertson Company	12
474	Rohm and Haas Company	12
475	The Ruberoid Co.	12

*Months numbered in sequence, January through December.
†Companies new to the survey.

Co. No.		*Month in which fiscal year ends
476	The Ryan Aeronautical Co.	10
477	Safeway Stores, Incorporated	12
478	St. Joseph Lead Company	12
479	St. Regis Paper Company	12
480	Schenley Industries, Inc.	8
481	SCM Corporation	6
482	Scott Paper Company	12
483	Scovill Manufacturing Company	12
484	Screw and Bolt Corporation of America	12
485	Seaboard Allied Milling Corporation	5
486	G. D. Searle & Co.	12
487	Sears, Roebuck and Co.	1
488	The Seeburg Corporation	10
489	Servel, Inc.	10
490	Sharon Steel Corporation	12
491	Frank G. Shattuck Company	12
492	Shell Oil Company	12
493	The Sherwin-Williams Company	8
494	Shoe Corporation of America	12
495	Signal Oil and Gas Company	12
496	Signode Corporation	12
497	Simmons Company	12
498	Simplicity Pattern Co. Inc.	12
499	Simonds Saw and Steel Company	12
500	Sinclair Oil Corporation	12
501	The Singer Company	12
502	Skelly Oil Company	12
503	A. O. Smith Corporation	12
504	Snap-On Tools Corporation	12
505	Socony Mobil Oil Company, Inc.	12
506	Sonotone Corporation	12
507	A. G. Spalding & Bros. Inc.	10
508	Sperry Rand Corporation	3
509	Sparton Corporation†	6
510	Sprague Electric Company	12
511	Square D Company	12
512	A. E. Staley Manufacturing Company	9
513	Standard Brands Incorporated	12
514	Standard Kollsman Industries Inc.	12
515	Standard Oil Company of California	12
516	Standard Oil Company (Indiana)	12
517	Standard Oil Company (New Jersey)	12
518	The Standard Oil Company (An Ohio Corporation)	12
519	Standard Packaging Corporation	12
520	Standard Pressed Steel Co.	12
521	Standard Screw Company	12
522	Stanray Corporation	12
523	The L. S. Starrett Company	6
524	J. P. Stevens & Co., Inc.	10
525	Stewart-Warner Corporation	12
526	Stokely-Van Camp, Inc.	5
527	Struthers Wells Corporation	11
528	Studebaker Corporation	12
529	Sun Chemical Corporation	12
530	Sundstrand Corporation	12
531	Sun Oil Company	12
532	Sunray DX Oil Company	12
533	Sunshine Biscuits, Inc.	12
534	The Superior Oil Company	12
535	Swift & Company	10
536	Symington Wayne Corporation	12
537	Tecumseh Products Company	12
538	Texaco Inc.	12
539	Texas Gulf Sulphur Company	12
540	Texas Instruments Incorporated†	12

Co. No.		*Month in which fiscal year ends
541	Textron Inc.	12
542	Thatcher Glass Manufacturing Company, Inc.	12
543	TRW Inc.	12
544	Tidewater Oil Company	12
545	Time Incorporated	12
546	The Timken Roller Bearing Company	12
547	Tobin Packing Co., Inc.	10
548	The Torrington Company	6
549	Triangle Conduit & Cable Co. Inc.	12
550	Twentieth Century-Fox Film Corporation	12
551	Union Bag-Camp Paper Corporation	12
552	Union Carbide Corporation	12
553	Union Oil Company of California	12
554	Union Tank Car Company	12
555	United Aircraft Corporation	12
556	United Elastic Corporation	12
557	United Engineering and Foundry Company	12
558	United Fruit Company	12
559	United-Greenfield Corporation	12
560	United Merchants and Manufacturers, Inc.	6
561	United Park City Mines Company	12
562	The United Piece Dye Works	12
563	United Shoe Machinery Corporation	2
564	United States Gypsum Company	12
565	U. S. Industries, Inc.	12
566	United States Plywood Corporation	4
567	United States Rubber Company	12
568	United States Smelting Refining and Mining Company	12
569	United States Steel Corporation	12
570	United States Tobacco Company	12
571	United Whelan Corporation	12
572	Universal American Corporation	12
573	Universal Leaf Tobacco Co., Inc.	6
574	Universal Match Corporation	12
575	Utah-Idaho Sugar Company	2
576	Varian Associates†	9
577	Vasco Metals Corporation	6
578	Veeder-Root Incorporated	12
579	The Vendo Company†	12
580	Wagner Electric Corporation	12
581	Walgreen Co.	9
582	Walworth Company	12
583	Ward Foods, Inc.	12
584	Warner Bros. Pictures, Inc.	8
585	Warner-Lambert Pharmaceutical Company	12
428	West Point-Pepperell, Inc.†	8
586	Westinghouse Air Brake Company	12
587	Westinghouse Electric Corporation	12
588	West Virginia Pulp and Paper Company	10
589	Weyerhaeuser Company	12
590	Wheeling Steel Corporation	12
591	White Motor Corporation	12
592	Wilson & Co., Inc.	10
593	Woodall Industries, Incorporated	8
594	F. W. Woolworth Co.	12
595	Worthington Corporation	12
596	Wm. Wrigley Jr. Company	12
597	The Wurlitzer Company	3
598	Xerox Corporation	12
599	The Youngstown Sheet and Tube Company	12
600	Zenith Radio Corporation	12

*Months numbered in sequence, January through December.
†Companies new to the survey.

Companies Previously Included, *Not Included* in This Edition of the Survey

Aldens, Inc.
Baldwin-Lima-Hamilton Corporation
Briggs Manufacturing Company
The Drackett Company
The Griess-Pfleger Tanning Co.
Holly Stores, Inc.
Mueller Brass Co.
Nautec Corporation
The New Jersey Zinc Company
Pacific American Corporation
Pfaudler Permutit Inc.
The Pure Oil Company
Republic Aviation Corporation
Richfield Oil Corporation
Spiegel, Inc.
The Standard Tube Company
VTR, Incorporated

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