1967

Accounting trends and techniques, 21st annual survey, 1967 edition

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1967

ACCOUNTING TRENDS & TECHNIQUES

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ANNUAL SURVEY OF ACCOUNTING PRACTICES FOLLOWED IN 600 STOCKHOLDERS' REPORTS

TWENTY-FIRST EDITION

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1967

ACCOUNTING TRENDS & TECHNIQUES

Twenty-first 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 1966.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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PREFACE

Accounting Trends and Techniques in Published Annual Reports — 1967 is the Twenty-first 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-rang 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 adjustments. 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 1966 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.

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 Charles L. Bauermann, C.P.A., and Mrs. Emma Devilbiss, for their assistance in the analysis of the financial reports and preparation of the manuscript.

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Section 1 FINANCIAL STATEMENTS

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 to stockholders 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, 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 1966.

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 increased slightly in 1966 from the previous year, continuing 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 1966 reports and the table shows in comparative form the various combinations for the years 1966, 1965, 1960, 1955, 1950, and 1946. Company identifying numbers 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*	1966	1965	1960	1955	1950	1946
A: Balance Sheet and Combined Income & Retained Earnings Statement	264	257	236	202	168	141
B: Balance Sheet, Income, and Retained Earnings Statements	156	153	154	169	191	157
C: Balance Sheet, Income, Retained Earnings, and Capital Surplus Statements	118	124	146	149	149	198
D: Balance Sheet, Income, and Stockholders' Equity Statements	28	24	23	19	15	6
E: Balance Sheet, Combined Income & Retained Earnings, and Capital Surplus Statements	24	26	24	22	20	22
F: Balance Sheet and Income Statements	6	8	7	19	21	20
G: Various other combinations	4	8	10	20	36	56
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 72, 184, 276, 341, 420, 531; B: 9, 111, 232, 306, 427, 572; C: 33, 108, 214, 300, 405, 547; D: 68, 149, 222, 378, 423, 517; E: 56, 135, 229, 307, 433, 576; F: 2, 103, 570; G: 532, 548.

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, again 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:

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.
Indebtedness—Short-term borrowing and long-term indebtedness
Inventories—Methods of "cost" determination, Pricing basis
Long-term leases—Disclosure by lessees, Sale-and-lease-back, Treated as purchase
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 1966 annual reports. The trend towards the adoption of the combined statement of income and retained earnings was continued in the current year. Four more companies presented a combined statement of income and retained earnings this year as compared to 1965.

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

NOTES TO FINANCIAL STATEMENTS

Manner of Presentation*	1966	1965	1960	1955
Notes with direct reference shown within related statements:				
A: In Balance Sheet only	93	83		
B: In Balance Sheet and Income Statement	52	64		
C: In Balance Sheet, Income Statement, and Retained Earnings Statement	50	49		
D: In Balance Sheet, and Combined Income & Retained Earnings Statement	150	149		
E: In Balance Sheet, Combined Income & Retained Earnings Statement and Capital Surplus Statement	7	N/C	459	372
F: In Balance Sheet, Income Statement, Retained Earnings Statement, and Capital Surplus Statement	28	N/C		
G: In Balance Sheet and Retained Earnings Statement	29	N/C		
H: In Balance Sheet, Retained Earnings Statement, and Capital Surplus Statement	8	N/C		
I: In other combinations of statements	16	83		
J: Notes included by general reference on accompanying statements	124	119	78	95
K: Notes included by placement within or at the foot of statements	9	10	35	59
No notes as such, but supplementary information provided at foot of statements	—	1	5	11
L: No reference to notes; however they were provided separately	6	7	3	4
M: No notes presented	8	18	20	59
Reference is to Financial Review or Review of Operations:				
N: Direct reference shown within related statements	8	7	N/C	N/C
O: General reference on accompanying statements	12	10	N/C	N/C
Total	600	600	600	600

N/C—Information not compiled in previous years.
*Refer to Company Appendix Section—A: 27, 122, 267, 363, 426, 583; B: 36, 142, 217, 329, 434, 562; C: 48, 121, 246, 303, 425, 529; D: 40, 130, 230, 316, 414, 513; E: 113, 265, 569; F: 65, 123, 221, 350, 436, 549; G: 28, 102, 279, 313, 403, 538; H: 95, 285, 419, 578; I: 139, 195, 266, 331, 411, 512; J: 13, 138, 252, 342, 416, 542; K: 289, 380, 479, 537; L: 41, 136, 500; M: 174, 296, 379, 564; N: 231, 310; O: 87, 115, 247, 358, 418, 502.

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 1966 annual reports. The increased use of the combined statement of retained earnings and income, noted in prior years, was continued in 1966. Four more companies used the combined statement in 1966.

TABLE 2: INCOME PRESENTATION IN REPORTS

Manner of Presentation*	1966	1965	1960	1955	1950	1946
A: As a separate statement of income	308	312	332	368	407	427
B: As a combined statement of income and retained earnings	291	287	264	224	187	164
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: 21, 112, 213, 320, 415, 530; B: 7, 116, 206, 315, 422, 501.

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 493 of the 600 survey companies. This includes those companies with transactions during the year which resulted in no balance at the end of the year, and those companies with capital surplus shown only in the notes.

Separate statements of capital surplus were presented by 142 companies. None of the companies combined capital surplus and retained earnings in a single statement without a separation between the two, making possible complete identification of items and balances. Capital surplus was shown as an item within the balance sheet by 317 companies, of which 66 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 seven 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 1966 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.

Changes During 1966

Changes made by the survey companies in the terminology used for their income statements for the year 1966 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 latter term in 1946; 178 companies in 1966. Perhaps the most significant trend has been away from the use of the title "profit and loss," from 236 companies in 1946 to only two companies in 1966. Nineteen of the companies changed the key word in the title of their income statements for the year 1966.

Examples

The various titles of the income statements contained in the 1966 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.

INCOME—(389 Companies):
- Comparative Consolidated Statement of Income and *Accumulated Earnings* (*525)
- Consolidated Income (*13, 66, 231, 274, 566)
- Consolidated Income and *Retained Earnings* (*100, 178, 240, 307, 475, 567)
- Consolidated Income Statement(s) (*59, 69, 227, 264, 445, 546)

*Refer to Company Appendix Section.

TABLE 3: RETAINED EARNINGS PRESENTATION IN REPORTS

Manner of Presentation*	1966	1965	1960	1955	1950	1946
A: As a separate statement of retained earnings	274	279	300	320	341	356
B: As a combined statement of retained earnings and income	291	287	264	224	187	164
C: As a section within the statement of stockholders' equity (see Table 14)	27	24	23	19	14	5
D: As a section within the balance sheet	2	4	7	12	19	22
E: As an item within the balance sheet	3	4	1	7	6	4
F: Miscellaneous other presentations	3	2	3	6	18	31
Total Retained Earnings	600	600	598	588	585	582
Surplus not classified	—	—	2	12	15	18
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 5, 110, 233, 361, 432, 541; B: 70, 159, 210, 319, 407, 519; C: 32, 141, 202, 301, 453, 505; D: 64; E: 2, 451; F: 373.

TABLE 4: CAPITAL SURPLUS PRESENTATION IN REPORTS

Manner of Presentation*	1966	1965	1960	1955	1950	1946
A: As a separate statement of capital surplus	142	150	169	183	170	224
As a combined statement of capital surplus and retained earnings	—	1	2	4	16	31
Total	142	151	171	187	186	255
B: As a section within the statement of stockholders' equity (see Table 14)	27	25	20	17	17	7
As an item within the balance sheet and changes set forth:						
C: Under balance sheet caption	10	12	24	17	28	12
D: In notes to financial statements	206	189	148	81	17	12
E: In other statements or schedules covered by auditors' reports	2	3	2	4	1	1
F: In letter to stockholders or financial review	6	3	2	2	2	—
G: Not set forth in report	24	32	31	32	6	1
As an item within the balance sheets:						
H: Stated to be "Not changed during the year"	9	4	12	36	54	54
I: With identical dollar balances for the current and prior year but no reference to such unchanged status	57	68	80	85	119	88
J: With some changes set forth, but not all	3	N/C	N/C	N/C	N/C	N/C
Total	317	311	299	257	227	168
Miscellaneous other presentations	7	5	—	—	—	—
Number of Companies						
Presenting capital surplus	493	492	490	461	430	430
Not presenting capital surplus	107	108	107	127	156	156
Not classifying surplus	—	—	3	12	14	14
Total	600	600	600	600	600	600

N/C—Not Compiled.
*Refer to Company Appendix Section—A: 46, 148, 215, 322, 406, 533; B: 196, 226, 261, 458, 528, 573; C: 277, 336, 343, 413, 422, 471; D: 4, 119, 224, 339, 429, 525; E: 144; F: 53, 382, 457; G: 17; H: 15, 99, 212, 349; I: 77, 156, 209, 393, 400, 534; J: 169.

Consolidated Statement(s) of Income (*95, 183, 294, 398, 403, 543)
Consolidated Statement of Income and *Accumulated Earnings* (*362, 407, 444, 492, 590)
Consolidated Statement(s) of Income and *Earned Surplus* (*39, 104, 225, 283, 343, 594)
Consolidated Statement(s) of Income and *Earnings Retained in the Business* (*27, 259, 330, 351)
Consolidated Statement(s) of Income and *Retained Earnings* (*115, 210, 337, 452, 576)
Income and *Retained Earnings* (*132, 323, 366, 394, 540, 584)

TABLE 5: INCOME STATEMENT TITLE

Terminology Used	1966	1965	1960	1955	1950	1946
Income	389	393	382	361	329	317
Earnings	178	174	152	135	92	10
Profit and Loss	2	5	24	56	127	236
Operations	26	24	35	30	30	10
Miscellaneous terms	5	4	6	16	19	20
Total	600	600	599	598	597	593
No Income Statement	—	—	1	2	3	7
Total	600	600	600	600	600	600

Income Statement(s) (*152, 304, 357, 387, 396)
Statement(s) of Consolidated Income (*37, 202, 250, 322, 480)
Statement(s) of Consolidated Income and *Earned Surplus* (*144, 155, 315, 440, 464, 583)
Statement(s) of Consolidated Income and *Retained Earnings* (*19, 120, 192, 354, 455, 577)
Statement(s) of Consolidated Income and *Retained Income* (*142, 384, 548, 591)
Statement(s) of Income (*103, 140, 172, 300, 562)
Statement(s) of Income and *Retained Earnings* (*20, 93, 166, 229, 281, 510)

EARNINGS—(178 Companies):
Consolidated Earnings (*54, 91, 124, 549)
Consolidated Earnings and *Retained Earnings* (*219, 335, 348, 420)
Consolidated Statement(s) of Earnings (*41, 128, 222, 344, 423, 517)
Consolidated Statement(s) of Earnings and *Retained Earnings* (*77, 92, 113, 186, 309, 435)
Earnings (*376, 447, 505, 580)
Statement(s) of Consolidated Earnings (*4, 121, 218, 373, 432, 596)
Statement(s) of Consolidated Earnings and *Retained Earnings* (*133, 163, 340, 374, 389, 433)
Statement of Earnings (*68, 197, 228, 296, 358, 470)

*Refer to Company Appendix Section.

OPERATIONS—(26 Companies):
- Consolidated Results of Operations (*126, 143, 169)
- Consolidated Statement of Operations (*65, 190, 257, 266, 593)
- Statement(s) of Operations (*26, 268, 550)

VARIOUS OTHER—(7 Companies):
- Comparative Statement of Income and Expense (*442)
- Consolidated Statement of Profit and Loss (*145)

*Refer to Company Appendix Section.

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,

TABLE 6: INCOME STATEMENT FORM

I: Form of Statement*

	1. No Minority Interest and No Earnings of or Equity in Earnings of Subsidiaries in Separate Last Section	2. Minority Interest in Separate Last Section	3. Earnings of or Equity in Earnings of Subsidiaries in Separate Last Section	4. Minority Interest PLUS Earnings of or Equity in Earnings of Subsidiaries in Separate Last Section	Total 1966	1965	1960	1955	1950	1946
A: Multiple-step form	171	18	12	—	201	182	210	258	302	263
Multiple-step form with a separate last section presenting:										
B: Nonrecurring tax items	2	—	—	—	2	3	8	24	41	63
C: Nonrecurring tax and nontax items, also special items net of tax effect	11	1	4	—	16	19	20	23	11	57
D: Nonrecurring nontax items	5	—	1	—	6	35	28	25	31	85
Total	189	19	17	—	225	239	266	330	385	468
E: Single-step form	294	17	14	2	327	286	276	218	177	76
Single-step form with a separate last section presenting:										
F: Nonrecurring tax items	3	1	—	—	4	1	13	22	13	13
G: Nonrecurring tax and nontax items, also special items net of tax effect	29	2	1	1	33	27	26	9	7	20
H: Nonrecurring nontax items	10	1	—	—	11	47	18	19	15	16
Total	336	21	15	3	375	361	333	268	212	125
No income statement presented	—	—	—	—	—	—	1	2	3	7
Total	525	40	32	3	600	600	600	600	600	600

II: Current Year—Federal Income Tax Estimate*	1966	1965	1960	1955	1950	1946
A: Listed among operating items	160	154	155	141	159	100
B: Presented in separate last section	409	408	414	437	423	450
Total	569	562	569	578	582	550
C: Negative provision presented—listed among operating items	3	3	N/C	N/C	N/C	N/C
D: —presented in separate last section	9	8	N/C	N/C	N/C	N/C
E: Current estimate not required	19	27	30	20	15	43
No income statement presented	—	—	1	2	3	7
Total	600	600	600	600	600	600

N/C—Not Compiled.

*Refer to Company Appendix Section—I: Income Statement Form—A1: 22, 106, 238, 366, 408, 521; A2: 31, 127, 280, 392, 435, 563; A3: 186, 268, 336, 491,, 526; B1: 217; C1: 21, 135, 183, 370, 385, 579; C2: 98; C3: 245, 276; D1: 43, 271; E1: 20, 128, 211, 321, 428, 567; E2: 25, 154, 255, 327, 443, 510; E3: 37, 134, 291, 386, 484, 594; E4: 316; F1: 36; G1: 61, 165, 236, 362, 437, 503; G2: 158; H1: 181, 237, 438. II: Federal Income Tax Estimate—A: 11, 126, 228, 348, 464, 552; B: 12, 147, 293, 377, 460, 568; C: 582; D: 18, 201, 590; E: 125, 216, 302, 529, 581.

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.

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 1966 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 1966

The survey, this year, reveals a net increase of fourteen companies using the single-step form of the income statement. Twenty-one companies *adopted* the single-step form and five companies changed to the multi-step form. The multiple-step form was favored by companies new to the survey over those companies replaced, to the extent of two companies.

A presentation, which otherwise would be considered single-step, has been so considered when nonconsolidated subsidiary earnings or dividends 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 489 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 108 companies in 1966, has lost some ground during the last six years.

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 1966 reports of the 600 survey companies.

*Refer to Company Appendix Section.

TABLE 7: BALANCE SHEET TITLE

Terminology Applied	1966	1965	1960	1950	1946
Balance Sheet, used with:					
Customary form	489	470	456	492	578
Financial Position, used with:					
Customary form	39	41	43	13	3
Financial position form	42	53	60	52	9
	81	94	103	65	12
Financial Condition, used with:					
Customary form	19	20	23	15	1
Financial position form	8	11	12	19	5
	27	31	35	34	6
Other Captions:					
Customary form	2	2	4	5	2
Financial position form	1	3	2	4	2
Total	600	600	600	600	600

Balance Sheet—(Customary form: 489 Companies)
- Balance Sheet (*68, 141, 217, 300, 489, 513)
- Balance Sheets (*20, 40, 177, 291, 462, 510)
- Comparative Balance Sheet (*442)
- Comparative Consolidated Balance Sheet (*38, 260, 383, 525)
- Consolidated Balance Sheet(s) (*3, 128, 270, 334, 428, 586)

Financial Position—(Customary form: 39 Companies)
- Comparative Statement of Financial Position (*201)
- Consolidated Financial Position (*71, 104, 277, 335, 456, 553)
- Consolidated Statement(s) of Financial Position (*35, 257, 266, 532, 559, 579)
- Financial Position (*132, 395, 500)
- Statement(s) of Consolidated Financial Position (*5, 108, 196, 385, 415, 453)
- Statement of Financial Position (*17, 84, 170, 200, 281, 474)

Financial Position—(Financial position form: 42 Companies)
- Consolidated Financial Position (*126, 143, 169, 178, 184, 477)
- Consolidated Statement(s) of Financial Position (*10, 61, 116, 439, 478, 570)
- Financial Position (*76, 249, 394)
- Statement of Consolidated Financial Position (*144, 238, 419, 575)
- Statement of Financial Position (*16, 185, 224, 296, 314, 467)

Financial Condition—(Customary form: 19 Companies)
- Consolidated Statement(s) of Financial Condition (*65, 72, 180, 286, 352, 531)

Financial Condition—(Financial position form: 8 Companies)
- Consolidated Statement of Financial Condition (*206, 512, 593, 595)
- Statement of Consolidated Financial Condition (*223)
- Statement of Financial Condition (*30, 207, 562)

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 four instances in the 1966 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 1966 reports, 549 of the survey companies presented the customary form of the balance sheet.

The remaining 51 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, and F.

Changes During 1966

There was a net increase of 16 in the number of companies presenting the customary form of balance sheet in the 1966 annual reports of the 600 survey companies, as will be noted in Table 8. Fourteen companies changed to the customary form, and two *new* companies, replacing companies that had used the financial position form, also used the customary form. It is unusual that none of the 600 survey companies changed to the financial position form. The customary form predominates by a wide margin and its use by the survey companies has been increasing in recent years.

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 either of the terms, "stockholders' equity" or "shareholders' equity" 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."

"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 1966 only 189 of the survey companies used the term "surplus" in their balance sheet captions, as compared with 375 in 1948. It will

TABLE 8: BALANCE SHEET FORM

Customary Form*	1966	1965	1964	1960	1950	1946
A: Assets *equal* liabilities plus stockholders' equity	545	530	525	521	523	584
B: Assets less liabilities *equal* stockholders' equity	4	3	4	5	3	—
Total	549	533	529	526	526	584
Financial Position Form*						
C: Current assets less current liabilities plus other assets less other liabilities (deemed to include minority interest, deferred income taxes, and other deferred items), less long-term indebtedness, *equal* stockholders' equity	32	53	54	47	32	7
D: Current assets less current liabilities plus other assets less long-term indebtedness *equal* stockholders' equity	7	—	—	—	—	—
E: Current assets less current liabilities plus other assets *equal* stockholders' equity (long-term indebtedness not shown)	5	—	—	—	—	—
F: Miscellaneous other variations	7	14	17	27	42	9
Total	51	67	71	74	74	16
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 93, 192, 266, 310, 414, 600; B: 335, 518, 553, 579; C: 116, 144, 223, 277, 394, 477, 595; D: 126, 169, 185, 206, 211, 296, 593; E: 51, 447, 512, 596; F: 61, 207, 224, 478.

TABLE 9: STOCKHOLDERS' EQUITY SECTION

Balance Sheet Title*	1966	1965	1961	1955	1951
A: Capital stock and surplus	30	42	85	143	164
B: Capital (Common) stock and earned surplus	3	3	1	1	4
C: Capital stock and retained earnings	7	9	11	10	10
D: Capital stock and (earnings, retained profits) (invested, reinvested)	2	1	3	3	2
E: Capital and retained earnings	6	7	11	14	9
F: Capital	27	34	52	66	72
G: Common stock or Common Stockholders Equity	2	2	—	—	—
H: Ownership	2	2	2	1	2
I: Represented by	7	7	9	16	13
J: Represented by stockholders' or shareholders' equity	2	3	—	—	—
K: Sources from which capital was obtained	3	2	3	3	6
L: Source of stockholders' equity	2	2	—	—	—
M: Stockholders' equity	264	242	208	123	85
N: Stockholders' investment	23	29	37	44	51
O: Stockholders' interest	3	5	4	2	3
P: Shareholders' equity	141	136	95	55	19
Q: Shareholders' investment	27	25	15	10	6
R: Shareholders' ownership	3	3	2	1	2
S: Shareholders' interest	2	2	2	3	4
T: Shareowners' equity	20	19	21	7	1
U: Shareowners' investment	3	3	2	6	2
V: Miscellaneous other	14	15	23	44	71
	593	593	586	552	526
W: No title displayed over the stockholders' equity section	7	7	14	48	74
Total	600	600	600	600	600

*Refer to Company Appendix Section—A: 88, 155, 217, 343, 410, 495; B: 188, 359, 434; C: 5, 153, 181, 275, 320, 592; D: 317, 386; E: 323, 325, 368, 443, 471, 600; F: 15, 194, 265, 327, 511, 581; G: 53, 171; H: 126, 140; I: 164, 211, 394, 478, 514, 579; J: 178, 184; K: 51, 116; L: 30, 575; M: 3, 93, 214, 331, 450, 564; N: 97, 292, 361, 419, 466, 562; O: 297, 472, 519; P: 2, 128, 213, 321, 423, 599; Q: 1, 110, 218, 328, 405, 548; R: 238, 468, 517; S: 482, 589; T: 48, 199, 246, 363, 385, 525; U: 70, 114, 488; V: 118, 123, 310, 336, 347, 570; W: 24, 144, 247, 264, 461, 588.

also be observed from this table that, of the survey companies displaying some form of capital surplus, over 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 1966 balance sheets of the survey companies are listed below.

Captions Retaining "Surplus"— (189 Companies)

Source Indicated

Capital surplus (arising from capital stock transactions) (*88)
Capital surplus (arising from sale of treasury stock under the incentive stock option plan (*21)

*Refer to Company Appendix Section.

Capital surplus (excess of consideration received for common stock over the stated value of $xxx per share) (*410)
Capital surplus from sale of treasury stock (*539)
Capital surplus from 20% stock dividend (*174)
Capital surplus—principally amount paid the corporation for capital stock in excess of par value (*586)
Capital surplus (sale of stock through rights) (*156)
Excess over par value—capital surplus (*73)

Source Not Indicated

Capital (paid-in) surplus (*18)
Capital surplus (*28, 119, 205, 300, 475, 587)
Capital surplus paid-in (*294)
Capital surplus (principally paid-in) (*150, 481)
Paid-in and capital surplus (*243)
Paid-in and other capital surplus (*293, 491)
Paid-in surplus (*45, 176, 223, 350, 473, 589)

Captions Replacing "Surplus"— (304 Companies)

Source Indicated

Amount in excess of common stock stated value (*494)
Amount in excess of par value (*454)
Amount paid in excess of par value (*337)
Amount paid-in in excess of par value of stock—net (*170)

Amount paid-in in excess of par value of stock issued (*50)
Amount paid-in in excess of par or stated value (*202)
Amounts contributed in excess of par value (*124)
Amounts received for stock in excess of par value (*247)
Capital account in excess of par value of stock (*233)
Capital contributed in excess of par value of stock (*528)
Capital in addition to par or stated value (*513)
Capital in excess of par or stated values (*94)
Capital in excess of par or stated value of shares issued (*553)
Capital in excess of par value(s) (*6, 113, 281, 360, 497, 526)
Capital in excess of par value of capital stock (*17, 149, 231, 297, 403)
Capital in excess of par value of common shares (*276)
Capital in excess of par value of common stock (*4, 112, 232, 252, 437, 521)
Capital in excess of par value of shares (*142, 181, 263, 353, 409, 545)
Capital in excess of par value of shares outstanding (*471)
Capital in excess of par value of stock (*69, 105, 533)
Capital in excess of par value (principally arising from stock dividends) (*56)
Capital in excess of stated amount (*307)
Capital in excess of stated value (*47, 492)

*Refer to Company Appendix Section.

Capital paid-in for common stock in excess of par value (*184)
Capital paid-in in excess of par value of shares issued (*268, 459)
Capital paid-in in excess of par value of shares issued (after elimination of goodwill in 1963 of $xxx) (*448)
Capital paid-in in excess of stated value (*290)
Capital received in excess of par value (*564)
Capital resulting from issue of capital stock by a consolidated subsidiary (*585)
Consideration received in excess of par value (*8)
Excess of amount paid-in over par value of common stock (*235)
Excess of shareholders' investment over par value of common stock (*238)
Other capital contributed upon issuance of shares (*486)
Other capital in excess of par value of shares (*22)
Other capital—primarily retained income capitalized as stock dividends (*279)
Other capital—representing principally excess of amount of stock dividends over par value of capital stock (*480)
Other capital (transferred from retained earnings in connection with stock dividends) (*123)
Other paid-in capital (principally on common stock) (*375)
Paid-in capital in excess of par value (*538)
Paid-in capital in excess of par values of capital stocks (*340)

TABLE 10: CAPITAL SURPLUS CAPTION

Balance Sheet Captions	1966	1965	1964	1960	1955	1950	1948
Including term "surplus"—							
Capital surplus (Note A)	140	151	161	178	198	224	257
Paid-in surplus	41	43	43	52	52	72	92
Capital surplus—paid-in	7	8	7	9	9	4	4
Miscellaneous other "surplus" terms (Note B)	1	1	2	4	13	19	22
Total retaining term "surplus"	189	203	213	243	272	319	375
Total replacing term "surplus"*	304	289	277	252	201	126	70
Total presenting accounts	493	492	490	495	473	445	445
Not presenting accounts	107	108	110	105	127	155	155
Total	600	600	600	600	600	600	600
Percentage of Companies							
Retaining term "surplus"	38	41	44	49	58	71	84
Replacing term "surplus"	62	59	56	51	42	29	16
	100%	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
Note B—Includes the use of "Initial Surplus"

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

	1966	1960	1955
Additional paid-in capital	92	72	48
Additional capital	19	14	7
Capital paid-in or Paid-in capital	6	5	5
Other paid-in capital	7	5	5
Other capital	19	16	14
Capital in excess of par or stated value	129	93	65
Amount in excess of par value	2	5	2
Capital (contributed, received) in excess of (par, stated, par or stated) value	2	8	11
Capital paid-in in excess of par value	9	13	11
Amount (paid-in, paid-in or assigned, realized, received) in excess of (par, stated, par or stated value)	7	9	8
Additional contributed capital	2	—	—
Shareholders' investment in excess of par value	2	—	—
Miscellaneous	8	12	25
Total	304	252	201

Source Not Indicated

Additional capital (*95, 108, 239, 325, 458, 487)
Additional capital paid-in (*196, 415)
Additional contributed capital (*505, 531)
Additional paid-in capital (*55, 187, 216, 368, 479, 595)
Contributed capital (*379)
Other capital (*93, 140, 254, 323, 463, 536)
Other capital paid-in (*572)
Other paid-in capital (*292, 501, 558)
Paid-in capital (*106, 262, 321, 391, 401, 506)

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	1966	1960	1955
Excess (received, paid-in, contributed) over par value	149	179	100
Excess (received) over par or stated value	5	8	11
Excess received over stated value (stated amounts, value shown)	6	6	10
Earnings capitalized	3	3	7
Capital stock transactions	3	—	—
Sale of treasury stock	2	1	4
Miscellaneous	2	5	18
Total	170	202	150
Number of Companies			
Referring to source of capital surplus	170	202	150
Not referring to source of capital surplus	323	293	323
Not referring to capital or unclassified surplus	107	105	127
Total	600	600	600

"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 1966 there were only 86 survey companies that continued to use such terminology.

Table 12 also shows that the 514 survey companies which by 1966 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 1966 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 1966 annual reports of the survey companies is set forth below.

Earnings—(464 Companies):
Accumulated earnings (*50, 195, 222, 332, 444, 525)
Accumulated earnings employed in the business (*419)
Accumulated earnings in use in the business (*362)
Accumulated earnings, retained and used in the business (*439)
Accumulated earnings retained for use in the business (*596)
Accumulated earnings retained in the business (*361, 473, 590)
Accumulated earnings used in the business (*129)
Accumulated retained earnings (*216, 447)
Balance of retained earnings used in the business (*207)
Earnings employed in the business (*28, 156, 228, 249, 437, 503)
Earnings invested in the business (*86, 292, 432, 457, 486, 544)
Earnings reinvested (*24, 189, 317, 513, 518)
Earnings reinvested in business (*131)
Earnings reinvested in the business (*13, 111, 266, 386, 462, 587)
Earnings retained (*17, 191, 257, 329, 418, 488)
Earnings retained and employed in the business (*466)
Earnings retained and invested in the business (*517)
Earnings retained and reinvested in the business (*276)
Earnings retained and used in the business (*54, 91, 592)
Earnings retained (deficit) (*459)

*Refer to Company Appendix Section.

TABLE 12: TERMS REPLACING "EARNED SURPLUS"

Earned Surplus Replaced:	1966	1965	1964	1960	1955	1950	1948
With "source" words—							
Earnings	†464	446	425	371	301	204	69
Income	47	46	49	51	43	35	21
Profit	1	1	2	3	6	8	8
Deficit	2	2	2	1	1	1	1
Total	514	495	478	426	351	248	99
Combined with "status" words—							
Retained	426	404	381	327	250	154	60
Accumulated	23	24	26	30	37	37	5
Reinvested	37	37	36	35	26	24	14
Employed	19	19	22	21	20	17	9
Invested	8	9	11	10	11	10	6
Other "status" words	1	2	2	3	7	6	5
	514	495	478	426	351	248	99
Earned Surplus Retained As:							
Earned surplus	79	95	110	162	213	335	481
Earned Surplus *combined with* "status" words such as "earnings retained," "income retained," and "deficit"	5	7	7	7	24		
Surplus, operating or not classified	—	—	1	3	11	17	20
Deficit	2	3	4	2	1	—	—
	86	105	122	174	249	352	501
Total	600	600	600	600	600	600	600
Number of Companies							
Replacing "earned surplus"	514	495	478	426	351	248	99
Retaining "earned surplus"	86	105	122	174	249	352	501
Total	600	600	600	600	600	600	600

†Includes reports of 9 companies, the retained earnings of which appear in the Stockholders' Equity Statement or in the notes supporting stockholders' equity.

- Earnings retained for growth (*367)
- Earnings retained for requirements of (in) the business (*5, 161)
- Earnings retained for use in business, exclusive of amounts capitalized as a result of stock dividends (*508)
- Earnings retained for use in the business (*36, 198, 270, 304, 422, 551)
- Earnings retained for use in the business (after transfers to capital) (*424, 443)
- Earnings retained for use in the business, less amount capitalized through stock dividends (*4)
- Earnings retained in business (*21, 154, 255, 500)
- Earnings retained in the business (*14, 184, 235, 330, 417, 536)
- Earnings retained in the business (less transfers to capital stock) (*597)
- Earnings retained in the business exclusive of amounts capitalized (*70)
- Net earnings retained for use in the business (*138)
- Reinvested earnings (*58, 193, 202, 391, 456, 484)
- Retained earnings after transfers to capital (*475)
- Retained earnings (deficit) (*212, 529)
- Retained earnings employed in the business (*171, 338)
- Retained earnings, excluding amounts transferred to other capital (*123)
- Retained earnings, exclusive of amounts capitalized (*521)
- Retained earnings (*15, 128, 238, 399, 425, 580)
- Retained earnings, exclusive of amounts transferred to capital (*550)
- Retained earnings invested in the business (*468, 559)
- Retained earnings unappropriated (*558, 569)
- Retained earnings used in the business (*209, 290, 376, 538)
- Retained earnings (without deduction for depletion of metal mines) (*52)

Income—(47 Companies):

- Accumulated income retained for use in the business (*30)
- Income employed in the business (*279, 295, 595)
- Income invested in the business (*89, 227)
- Income reinvested (*506)
- Income reinvested in business (*140, 570)
- Income reinvested in the business (*122, 421, 599)
- Income retained (*310)
- Income retained and invested in the business (*465)
- Income retained and used in the business (*141)

*Refer to Company Appendix Section.

Income retained for use in the business (*44, 112, 200, 331, 403, 574)
Income retained in the business (*118, 177, 229, 263, 319, 477)
Net income employed in the business (*51, 519)
Net income retained for use in the business (*69, 380)
Net income retained for use in the business (earned surplus) (*250)
Retained income (*87, 142, 199, 369, 463, 591)

Profit—(1 Company):
Profit employed in the business (*126)

Earned Surplus—(82 Companies):
Earned surplus (*88, 145, 256, 398, 440, 541)
Earned surplus (income retained in the business) (*589)
Earned surplus (retained earnings) (*81)

Deficit—(6 Companies):
Accumulated deficit (*182)
Deficit (*396)
Deficit from operations (*561)
Earned surplus (deficit) (*217)

STOCKHOLDERS' EQUITY STATEMENTS

Information in Stockholders' Equity Statements

Table 14 summarizes the types of data found in stockholders' equity statements for the years 1966, 1965, 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.

*Refer to Company Appendix Section.

TABLE 13: RETAINED EARNINGS TERMINOLOGY IN 1966

	"Source" Words				
"Status" Words:	Earnings	Income	Profit	Deficit	Total
Retained	292	13	—	—	305
Retained in the business	36	8	—	—	44
Retained—Employed in the business	3	—	—	—	3
Retained—Reinvested	2	—	—	—	2
Retained—Invested in the business	3	1	—	—	4
Retained—For requirements of the business	2	—	—	—	2
Retained—For use, or Used, in the business	40	11	—	—	51
Retained—For use, or Used in the business (exclusive of amounts capitalized)	4	—	—	—	4
Retained exclusive of amounts capitalized	7	—	—	—	7
Retained—deficit	4	—	—	—	4
Accumulated	9	—	—	1	10
Accumulated—Employed in the business	2	—	—	—	2
Accumulated—Retained	3	—	—	—	3
Accumulated—Retained and used in the business	1	—	—	—	1
Accumulated—Retained for use in the business	1	1	—	—	2
Accumulated—Retained in the business	3	—	—	—	3
Accumulated—In use in the business, or Used in the business	2	—	—	—	2
Reinvested	13	1	—	—	14
Reinvested in the business	18	5	—	—	23
Employed in the business	13	5	1	—	19
Invested in the business	6	2	—	—	8
Operations	—	—	—	1	1
	464	47	1	2	514
"Surplus" Words:					
Earned Surplus	—	—	—	—	79
Earned Surplus used with:					
Retained	1	2	—	—	3
Deficit	—	—	—	2	2
Surplus:					
Deficit	—	—	—	2	2
					86
Total					600

TABLE 14: STOCKHOLDERS' EQUITY STATEMENTS

Including details of:*	1966	1965	1960	1955	1950	1946
A: Capital stock, capital surplus, and retained earnings	26	21	18	17	16	6
B: Capital stock and capital surplus, and retained earnings shown in total only	1	1	1	—	1	1
C: Capital stock and retained earnings	3	4	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	1	3	2	—	—	2
	32	30	28	19	19	11
Statement not presented	568	570	572	581	581	589
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 68, 149, 261, 378, 415, 505; B: 548; C: 32, 195, 373; D: 532; E: 299.

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 32 survey companies presented stockholders' equity statements in 1966, there had been a slowly increasing trend in the number of companies presenting these statements.

Examples

The exact title of some of the 32 stockholders' equity statements presented in the 1966 annual reports is provided below.

Capital (*528)
Changes in Stockholders' Equity (*69)
Consolidated Statement of Changes in Common Stockholders' Equity (*266)
Consolidated Statement of Income and Stockholders' Equity (*532)
Consolidated Statement of Ownership Interest (*273)
Consolidated Statement(s) of Shareholders' Equity (*261, 423, 458, 518, 573)
Consolidated Statement of Shareholders' Ownership (*517)
Consolidated Statement of Stockholders' Equity (*202, 222, 478)
Shareholders' Equity and Changes Therein (*68)
Shareholders' Investment and Changes Therein (*226)
Statement of Changes in Shareowners' Equity (*373)
Statement of Consolidated Shareholders' Investment (*548)
Statement of Consolidated Shareholders' Equity (*378)
Statement of Consolidated Stockholders' Equity (*149, 301, 453)
Statement of Shareholders Equity (*141, 415, 463, 542)

*Refer to Company Appendix Section.

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.
>
> 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....

TABLE 15: STOCKHOLDERS' EQUITY STATEMENT TITLE

Terminology Used	1966	1965	1960	1950
Stockholders' equity	13	11	10	6
Stockholders' investment	2	3	2	—
Shareholders' equity	11	11	5	1
Shareholders' investment	2	2	4	1
Shareholders' ownership	1	1	1	1
Shareowners' equity	1	1	3	—
Capital	1	—	—	2
Ownership interest (net worth)	1	1	1	—
Miscellaneous other terms	—	—	2	8
	32	30	28	19
Statement not presented	568	570	572	581
Total	600	600	600	600

Comparative customary statements were provided by 594 of the 600 survey companies in their 1966 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 1966, 114 presented their customary statements with figures stated to the nearest thousand dollars. Ninety of these companies rounded off to the nearest thousand dollars showing the three zeros; the remaining 24 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
1966	90	24	114
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:55, 116, 218, 345, 443, 567; B:61, 146, 259, 385, 418, 540.

CENTS OMITTED OR PRESENTED

Only three of the 600 survey companies included cents in the statements presented in their 1966 annual reports. This is seven less than reported as recently as in 1964. A total of 480 companies, or 80 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. Another company stated their figures in ten thousands with four zeros shown.

TABLE 16: COMPARATIVE CUSTOMARY STATEMENTS COVERED BY AUDITORS' REPORTS

Combination of Comparative Statements	1966	1965	1960	1955	1950	1946
Balance Sheet and Combined Income & Retained Earnings Statement	267	253	205	154	97	51
Balance Sheet, Income, and Retained Earnings Statement	144	137	115	114	96	53
Balance Sheet, Income, Retained Earnings, and Capital Surplus Statements	98	89	82	70	53	43
Balance Sheet and Income Statement	51	65	72	81	73	53
Balance Sheet, Income, and Stockholders' Equity Statements	8	4	9	10	8	1
Balance Sheet, Combined Income & Retained Earnings, and Capital Surplus Statements	22	24	20	13	13	4
Balance Sheet, Combined Income & Retained Earnings, and Stockholders' Equity Statements	1	2	—	—	—	—
Various other combinations	1	6	13	21	30	27
Income Statement	2	4	4	5	13	24
Total	594	584	520	468	383	256
Number of Companies Presenting:						
All statements in comparative form	543	516	437	379	290	164
Some statements in comparative form	51	68	83	89	93	92
No statements in comparative form	6	16	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 1966 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 1966 annual reports of the 600 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 1966 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, income statements, and financial data 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 1966, 1965, 1960, and 1955. There were 407 companies that included at least 540 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 in substance due to the sharp rise in the use of the "funds" statement, from 31 such statements in 1960 to 65 in 1963 and to 356 in 1966. "Funds" statements are covered extensively in Section 3.

Reporting Company Statements

Three hundred and ninety-four "additional statements" applicable to the reporting company were presented by 365 of the 600 survey companies in their 1966 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, due partly to requests or requirements of stock exchanges, and is now to a greater extent taking its place among the statements covered by the auditors' reports.

Allied Stores Corporation presented separate Statements of Financial Position and of Earnings & Retained Earnings for those subsidiaries having nonhomogeneous operations, Allied Credit Corporation, and Allied Realty Corporation and subsidiaries. The auditors included these companies in their opinion on the financial statements. The auditors also expressed their opinion on the Statement of Source and Application of Funds of Allied Stores Corporation.

Arden-Mayfair, Inc. supplemented their customary financial statements with a Statement of Changes in Consolidated Working Capital, and a Balance Sheet and Combined Income and Retained Earnings Statement of an unconsolidated subsidiary. The auditors used a separate paragraph to express their opinion on the changes in consolidated working capital, and issued a separate opinion on the subsidiary's financial statements.

Blaw-Knox Company included with its financial statements a 10-year Financial Review. This statement was referred to, and an opinion expressed, by the independent accountants in a separate paragraph of their report. The independent accountants also reported on the company's Source and Application of Funds Statement. In identifying the company's statements, the independent accountants noted the page numbers of the company's financial report where the statements appeared.

R. H. Macy & Co., Inc. presented a Statement of Net Assets and changes therein for the year, for the employees retirement system which included pension and profit sharing plans. The statement was subject to a separate opinion by the company's certified public accountants.

Metro-Goldwyn-Mayer Inc. included in a note to its financial statements, a geographical distribution of gross income and net assets in countries other than the United States and Canada. Gross income and net assets were divided among the British Commonwealth, Europe, Asia and Africa, and other Western Hemisphere countries.

TABLE 17: ADDITIONAL STATEMENTS COVERED BY AUDITORS' REPORTS

Statements Applicable To:	1966	1965	1960	1955
A: Reporting Company				
Statement of working capital, and/or source and application of funds (*6, 100, 208, 376, 452, 515)	356	273	31	21
Balance sheet (*3, 16)	2	1	5	9
Income statement (*3, 408)	2	2	5	9
Retained earnings statements (*2, 570)	2	1	—	—
Stockholders' equity statement (*8, 35, 321, 344, 540, 552)	12	6	9	2
Financial operating data (*93, 126, 309, 375)	4	5	11	11
Employee bonus—retirement or welfare funds (*88, 89, 202, 352, 464, 570)	6	6	5	4
Geographical statement (*454, 518)	8	10	8	6
Miscellaneous	2	3	27	6
B: Parent Company				
Miscellaneous	—	—	3	7
C: Domestic Subsidiary				
Balance sheet (*36, 125, 234, 316, 510, 526)	45	45	28	12
Combined income and retained earnings (*17, 71, 234, 431, 510, 585)	19	16	11	5
Income statement (*84, 121, 268, 316)	9	9	3	2
Financial data (*489, 588)	3	5	1	—
Miscellaneous	2	5	2	1
D: Foreign Subsidiary				
Balance sheet (*55, 156, 322, 480, 495, 514)	10	11	11	9
Assets and liabilities (*138, 199, 219, 347, 420, 583)	19	14	6	1
Combined income and retained earnings (*514, 598)	2	3	2	4
Income statement (*55, 156, 471, 495)	10	8	7	4
Retained earnings statement (*55, 495)	2	2	3	—
Financial data (*31, 91, 127, 341)	18	13	4	1
Miscellaneous	1	—	2	1
E: Domestic and Foreign Subsidiaries				
Combined balance sheet (*138, 161, 310)	3	1	—	—
Combined income statement (*161)	1	—	1	—
F: Affiliated Companies				
Balance Sheet (*416, 428)	2	3	—	—
Income Statement	—	2	—	—
Total	540	444	185	115

Number of Companies Presenting Additional Statements

Type A	Type C	Type D	Type E	Type F
365	45	29	3	2

	Number of Companies With:		
Year	Additional statements	No additional statements	Total
1966:	407	193	600
1965:	332	268	600
1960:	129	471	600
1955:	71	529	600

	Comparative Presentation of Additional Statements								
Year	2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.	6-9 Yrs.	10+ Yrs.	Total	Not comparative	Grand Total
1966:	409	2	—	3	—	8	422	118	540
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

*Refer to Company Appendix Section.

Penn Fruit Co., Inc. elaborated on the shareholders' equity section of the balance sheet by including a supporting statement in the notes to the financial statements. The note gave details of preferred stocks, common stock, capital in excess of par value, retained earnings, and treasury stock.

Parent Company Statements

In none of the last five years have there been, in any of the reports surveyed, separate financial statements of the parent company. Identification of the type of statement has therefore been eliminated from the table, and all items have been classified as miscellaneous.

Domestic Subsidiary Statements

The reports for 1966 covered by this survey contained 78 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, and combined statements of income and 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.

These figures do not include those companies furnishing additional statements of both domestic and foreign subsidiaries, which are shown separately in Table 17.

Allis-Chalmers Manufacturing Company included in its annual financial report for 1966 a Combined Statement of Financial Position and a Combined Statement of Earnings and Earnings Retained for its subsidiaries, Allis-Chalmers Credit and Leasing Corporations. The investment in these subsidiaries was carried on the parent's balance sheet at equity in the net assets. The subsidiaries' financial statements, as well as those of the parent, were covered in the report of the independent accountants.

Canteen Corporation furnished separate financial statements for 1966 for Commercial Discount Corporation, its unconsolidated subsidiary. The statements comprised a Consolidated Balance Sheet, Statement of Consolidated Earnings, and a Statement of Consolidated Retained Earnings. The accountants' report embraced these statements as well as those of Canteen Corporation.

Jim Walter Corporation supplemented its 1966 customary financial statements of the corporation and its consolidated subsidiaries, with the following:

- The First National Bank in St. Petersburg: Statement of Condition, Statement of Income and Stockholders' Equity
- First Brentwood Corporation and Subsidiaries: Balance Sheet, Statement of Operations
- Celotex Limited and Subsidiary: Balance Sheet, Statement of Income and Retained Earnings

The investments in these three companies are shown on the balance sheet of Jim Walter Corporation.

West Virginia Pulp and Paper Company included in its 1966 financial report, financial data pertaining to its unconsolidated subsidiary, United States Envelope Company. The financial data, for which comparative figures were provided, embraced current assets, property and plant less depreciation, current liabilities, long-term debt, deferred Federal income taxes, stockholders' equity, sales, net income, net income per share of common stock, and West Virginia's share in the stockholders' equity, net income, and dividends. The independent accountants' report covered the above financial data by reference to the page of the annual report on which the above information appeared.

Foreign Subsidiary Statements

Sixty-two additional statements applicable to foreign subsidiaries (not including 4 statements shown under "E" in Table 17) were presented by 29 survey companies in their 1966 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.

Consolidated Cigar Corporation presented, in the notes to the financial statements, a Summary Comparative Consolidated Balance Sheet and Summary Consolidated Earnings for 1966 for its Netherlands subsidiary, N. V. William II Sigarenfabrieken. The investment in the Netherlands company as shown in the Consolidated Balance Sheet of Consolidated Cigar Corporation, includes the Corporation's share of the underlying net equity and the unamortized excess of cost over the net equity acquired.

Interchemical Corporation, in notes to the financial statements, disclosed financial data for 1966 in comparative form for consolidated subsidiaries operating outside the United States. Included in the presentation are net current assets, fixed assets less depreciation, intercompany long-term advances, other assets and liabilities net, minority interest, net assets, net sales, and net income.

Johnson & Johnson submitted financial statements for 1966 consolidating the Company's figures with those of the domestic subsidiaries. Investments in and advances to foreign subsidiaries were shown on the Balance Sheet of the Company, supported by a Consolidated Balance Sheet and a Consolidated Statement of Earnings. Cash dividends received during the year from foreign subsidiaries were recognized in domestic income. The equity of Johnson & Johnson in foreign subsidiaries exceeded the carrying values of the Company's investments in such subsidiaries.

The Sherwin-Williams Company does not present statements consolidating the statements of its Canadian subsidiary. The Company's investment in the Canadian subsidiary is carried at cost. For 1966, separate financial statements were incorporated in the Company's annual report for the Canadian subsidiary (and its subsidiaries), including a Balance Sheet, an Income Statement, and an Earned Surplus Statement. The statements were comparative and expressed in Canadian dollars. A separate report was issued by the Company's accountants on the Canadian accounts.

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 420 survey companies that presented at least 850† supplementary financial schedules in their 1966 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.

Allen Industries, Inc., in a note to the financial statements, furnished an analysis of the changes in capital accounts. The schedule revealed changes in common stock, treasury stock, and other paid-in capital.

American Machine & Foundry Company presented, in notes to the financial statements, schedules of receivables and long-term debt. Comparative figures were given for receivables but not for long-term debt.

The American Tobacco Company provided supplementary financial information for inventories, land—buildings—machinery, etc., and long-term debt. Long-term debt was included in a note to the financial statements and was divided for each item of debt, between amounts due within one year, and amounts due after one year. Separate schedules, under the heading of "Supplementary Financial Information" were provided, in comparative form for inventories, and for the current year for land—buildings—machinery, etc.

†No more than five supplementary financial schedules were taken from any one report in the compilation of information contained in Table 18.

TABLE 18: SUPPLEMENTARY SCHEDULES COVERED BY AUDITORS' REPORTS†

Nature of Schedule*		1966	1965	1960	1955
A:	Long-term indebtedness	256	218	120	66
B:	Fixed assets, depreciation	106	106	74	72
C:	Inventory composition	120	109	84	62
D:	Capital stock	44	48	34	28
E:	Various balance sheet items	18	17	28	12
F:	Various income and operating items	15	18	22	10
G:	Accounts, notes receivable	21	23	16	15
H:	Investments—securities, subsidiaries, affiliates	30	24	17	9
I:	Investments—subsidiaries	3	6	7	14
J:	Special funds, reserves, appropriations	9	7	10	10
K:	Foreign investments	9	11	9	22
L:	Taxes	21	19	24	5
M:	Investments—securities	3	5	3	4
N:	Capital	8	5	1	5
	Miscellaneous other schedules	2	2	11	7
O:	Capital surplus	35	34	N/C	N/C
P:	Stock options	150	137	N/C	N/C
	Total	850	789	460	341

Comparative Presentation of Schedules

Year	2 Yrs.	3-9 Yrs.	10 and Over Yrs.	Total	Not comparative	Grand Total
1966:	429	2	1	432	418	850
1965:	386	—	1	387	402	789
1960:	275	11	11	297	163	460
1955:	204	8	7	219	122	341

Number of Companies Presenting:	1966	1965	1960	1955
Supplementary schedules	125	157	187	148
Supplementary schedules and additional statements	295	226	61	31
Additional statements	112	106	68	40
	532	489	316	219
No additional presentations	68	111	284	381
Total	600	600	600	600

†No more than five supplementary financial schedules taken from any one report in the compilation of information contained in this table.
*Refer to Company Appendix Section—A: 16, 116, 122, 353, 482, 597; B: 8, 123, 267, 371, 465, 583; C: 5, 125, 238, 312, 441, 536; D: 97, 139, 278, 322, 474, 533; E: 73, 167, 202, 369, 429, 553; F: 55, 178, 247, 326, 473, 595; G: 33, 110, 223, 352, 467, 572; H: 52, 134, 219, 305, 412, 538; I: 36, 55, 88; J: 35, 140, 349, 366, 518, 570; K: 37, 105, 209, 375, 420, 552; L: 46, 165, 273, 355, 444, 501; M: 13, 142, 420; N: 12, 115, 224, 492, 529, 590; O: 4, 144, 252, 388, 462, 558; P: 54, 127, 259, 363, 448, 531.
N/C—Not Compiled.

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

Type of Presentation*	1966	1965	1960	1955
A: Summary—Financial and operating data	451	421	365	243
Summary—Balance sheet data	26	28	7	63
Summary—Operating data	44	49	40	102
B: Highlights	429	397	331	320
Year in Review—Results in Brief	83	96	91	35
Operations at a Glance	21	22	24	14
C: Statement of working capital, changes in working capital, and/or source and application of funds	162	194	177	103
D: Condensed balance sheet	22	24	42	71
Condensed income statement	19	24	50	69
Various other condensed statements	7	6	8	16
E: Simplified balance sheet	4	3	8	14
Simplified income statement	10	10	18	21
F: Employee bonus, welfare or retirement funds	11	9	7	5
G: Subsidiary balance sheet	3	2	11	11
H: Various other statements	4	7	15	13
Total	1296	1292	1194	1100

	Total Companies Represented in Statement								Number of Companies With:		
Year	Type A	Type B	Type C	Type D	Type E	Type F	Type G	Type H	Statements, summaries, highlights	No statements, summaries, highlights	Total companies
1966:	489	525	159	29	10	11	3	3	577	23	600
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

	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
1966:	557	54	111	38	399	26	9	3	7	1204	92	1296
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

*Refer to Company Appendix Section—A: 24, 113, 261, 336, 411, 545; B: 53, 116, 223, 340, 429, 570; C: 46, 118, 210, 377, 465, 586; D: 73, 164, 286, 371, 455, 564; E: 88, 96, 202, 394, 415, 524; F: 73, 138, 233, 305, 416, 420; G: 188, 250; H: 121, 259, 579.

Campbell Soup Company supported its condensed balance sheet with schedules in notes to the financial statements. In the notes were schedules for inventories, other assets, plant assets, deferred liabilities, capital, and stock options. Except for capital and stock options, the schedules were comparative. Other assets consisted of "Unamortized excess of investment over book amount of net assets of acquired companies, other intangibles, etc.," and "Capital stock in treasury—." Deferred income taxes and deferred incentive compensation made up the schedule of deferred liabilities.

City Stores Company furnished in notes to the financial statements, details of accounts receivable, merchandise inventories, long-term debt, and reserves. All schedules were comparative with the previous year. The reserves were for restoration of leased properties, termination of store operations, excess rentals, deferred compensation, and real estate dispositions.

General Aniline & Film Corporation, in notes to the financial statements, provided support for the balance sheet items, inventories, long-term debt, and paid-in surplus.

Gruen Industries, Inc. included, in a note to the financial statements, details of assets pledged to secure notes payable.

Hupp Corporation referred to the notes to the financial statements for details on common and preferred stocks.

International Minerals & Chemical Corporation, in notes to the financial statements, provided schedules of property, plant and equipment, long-term debt, and shareholders' equity. All schedules were comparative.

Pittsburgh Steel Company supplemented its balance sheet with details, in notes to the financial statements, of inventories, property, plant and equipment, long-term debt, and capital stock and other capital. The Company also furnished details on stock options and estimated Federal and State income tax expense.

FINANCIAL PRESENTATIONS NOT COVERED BY AUDITORS' REPORTS

In the annual reports for 1966, there were 1,296 statements, summaries, and highlights, not covered by auditors' reports, presented by 577 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 1966, 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 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

TABLE 20: SUPPLEMENTARY CHARTS, SCHEDULES, ETC., NOT COVERED BY AUDITORS' REPORTS—1966†

	1966				
Type of Chart, Schedule, etc.*	Charts*	Schedules, Summaries, etc.*	Per Share Data*	Total	1964 Total
A: Distribution of sales and/or income dollar	84	23	—	107	108
B: Earnings (or net income)	139	7	99	245	168
C: Earnings and dividends	34	—	64	98	82
D: Earnings before taxes and net earnings (earnings and taxes)	25	1	2	28	25
E: Earnings, dividends, and taxes	14	—	1	15	10
F: Net earnings and earnings as a per cent of sales	5	—	1	6	9
G: Employment costs (wages, salaries, fringe benefits, etc.)	15	11	—	26	24
H: Fixed assets and/or depreciation and/or working capital	12	—	—	12	66
I: Depreciation and capital expenditures	65	3	—	68	56
J: Expenditures for plant and equipment	46	6	1	53	45
K: Property, plant and equipment	26	3	—	29	N/C
L: Assets	31	—	—	31	27
M: Sales	269	10	5	284	256
N: Stock ownership	7	17	—	24	24
O: Net worth	9	1	11	21	12
P: Capital structure (long-term debt, preferred stockholders' equity, common stockholders' equity)	34	2	—	36	31
Q: Common shareowners' (or stockholders') equity	70	—	33	103	91
R: Taxes	4	7	1	12	12
S: Dividends	20	3	44	67	59
T: Source and disposition of funds	6	—	—	6	9
U: Cash flow	37	2	11	50	39
V: Working capital	45	—	—	45	N/C
W: Research and development	16	—	—	16	N/C
X: Sales and earnings	10	11	2	23	N/C
Y: Sales by product, division, or department	47	46	—	93	N/C
Z: Sales and earnings, or earnings (net income), by product, division, or department	3	5	—	8	N/C
Miscellaneous other presentations	65	6	4	75	113
Total	1138	164	279	1581	1266

†No more than five supplementary charts, schedules, etc., taken from any one report in the compilation of the information contained in this table.

*Refer to Company Appendix Section—A: 2, 178, 200, 329, 421, 511; B: 57, 66, 277, 352, 472, 588; C: 95, 189, 250, 397, 442, 522; D: 81, 147, 214, 371, 489, 510; E: 22, 184, 191, 372, 413, 589; F: 479, 513; G: 10, 110, 420, 469, 570; H: 128, 277, 338, 409, 551; I: 4, 108, 206, 385, 447, 503; J: 1, 114, 268, 355, 454, 556; K: 97, 138, 320, 365, 419, 539; L: 69, 144, 220, 300, 412, 542; M: 28, 174, 229, 393, 461, 595; N: 45, 138, 215, 385, 468, 567; O: 65, 142, 204, 301, 460, 503; P: 19, 117, 206, 308, 479, 548; Q: 3, 113, 257, 325, 440, 587; R: 56, 233, 326, 355, 535; S: 31, 169, 257, 382, 409, 559; T: 91, 256, 376; U: 87, 185, 297, 303, 406, 587; V: 12, 121, 222, 399, 461, 575; W: 86, 180, 208, 395, 441, 598; X: 32, 170, 215, 320, 472, 589; Y: 9, 101, 208, 330, 454, 520; Z: 358, 377, 398, 445, 561, 592.

N/C—Not Compiled.

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, 425 presented 1,138 charts, 164 schedules and summaries, and 279 presentations showing per share data in their 1966 reports.

The types of supplementary schedules most frequently used in the 1966 reports were those relating to sales, earnings (or net income), distribution of sales or income dollar or both, common shareowners' or stockholders' equity, earnings and dividends, sales by product, division or department, depreciation and capital expenditures, dividends, expenditures for plant and equipment, cash flow, and working capital.

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	170
2 year range	110
3-4 year range	37
5 year range	445
6-9 year range	108
10 year range	630
11-15 year range	38
16-25 year range	22
25 years or more	21
Total	1581
Number of Companies:	
Presenting charts, schedules, etc.	425
Not presenting charts, schedules, etc.	175
Total	600

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 six of the 1966 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 Table 21 is concerned with statements which are restated or reclassified; the second half with the reasons therefor. Seventy-seven companies reclassified their accounts. As may be noted from the tabulation, the chief reasons for restatements were (1) poolings of interests (63 companies), (2) the inclusion or consolidation of companies not previously consolidated (16 companies), (3) to reflect change in presentation of treasury stock (five companies) and, (4) inclusion in current liabilities of the Federal income taxes arising from the installment method of accounting for deferred payment sales (12 companies), and (5) change from the cost method to equity or cost-plus-equity-in-net-earnings method of accounting for investments in nonconsolidated subsidiaries or affiliated companies (7 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 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"

GENERAL ANILINE & FILM CORPORATION
Notes to Financial Statements

Note 1 (in part): *Principles of Consolidation*—In the accompanying financial statements the accounts of all significant subsidiaries have been consolidated. The accounts of consolidated foreign subsidiaries, which are not material in relation to the consolidated accounts, have been translated into U.S. dollars at appropriate rates of exchange.

The statement of consolidated income and retained earnings for both years includes amounts applicable to Sawyer's Inc. (combined with General Aniline & Film Corporation in a pooling of interests on October 31, 1966). The results of operations of Burkhart-Schier Chemical Company and Southeast Polymers, Inc., purchased in April 1966, and Hall Harding Limited, purchased in August 1966, have been included in the statement of consolidated income and retained earnings from the dates of acquisition.

The General Aniline-Sawyer's combination was effected by the issuance of 1,325,483 shares of the Company's common stock in exchange for the assets of Sawyer's.

TABLE 21: RESTATEMENT OF PRIOR YEAR'S FINANCIAL STATEMENTS—1966

Combination of Restated Statements	Number of Presentations
Income statement	26
Balance sheet	57
Balance sheet and income statement	24
Balance sheet, income statement, and retained earnings	18
Balance sheet, combined income statement and retained earnings	49
Balance sheet, income statement, retained earnings, and capital surplus	18
Other combinations	14
Total number of presentations	206
Reason for Restatement*	
Reclassifications (*91, 133, 231, 300, 393, 455)	77
Poolings of interests (*68, 147, 258, 328, 477, 592)	63
To include subsidiaries not previously consolidated (*32, 123, 182, 315, 375, 548)	16
To exclude subsidiaries previously consolidated (*236, 493)	2
To include in current liabilities the Federal income taxes arising from the installment method of accounting for deferred payment sales (*68, 140, 262, 352, 427, 489)	12
To reflect change from the cost method to equity or cost-plus-equity-in-net-earnings method of accounting for investments in nonconsolidated subsidiaries (foreign or domestic or both), including or not, as the case may be, 50% or less owned affiliated companies (*37, 274, 322)	7
To reflect change in presentation of treasury stock (*27, 323)	5
To reflect appropriate U.S. dollar equivalents for all Canadian dollar accounts (*177)	1
To include in curent assets U.S. Government securities previously offset against Federal income tax liability (*318, 551)	2
To reflect certain reclassifications, principally inclusion in current assets of U.S. Government securities and funds segregated for capital expenditures (*312)	1
To reflect change in method of stating allowance for doubtful receivables and certain other items from "net of future tax benefits" to a "gross" basis; and to reclassify prepaid subscriptions and rentals to current liabilities (*598)	1
To reflect retroactively (a) expected reimbursement for transport design expenditures, and (b) adjustment for overprovision for renegotiation (*345)	1
To make adjustments retroactively for loss on government contracts (less Federal income tax), and for Federal income tax deficiencies (*515)	1
To include in inventories an allocation of certain manufacturing overhead expense; and to extend the use of "guidelines," adopted in 1964, to the years 1962 and 1963 (*5)	1
To reflect property and equipment adjustments retroactively (*179)	1
To reflect deferred taxes for the investment credit and guidelines depreciation as a deferred liability rather than as a part of the accumulated depreciation allowance (*399)	1
To state minority interest separately (*257)	1
To give effect to the increase in authorized shares and the distribution (*376)	1
To reflect change in policy, by deducting cash discounts from sales (*527, 530)	2
To exclude Federal excise taxes from sales (*7)	1
To conform leased department sales and related costs to trade practice by inclusion in net sales and cost of merchandise sold, respectively (*408)	1
To reflect retroactively change in method of accounting for installment sales whereby the entire gain (net of tax) has been recorded as extraordinary income in the year of sale (which is in accord with APB No. 10) (*139)	1
To reflect change in depreciation policy (*310)	1
To give effect to retroactive increase in tax rate as established by the British government (*594)	1
To reflect a compromise settlement of all income tax claims for years prior to 1966 (*518)	1
To reflect extraordinary items as charges and/or credits against net earnings rather than retained earnings (*558, 579)	2
To deduct extraordinary items at the bottom of the Income Statement instead of including them among the income items (*368)	1
To reflect retroactive prior year adjustments in the surplus account rather than as special items in the income statement, and to include for 1965 certain extraordinary items in the determination of net income which were previously reported as special items (*529)	1
To treat leases retroactively as purchased equipment (*100)	1
Reason not disclosed	9
Total number of presentations	216

*Refer to Company Appendix Section.

BEECH-NUT LIFE SAVERS, INC.
Notes to Financial Statements

Note 1 (in part): The accompanying statements include the accounts of Beech-Nut Life Savers, Inc. and its domestic and Canadian subsidiaries with the exception of those engaged in automotive and related operations. The net assets of the Canadian subsidiaries and of the Mexican and Venezuelan agencies have been translated at appropriate rates of exchange.

On June 30, 1966, Beech-Nut Life Savers, Inc. merged with Dobbs Houses, Inc., and issued in connection therewith 1,538,775 shares of its newly authorized convertible preferred stock. The transaction was a pooling of interests; the 1966 financial statements include the accounts of the merged companies for the calendar year; the 1965 financial statements include the accounts of Beech-Nut Life Savers, Inc. for the calendar year 1965 and of Dobbs Houses, Inc. for the fiscal year ended August 31, 1965.

Earnings retained in the business at the beginning of 1966 was adjusted for the following in connection with the pooling of interests:

Earnings of Dobbs Houses, Inc. for the period from September 1, 1965 to January 1, 1966	$ 1,474,417
Dividends paid on common stock of Dobbs Houses, Inc. in December, 1965	(538,280)
Net adjustment	936,137
Earnings retained in the business at the end of 1965	81,685,965
Earnings retained in the business at the beginning of 1966	$82,622,102

As of January 1, 1966, the company purchased for cash substantially all of the assets of Wilbur Chocolate Co. The December 31, 1966 financial statements reflect the assets and liabilities of the acquired business and the results of its operations from the date of acquisition.

DICTAPHONE CORPORATION
Notes to Financial Statements

Note 1: The consolidated financial statements include the accounts of all subsidiaries, located in Great Britain, Canada and Germany, which accounted for approximately 13% of consolidated net assets at December 31, 1966 and 6% of consolidated net income for the year 1966.

On October 19, 1966, Dictaphone Corporation acquired all of the outstanding capital stock of Imperial Desk Company, Inc., in exchange for 65,517 Dictaphone Corporation common shares. For accounting purposes this transaction has been treated as a pooling of interests and the financial statements for 1965 have been restated on a comparative basis to include the accounts of Imperial. This restatement increased previously reported net earnings for 1965 by $125,874, capital surplus by $217,057 and reinvested earnings by $820,985. Imperial Desk Company, Inc. was liquidated on November 31, 1966, and its assets transferred to Dictaphone Corporation.

Under the terms of the agreement to acquire B. L. Marble Furniture, Inc., $1,560,000 was paid in cash and 10,000 common shares were issued to its shareholders in 1966. The balance of the purchase price, $250,000, is payable in 1967, subject to reduction dependent upon earnings of the acquired business through June 30, 1967.

THE UNITED STATES SHOE CORPORATION
Notes to Financial Statements

Note 1 (in part): *Principles of Consolidation*—The consolidated financial statements include the accounts of all subsidiaries; all significant intercompany transactions have been eliminated. The Company's retail subsidiaries operate on fiscal years ended July 31, and the Company has consistently followed the practice of using the financial statements of such subsidiaries as of the preceding July 31, in the preparation of the consolidated financial statements of the Company and all subsidiaries as of October 31.

During 1966, the Company issued a total of 637,000 shares of common stock for all of the outstanding capital stock of Freeman-Toor Corporation and Charles Kushins Co.—Oakland. These acquisitions have been treated as poolings of interests; accordingly, the consolidated statement of earnings for the year ended October 31, 1966, includes the operations of such companies for the entire year and the comparative statement for the preceding year has been restated on a comparable basis.

On January 31, 1966, the Company acquired all of the outstanding capital stock of Texas Boot Manufacturing Company, Inc. for cash and 105,000 shares of common stock. This acquisition has been accounted for as a purchase; accordingly, only its operations since date of acquisition are included in the consolidated statement of earnings for the year ended October 31, 1966.

McGRAW-HILL, INC.
Notes to Financial Statements

Note 1 (in part): *Principles of Consolidation*—The consolidated financial statements include the accounts of all subsidiaries. All intercompany accounts have been eliminated in consolidation.

As of April 1, 1966, the Company purchased all the capital stock of Shepard's Citations, Inc., for cash. The results of the operation of this property since April 1, 1966, and its financial position at December 31, 1966, have been included in the consolidated financial statements.

During the year McGraw-Hill, Inc., acquired the following:

1. All of the capital stock of Standard & Poor's Corporation in exchange for 1,532,823 shares of a new $1.20 convertible preference stock.
2. All of the common stock of Educational Developmental Laboratories, Inc., in exchange for 211,357 shares of common stock plus additional shares to be issued in 1967 through 1971 based on the earnings of Educational Developmental Laboratories, Inc., and the market value of the stock of McGraw-Hill, Inc.

On January 3, 1967, all of the capital stock of Medical World Publishing Co., Inc., was acquired in exchange for 243,112 shares of common stock. In addition, 31,890 shares of common stock were reserved for issuance upon exercise of substitute stock options to certain stockholders of Medical World Publishing Co., Inc. McGraw-Hill, Inc., has also agreed to issue additional shares in the event 1967 earnings of Medical World Publishing Co., Inc., increase over a stated level of earnings which is in excess of 1966 earnings.

These three acquisitions were deemed to be poolings of interests and all appropriate adjustments of both 1966 and 1965 statements have been made.

Note 2: *Accounting Adjustments*—The Company made the following accounting adjustments in its financial statements:

(a) The deferred Federal income taxes attributable to unexpired subscriptions (Note 5) and certain other deferred liabilities have been reclassified as current liabilities.

(b) Amounts previously appropriated for pensions and for unexpired subscriptions—net of the related Federal income taxes—have been returned to retained income.

A reconciliation of retained income at January 1, 1965, as originally reported and as shown in the accompanying financial statements, is as follows:

Balance as previously reported	$67,365,454
Return of amounts previously appropriated for—	
Unexpired subscriptions—net of related Federal income taxes	5,394,509
Pensions	2,000,000
Retained income acquired in poolings of interests (Note 1)	6,870,156
Balance as adjusted	$81,630,119

RADIO CORPORATION OF AMERICA
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The accompanying financial statements include the accounts of RCA and its active domestic subsidiaries.

On May 19, 1966, Random House, Inc., became a wholly-owned subsidiary of RCA in a transaction accounted for as a pooling of interests. Therefore, financial statements for 1966 include the accounts of Random House for the full year, and comparative financial data for 1965 have been accordingly restated.

Restated to Include Subsidiaries Not Previously Consolidated

OSCAR MAYER & CO. INC.
Notes to Financial Statements

Note A: *Principles of Consolidation*—Consolidated financial statements include the accounts of Oscar Mayer & Co. Inc. and all of its subsidiaries, whereas prior to 1966 only wholly owned subsidiaries were included. The comparative financial statements for 1965 have been restated to include the accounts of a foreign subsidiary which was consolidated for the first time in 1966. All significant intercompany items and transactions have been eliminated from the consolidated financial statements.

As of February 1, 1966, The Kartridg Pak Co. sold additional stock resulting in reduction of Oscar Mayer & Co. equity from one hundred percent to fifty percent. The Kartridg Pak Co. accounts accordingly were excluded from the consolidated financial statements for 1966. However, the Oscar Mayer & Co. equity in the earnings of this company are included in the 1966 consolidated net income. The investment in The Kartridg Pak Co. at October 29, 1966 is carried at cost plus the Oscar Mayer & Co. equity in earnings recognized in consolidated net income since acquisition.

THE BENDIX CORPORATION
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include all significant domestic and Canadian subsidiaries. In prior years, the Corporation consolidated only wholly-owned domestic subsidiaries and, accordingly, for comparative purposes the amounts in the accompanying financial statements for the year ended September 30, 1965 have been restated to include the accounts of the previously unconsolidated subsidiaries.

This change in consolidation policy had the effect of increasing net income and total assets previously reported for the year ended September 30, 1965 in the amounts of $1,428, 402 and $56,480,965, respectively.

During the year, the Corporation acquired the net assets and businesses of Besly-Welles Corporation and P & D Manufacturing Company, Inc., in exchange for 99,000 and 117,000 shares, respectively, of the Corporation's common stock (before the 2 for 1 stock split). The acquisitions were accounted for as "poolings of interests" and, accordingly, the accompanying summaries of income and surplus for the year ended September 30, 1966 include the results of operations of the merged companies for the entire year then ended. For comparative purposes, the amounts as reported in the accompanying financial statements for the year ended September 30, 1965 have been restated to include the accounts of the acquired companies.

Also during the year ended September 30, 1966, the Corporation purchased the businesses and substantially all of the assets of Beck-Lee Corporation, Scully-Jones and Company, Fonda Gage Company, and Marine Advisers, Inc. The accompanying financial statements include the operations of these companies from the dates of acquisition to September 30, 1966.

Earned Surplus:	
Balance, October 1, 1965:	
The Bendix Corporation and wholly-owned domestic subsidiaries, as reported	$218,997,118
Previously unconsolidated domestic and Canadian subsidiaries (Note 1)	21,470,733
Pooled companies (Note 1)	5,237,788
	$245,705,639
Capital Surplus:	
Balance, October 1, 1965:	
The Bendix Corporation and wholly-owned domestic subsidiaries, as reported	$ 62,614,434
Excess of par value of capital stock and capital surplus of pooled companies over par value of The Bendix Corporation common stock issued for the net assets thereof (Note 1)	829,416
	$ 63,443,850

CITIES SERVICE COMPANY
Notes to Financial Statements

Note 1 (in part): A wholly-owned tanker subsidiary has been included in the consolidated financial statements for the first time in 1966. To facilitate comparison, the 1965 financial statements have been revised to reflect the accounts of this subsidiary which operated substantially on a break-even basis. Additionally, prior years' taxes, and maintenance and operating reserves have been reclassified as current liabilities on the 1965 balance sheet to conform to classifications adopted in 1966.

DIANA STORES CORPORATION
Notes to Financial Statements

Note 1 (in part): *Principles of Consolidation*—The accompanying consolidated financial statements include the accounts of Diana Stores Corporation and its subsidiaries; the 1965 accounts have been restated to include the real estate subsidiaries which heretofore had been presented in separate combined statements.

NATIONAL BISCUIT COMPANY
Notes to Financial Statements

Consolidation: Effective January 1, 1966, the Company consolidated the balance of its foreign subsidiaries, except for its interest in Galletas Artiach, S.A., Spain, acquired in 1966. The 1965 financial statements are restated for comparability. Previously reported 1965 net income and retained earnings at January 1, 1965 are not affected by the restatement since provisions for such results, which were not material in amount, had been made.

OLIN MATHIESON CHEMICAL CORPORATION
Notes to Financial Statements

Note 1 (in part): *Principles of Consolidation*—in 1966, the company adopted the policy of including in the consolidated financial statements the accounts of all significant domestic and foreign subsidiaries. Although such change had no material effect on net income, the 1965 figures included for comparative purposes have been revised to the present basis.

Restated to Exclude Subsidiaries Previously Consolidated

FRANK G. SHATTUCK COMPANY
Notes to Financial Statements

Note 1: *Sale of Investment in Subsidiary*—Effective January 1, 1967, the Company sold its interest in its wholly-owned subsidiary, W. F. Schrafft & Sons Corporation. The consolidated balance sheet as of December 31, 1966 reflects retroactively the proceeds of this transaction which amounts to $13,290,817; received in cash and notes of the purchaser, less an amount of $5,000,000 representing related required payments on certain of the Company's notes payable, as explained in note 2. The proceeds were $362,614 less than the Company's investment in and advances to the former subsidiary; and the net losses of the former subsidiary for the years ended December 31, 1966 and December 31, 1965 have been classified separately in the consolidated statements of income (loss). Certain of the more significant items comprising the results of operations of the former subsidiary, which (except for its net losses) are not shown in the accompanying consolidated statements of income (loss), are as follows:

	Year ended December 31 1966	1965
Net sales	$18,380,396	$24,824,260
Cost of sales	18,263,444	21,181,024
Selling, administrative and general expenses	3,387,915	3,477,707
Net loss	3,112,787	478,111

The following footnotes, except where otherwise indicated, relate only to the financial statements of Frank G. Shattuck Company and its continuing subsidiaries.

The accompanying consolidated balance sheet as of December 31, 1965 and the results of operations summarized in the above table for the year then ended are in agreement with those that were included in the "Special Report to Stockholders" distributed under date of July 8, 1966.

Restated to Include in Current Liabilities the Federal Income Taxes Arising from the Installment Method of Accounting for Deferred Payment Sales

BOTANY INDUSTRIES, INC.
Current Liabilities

	1966	1965
Reserve for Federal income taxes —Note 2	$3,788,000	$3,948,000

Note 2: *Federal Income Taxes*—(b) Deferred Federal income taxes applicable to income from certain retail sales, which are reported under the installment method for tax purposes, have been included under current liabilities as at July 31, 1966 and July 31, 1965 (as reclassified) in accordance with recent requirements of the Securities and Exchange Commission. Had such taxes been shown as a noncurrent liability, as in previous reports, working capital as at July 31, 1966 and July 31, 1965 would have been greater by $1,079,000 and $971,000, respectively. The balance of deferred Federal income taxes represents, principally, amounts attributable to the difference between accelerated depreciation provided for tax purposes and straight line depreciation provided for financial reporting purposes.

J. J. NEWBERRY CO.
Current Liabilities

	January 31, 1966	December 31, 1966
Federal income taxes (Note 3)	$2,435,000	$2,970,000

Note 3: During 1965, the Company retroactively discontinued the use of the Treasury Department's accelerated guideline depreciation lives for federal income tax purposes. The Company is still continuing the use of other accelerated methods of depreciation for tax purposes.

Effective January 31, 1966, deferred federal income taxes applicable to the gross profit on installment sales (deferred for federal income tax purposes) has been classified as a current liability, in conformity with the requirements of the Securities and Exchange Commission.

As a consequence, the December 31, 1964 balance sheet, which had previously reported the deferred taxes related to these items as a noncurrent liability ($2,970,000), has been restated to reflect such taxes in current liabilities.

CITY STORES COMPANY
Current Liabilities
Federal income taxes—Note E

	January 29, 1966	January 30, 1965
Current	$ 489,175	$ 502,620
Deferred, applicable to installment sales	5,375,893	3,517,758*

*Reclassified—See Note E.

Note E: Federal Income Taxes—The provision for federal income taxes includes approximately $1,500,000 of current taxes and $2,480,000 of deferred taxes.

The Company records income from installment sales for financial accounting purposes at the time sales are made and for tax purposes generally on the basis of cash collections. Deferred federal income taxes applicable to installment sales which previously had been shown as a noncurrent item after reserves on the statement of financial condition has been reclassified to current liabilities in compliance with the Securities and Exchange Commission requirements. Had this reclassification not been made, working capital would have been $59,400,000, an increase of $1,500,000 over last year.

Deferred federal income taxes includes amounts applicable to accelerated depreciation and other noncurrent taxes.

The accompanying financial statements are subject to final determination of federal, state and local taxes.

FEDDERS CORPORATION

Current Liabilities	1966	1965
Federal income tax (Note 5)	$1,767,000	$6,861,000

Note 5: Federal Income Tax—The current liability for federal income tax includes $1,309,000 arising from the use for tax purposes of the installment method of reporting income. In prior years such deferred taxes ($3,738,000 at August 31, 1965) were included in deferred federal income tax. The balance sheet at August 31, 1965 has been restated to conform with the present classification. For financial statement purposes the Company continues to prepare its statements on the accrual basis and includes the profit on installment sales in income at the time of sale, charging the provision for federal income tax thereon against income concurrently.

Restated to Give Effect to Capitalization of Leases

THE BORDEN COMPANY
Notes to Financial Statements

Long-Term Debt (in part): Commencing in 1966 certain equipment for which the Company has entered into lease arrangements has been treated as purchased equipment; such equipment has been capitalized and is being depreciated over its estimated useful life. The effect of this change on consolidated net income for 1966 was not material. For purposes of comparison the consolidated balance sheet and statement of consolidated resources provided and applied for 1965 have been revised to reflect similar equipment on a purchase basis. The arrangements generally provide for payment over a period of eight years from the time the related equipment is placed in operation. Payments are required in annual amounts of approximately $7,000,000 for equipment which was operational at December 31, 1966; payments will be required in annual amounts of approximately $3,500,000 for equipment in process of installation when such equipment becomes operational.

Restated to Reflect Change from Cost to Equity Method of Accounting for Investments in Nonconsolidated Subsidiaries and/or Affiliates

THE BUDD COMPANY

	December 31 1966	1965
Investments and Other Assets:		
Equity in net assets of unconsolidated foreign subsidiaries	$5,054,235	$4,616,667

Notes to Financial Statements

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly-owned Canadian subsidiaries.

In accordance with a change in policy adopted in 1966, the investments in unconsolidated foreign subsidiaries, including those owned approximately 50% and more, previously carried at cost, are stated at cost plus the equity in undistributed net earnings since dates of acquisition; the equity in current earnings of such subsidiaries, $643,374, is included in the statement of earnings. As a result of this change, net earnings for the year 1965 and earnings reinvested in the business at the beginning of 1965 have been restated to reflect the change retroactively. The effect of this change on 1965 earnings was not material.

The company's equity in the net assets of other foreign investments, included in other assets, exceeded cost by $1,381,000 at December 31, 1966.

HOFFMAN ELECTRONICS CORPORATION

	December 31 1966	1965
Investments and Other Assets:		
Hoffman Products Corporation		
Investment	$1,753,672	$1,147,891
6% subordinated unsecured notes	735,000	75,000
Deferred research and development costs	1,121,489	—
Other	507,925	467,250
	$4,118,086	$1,690,141

Notes to Financial Statements

Note A: Investment in Hoffman Products Corporation—The company's investment in Hoffman Products Corporation, a 51% unconsolidated subsidiary, is carried at cost, $1,219,206, plus $534,466 equity in the undistributed net earnings since formation. During the current year the company changed the basis of carrying the investment from cost to equity. The retroactive application of this change results in a decrease in net loss for 1966 of $406,575, an increase in net earnings for 1965 of $189,544, and a decrease in the beginning retained earnings for 1965 of $61,653.

A. O. SMITH CORPORATION

	December 31 1966	1965
Other Assets:		
Investments in and advances to affiliated companies (50% owned) at cost plus equity in undistributed net earnings since acquisition (Note 1)	$6,039,269	$11,624,296

Note 1: Investments in and Advances to Affiliated Companies—In 1966 the Company commenced the practice of recording its equity in earnings or losses of its affiliated companies (50% owned). Previously it had carried its investments in such affiliates at cost and recorded dividends received from them, if any, as income upon receipt of such dividends. The 1965 financial statements have been restated, for comparative purposes, to reflect the same treatment in 1965 as was used in 1966. The restatement resulted in reducing previously reported earnings for 1965 by $791,284 ($.33 per share) and increasing the beginning balance of retained earnings by $2,990,818. The change had the effect of reducing earnings for 1966 by $345,000 ($.15 per share).

KAISER ALUMINUM & CHEMICAL CORPORATION

Noncurent Assets	December 31 1966	1965
Investments and Advances (Note 1)	$98,875,710	$95,791,807

Note 1 (in part): *Consolidated Financial Statements and Investments*—The accompanying consolidated financial statements include the statements of the Corporation and its wholly-owned subsidiaries (except for a company engaged in real estate development). Financial statements which are in foreign currencies have been included in the consolidation in United States dollars by application of appropriate currency equivalents.

The consolidated balance sheet includes assets of wholly-owned foreign subsidiaries and subsidiaries which are Western Hemisphere Trade Corporations of $154,850,000 and $133,950,000 at December 31, 1966 and 1965, respectively, and liabilities of $55,550,000 and $41,100,000 at the same dates. Net income of these wholly-owned subsidiaries was $32,156,000 and $31,066,000 for the years 1966 and 1965, respectively.

On November 3, 1966 Southern Nitrogen Company, Inc. was merged into the Corporation under the pooling of interests accounting method. The accompanying consolidated financial statements for the year 1965 have been restated to include the 1965 financial statements (examined by accountants other than Haskins & Sells) of Southern Nitrogen Company, Inc.

In 1966 the Corporation changed its method of accounting for investments in less than wholly-owned foreign subsidiaries and in fifty percent-owned companies. The valuation of the investment in these companies previously stated at cost, was changed to the equity method (cost adjusted for equity in undistributed earnings after application of appropriate adjustments for intercompany transactions and related income taxes). The equity in current earnings of these companies is now included in consolidated net income; previously income was recognized as dividends were received. The change in method, which change has been retroactively applied, had the effect of increasing consolidated net income by $1,265,000 and $899,000 for the years 1966 and 1965.

Restated to Reflect Change in Presentation of Treasury Stock

MAXSON ELECTRONICS CORPORATION

	September 30 1966	1965
Stockholders' equity (Notes 3 and 5):		
Capital stock, par value $3 per share:		
Authorized — 2,000,000 shares		
Issued — 824,735 shares	$ 2,474,205	$ 2,474,205*
Capital in excess of par value	764,266	767,204*
Earned surplus	5,850,572	5,263,209
	9,089,043	8,504,618
Less cost of 23,235 shares of treasury stock (24,735 in 1965)	231,398	246,336*
Total stockholders' equity	8,857,645	8,258,282
	$25,853,554	$14,828,979

*Reclassified to conform with 1966 presentation.

Reclassification of Accounts

CHRYSLER CORPORATION
Footnote on Balance Sheet

Certain liabilities at December 31, 1965 have been restated to reflect comparability with account classifications at December 31, 1966.

McCALL CORPORATION

The December 31, 1965 (preceding year) column of the balance sheet, income and retained earnings statement and source and disposition of funds statement were all headed "1965*." At the foot of each statement appeared the words, "*Certain 1965 accounts have been reclassified for purposes of comparison."

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 19 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*	
A:	A different classification of costs and expenses reported to the SEC	7
B:	Separate statements filed with the SEC for 50% owned company and/or unconsolidated subsidiary	6
C:	Real estate subsidiaries consolidated in reports to the SEC	2
D:	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
E:	Extraordinary charge in retained earnings shown after net income (or loss) in the income statement in reports to the SEC	3
	Total	19

*Refer to Company Appendix Section—A: 262, 352, 489; B: 110, 465; C: 68; D: 199; E: 249.

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

Examples

ARMCO STEEL CORPORATION

Note 3 to Schedule of Investments: Armco's equity in the net assets of associated companies amounted to $51,730,000 at December 31, 1966, based upon unaudited financial statements furnished by the companies. Armco's investment in Reserve Mining Company is its equity in that company's net assets. Separate financial statements for Reserve are included in reports filed annually with the Securities and Exchange Commission.

ASSOCIATED DRY GOODS CORPORATION
Statement of Earnings

Costs and expenses (Note J):	
Cost of goods sold and expenses, exclusive of items listed below	$448,399,340
Rent (including $4,731,681 to wholly-owned real estate subsidiaries for 52 weeks ended January 29, 1966)	10,784,389
Depreciation and amortization	5,480,845
Maintenance and repairs	4,594,709
Taxes, other than federal income taxes	12,108,479
Interest	2,323,839
Retirement plan contributions (Note H)	2,202,836
	$485,894,437

Note J: *Securities and Exchange Commission Annual Report*—In addition to these financial statements, the Corporation will submit an annual report to the Securities and Exchange Commission in which the details of costs and expenses will be reclassified as follows:

Cost of sales (including buying and occupancy costs)	$357,085,548
Selling, general and administrative expenses	126,485,050
Interest and debt expense	2,323,839
	$485,894,437

Also, wholly-owned real estate subsidiaries will be consolidated. The principal effect of this treatment is to eliminate the investment in the subsidiaries aggregating $20,603,941, to increase property and equipment in the amount of $58,079,213 and to increase long-term debt in the amount of $36,568,870.

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

FEDERATED DEPARTMENT STORES, INC.
Notes to Financial Statements

Note 7: *Total Costs* will be classified in the annual report to the Securities and Exchange Commission as follows:

Cost of sales, including merchandise alteration, occupancy and buying costs	$ 943,205,671
Selling, publicity, delivery and administrative expenses	255,434,828
Interest expense—net	2,090,379
	$1,200,730,878

LESLIE SALT CO.
Notes to Financial Statements

Note 1 (in part): The Company's net equity in 1966 earnings and net assets of two wholly-owned Canadian companies and a 50%-owned domestic company as to which financial statements will be included in the annual report to the Securities and Exchange Commission as required by its regulations, is included in the consolidated financial statements net of estimated U.S. income tax which would be payable upon distribution. The statement of consolidated income also includes the Company's net equity in 1966 operations of a 70%-owned domestic company which was sold on December 30, 1966. Retained income at December 31, 1966 includes $524,099 of undistributed earnings of non-consolidated companies.

McCORMICK & COMPANY, INCORPORATED
Notes to Financial Statements

Note B (in part): An unconsolidated subsidiary, Maryland Properties, Inc., had assets of $13,035,000 and liabilities of $12,948,000 at November 30, 1966, and net loss of $127,000 for the year then ended; separate financial statements for this subsidiary are included in reports filed with the Securities and Exchange Commission. During the year there was no change in the Company's investment of $466,248 in this subsidiary; however, the entire interest of another stockholder was acquired by the subsidiary and the Company's equity in its net assets increased from 80% to 93.6%. The amount paid to the stockholder for his interest was $365,000 in excess of the related equity in net assets, such excess being considered by the subsidiary as representating a proportionate part of the unrealized appreciation in value of its real estate.

GIMBEL BROTHERS, INC.
Notes to Financial Statements

Note 7: 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 goods sold (including occupancy and buying costs)	$410,877,951
Selling, general, publicity and administrative expenses	111,733,729
Interest and debt expense	3,863,857
	$526,475,537

NEBRASKA CONSOLIDATED MILLS COMPANY
Retained Earnings

Beginning of period	$6,681,652
Net earnings for the period	3,151,421
	9,833,073
Deduct:	
Dividends:	
Nebraska Consolidated Mills Company:	
Common stock:	
Cash—$0.40 per share	702,366
Stock—5%—at fair market value at date of declaration	1,501,535
Preferred stock—cash—$2.50 per share	127,759
Provision for possible loss on divestiture and abandonment (Note 7)	300,000
	2,631,660
End of period	$7,201,413

Note 7: *Provision for Possible Loss on Divestiture and Abandonment*—In November of 1965 the company purchased a chicken processing plant, the capital stock of Nichols Poultry Farm (P.R.), Inc. and certain related operations in Puerto Rico. As a result of this purchase, the Department of Justice of the Commonwealth of Puerto Rico instituted an anti-trust action against the company. On August 2, 1966 the company and the Department of Justice of the Commonwealth of Puerto Rico mutually agreed to a divestiture judgment. Under the terms of the judgment, the company must within a specified period of time, divest itself of such assets.

Realizing there is a possibility but not the certainty of a loss in selling this property, the company has charged to retained earnings a sum representing a provision against such a loss upon disposition of the assets, together with $45,600, representing loss upon abandonment of its Greensburg plant. In Form 10-K, to be filed with the Securities and Exchange Commission, the company will show the aggregate of these items as a special charge in the statement of consolidated earnings.

J. C. PENNEY COMPANY
Notes to Financial Statements

Note 4: The Company's costs and expenses as reported to the Securities and Exchange Commission are summarized as follows:

Cost of goods sold, occupancy, buying and warehousing costs	$1,669,086,370
Selling, publicity, general and administrative expenses, other than items included in costs, less service charges on customers' accounts	463,774,820
Interest, doubtful accounts, miscellaneous income and other items	19,930,449
Federal income taxes	63,200,000
Total costs and expenses	$2,215,991,639

SHOE CORPORATION OF AMERICA
Notes to Financial Statements

Note 1 (in part): In the Company's annual report to the Securities and Exchange Commission, Interstate Leasing Corporation, a 79% owned unconsolidated subsidiary from which the Company and subsidiaries lease a portion of their store fixtures, equipment and buildings, will be consolidated through inclusion of financial statements for its fiscal year ended December 31, 1966. The principal effect of this treatment, at January 28, 1967, is to increase fixed assets (net) by $13,833,000, cash by $173,000, long and short-term debt by $13,701,000 (including $1,992,000 payable within one year), and retained earnings by $111,000. Net income will increase $40,000, principally as the result of a decrease in rent expense of $2,552,000, and increases in interest and depreciation expense of $883,000 and $1,542,000, respectively.

Section 2 BALANCE SHEET

CASH

The balance sheets of the 1966 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 477, 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 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 1966 the number had dropped to 9.

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 1: CASH—CURRENT ASSETS

Balance Sheet Description*	1966	1961	1955	1951
A: Cash	477	541	505	435
B: Cash in banks and on hand	7	17	58	103
C: Cash on hand and demand deposits (and other similar variations)	2	12	30	55
D: Cash including time and/or certificates of deposit	45	11	1	1
E: Cash and certificates of deposit including accrued interest, shown separately	4	1	1	1
F: Cash and time and/or certificates of deposit shown separately	27	4	—	—
G: Cash and marketable securities	14	6	—	1
H: Cash and short-term notes or securities	14	6	—	—
I: Various other	10	2	5	4
Total	600	600	600	600

*Refer to Company Appendix Section—A: 9, 135, 290, 307, 470, 502; B: 11, 244, 247, 267, 410, 576; C: 442, 528; D: 53, 122, 223, 295, 412, 534; E: 103, 297, 426, 450; F: 35, 183, 293, 331, 422, 524; G: 44, 97, 151, 238, 453, 585; H: 26, 147, 254, 321, 471, 540; I: 75, 95, 280, 380, 551.

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 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.

TABLE 2: SEGREGATION OF CASH AND/OR SECURITIES

	Purpose and Balance Sheet Presentation*	1966 Noncurrent Asset
A:	Plant expansion, improvement, or replacement funds	19
B:	Insurance, workmen's compensation, pension or other employee funds	8
C:	Debentures or preferred stock retirement or redemption	1
D:	Restricted to performance under contracts	3
E:	Security under leases	1
F:	Customers' funds	1
G:	Various other	3
	Total	36

	Number of Companies with*	1966	1960	1955
H:	Cash segregated in noncurrent assets	15	22	39
	Cash segregated in current assets	—	7	9
I:	Cash excluded from the balance sheet	1	3	6
	Cash offsetting a liability account	—	1	4
J:	Securities segregated in noncurrent assets	10	8	6
K:	Both cash and securities segregated in noncurrent assets	9	3	—
	Total	35	44	64
	No reference to cash segregation or exclusion	565	556	536
	Total	600	600	600

*Refer to Company Appendix Section—A: 92, 127, 196, 317, 438, 570; B: 42, 100, 173, 244, 347, 480; C: 149; D: 218, 235, 480; E: 140; F: 445; G: 284, 461, 562; H: 26, 127, 218, 438, 461, 562; I: 281; J: 8, 100, 235, 319, 355, 570; K: 173, 244, 284, 338, 347, 480.

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 1966 annual reports.

Plant Expansion, Etc.

AIR PRODUCTS AND CHEMICALS, INC.
Noncurrent Assets
Marketable Securities, to be subsequently used for construction $5,000,000

AMERICAN CAN COMPANY
Noncurrent Assets
Funds held by Trustee for construction (Note 4) $28,157,000

Note 4: In 1965, the Company entered into an unincorporated joint venture with Skelly Oil Company to manufacture and sell petrochemical products. Each party has an undivided one-half interest in the assets, liabilities and results of operations of the joint venture.

Under a lease and agreement by American and Skelly with the City of Clinton, Iowa, the City sold $60,000,000 of Industrial Development Revenue Bonds in 1966 to construct and equip a petrochemical plant for the use of the joint venture. Such construction was in an initial stage at December 31, 1966. Basic rental payments under the lease are to be sufficient to pay the interest and debt retirement requirements of the City's bonds. Each company is liable for only one half of the basic rental payments.

For accounting and tax purposes, the Company is treating its obligation under the lease, to the extent of $30,000,000 of the bonds issued, as a purchase of property and an assumption of a long-term lease indebtedness (Note 5).

AVON PRODUCTS, INC.
Noncurrent Assets
Foreign time deposits held for expansion .. $10,600,000

JONES & LAUGHLIN STEEL CORPORATION
Noncurrent Assets
Short-term securities, set aside for capital expenditures, at cost which approximates market $77,000,000

LIBBEY-OWENS-FORD GLASS COMPANY
Noncurrent Assets
Plant Improvement and Replacement Fund:
Cash (1966 — $66,580.63; 1965 — $23,597.40), U. S. Government and other marketable securities — at cost and accrued interest (approximate market) $50,705,150.20

QUAKER STATE OIL REFINING CORPORATION
Noncurrent Assets

Investments and other assets:	
Investments, at cost	$ 260,775
Temporary investment in short-term governments held for future property additions	994,618
Receivables and advances	1,717,812
	$2,973,205

GRUMMAN AIRCRAFT ENGINEERING CORPORATION
Noncurrent Assets

Fixed Assets (at cost):	
Buildings, machinery, equipment, etc.	$120,097,459
Less accumulated depreciation and amortization	53,090,015
	67,007,444
Land	2,364,017
Construction funds held by trustee (Note 3)	5,461,281
	$74,832,742

Note 3: In 1966, the Company entered into an agreement with the City of Savannah, Georgia, to lease a manufacturing plant now being constructed in Savannah. The City obtained the construction funds, which are held by a trustee, through the issuance of 5¼% industrial revenue bonds. Semi-annual rental payments of approximately $300,000 for twenty years commencing September 15, 1967, are required to provide for interest and bond retirement. The Company has the option to purchase the plant at any time for $1 plus an amount sufficient to pay or redeem all outstanding bonds. This transaction is considered to be, in effect, an installment purchase for which the liability has been recorded at an amount equal to the par value of the bonds.

Insurance Funds, Etc.

THE BORDEN COMPANY
Noncurrent Assets

Other Assets (at cost):	
Investments and advances	
Foreign subsidiary companies	$18,569,687
Domestic associated companies	4,026,916
Securities on deposit (Pursuant to Workmen's Compensation Laws, etc.)	1,569,288
Mortgages, receivables, etc.	13,062,474
Total Other Assets	$37,228,365

CRADDOCK-TERRY SHOE CORPORATION
Noncurrent Assets

Other Assets:	
Pension trust fund (Note 3)	$211,387
Cash value of life insurance policies (Maturity value $713,000)	133,977
Corporate stock, notes, real estate and sundry assets	56,854
Advances to officers and employees	49,480
	$451,698

Note 3: The funds and securities deposited with the trustee 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

Investments:	
U.S. Government and municipal securities deposited under state labor and insurance laws—at cost	$ 266,818
Associated foreign companies—principally at cost	4,959,175
Miscellaneous—at cost	156,826
	$5,382,819

LONE STAR CEMENT COMPANY
Noncurrent Assets

Special Funds and Other Investments:	
Self-insurance funds—cash and investments	$3,718,710
Other investments	5,365,010
	$9,083,720

GENERAL ELECTRIC COMPANY
Noncurrent Assets

Other assets	$251,104,258

Financial Summary

Other Assets, of $251.1 million, included:	(In millions)
Long-term receivables, less reserves	$ 96.9
Advances to vendors and distributors	7.8
Funds for employee benefit plans—per contra in other liabilities	24.2
Deferred charges, less reserve	24.6
Loans and advances to employees	8.2
All other	89.4
	$251.1

ST. JOSEPH LEAD COMPANY
Noncurrent Assets

Other Assets:	
Securities on deposit with Governmental agencies	$ 963,048
Cash and marketable securities—Fire Insurance Fund (see contra)	370,544
Total Other Assets	$1,333,592

Noncurrent Liabilities

Reserves:	
Injury claims and workmen's liability insurance	$ 607,012
Employees life insurance and retirement	237,690
Fire insurance (see contra)	370,544
Total Reserves	$1,215,246

Various Purposes

CITY STORES COMPANY
Noncurrent Assets

Investments and Other Assets:	
Investments in and net receivables from unconsolidated subsidiaries — Note A and page 8	$5,705,058
U. S. Government securities deposited as security under leases	187,585
Sundry investments and other items	910,140
	$6,802,783

COLONIAL STORES INCORPORATED
Noncurrent Assets

Sinking fund for retirement of cumulative preferred stock (Note 1)	$101,445

Note 1: *Preferred Stock*—Preferred stock is redeemable at par value and accrued dividends, plus premiums of $.50 a share if redemption is voluntary, or $.25 a share if redemption is for sinking fund purposes. Sinking fund requirements for 1967 and 1968 are satisfied.

EVANS PRODUCTS COMPANY
Noncurrent Assets

Other Assets	$24,044,000

Notes to Financial Statements
Other Assets—at Cost:

Excess of cost over net assets of businesses purchased	$11,564,000
Restricted cash	10,140,000
Sundry	2,340,000
	$24,044,000

The restricted cash represents loan proceeds available upon delivery of railcars committed for lease.

FREEPORT SULPHUR COMPANY
Noncurrent Assets

Investments—marketable securities segregated from current assets—equivalent to unliquidated balance of forward sales of proceeds from future production	$2,944,000

THE PITTSTON COMPANY
Noncurrent Assets

Segregated Currency and Cash Items and Change Funds Advanced by Customers—contra	$2,834,544
Noncurrent Liabilities	
Amounts Payable to Banks under Special Agreements and Liability for Change Funds Advanced by Customers—contra	$2,834,544

RAYONIER INCORPORATED
Noncurrent Assets

Insurance proceeds held for reinvestment	$920,000

Notes to Financial Statements

Insurance Claim: In August 1966, the New Westminster (British Columbia) sawmill was substantially destroyed by fire. The final proof of direct damage loss has not been filed but an advance cash payment has been received from the insurers and is held for reinvestment. A contra deferred credit is recorded pending the final settlement, which at this time cannot be predicted with any degree of accuracy. The company also carried business interruption insurance which covers the decrease in profits due to loss of production.

THE UNITED PIECE DYE WORKS
Noncurrent Assets

Cash collateral (Note 2)	$550,818

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

	Total	Current	Non-Current
*Note payable due January 2, 1968	$2,500,000	$ —	$2,500,000
Mortgage notes payable 5½% due 1972 (Charleston)	427,765	74,394	353,371
Notes payable 5½% due 1976 (Edenton)	362,819	20,045	342,774
Mortgage note payable 5½% due 1968 (Los Angeles)	36,532	19,981	16,551
Deed of Trust Notes 6% due 1974 (Edenton)	7,888	883	7,005
	$3,335,004	$115,303	$3,219,701

*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, 1966 collateral consists of $550,818 cash and $2,753,092 accounts receivable. Interest is computed at 12% per annum on the portion of the loan not secured by cash collateral.

CASH ADVANCES

Of the 600 survey companies, 47 disclosed 49 cash advances in their 1966 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

DRAVO CORPORATION
Current Assets:

Advances to joint ventures	$3,828,729

AMERICAN MAIZE-PRODUCTS COMPANY
Current Assets:

Cash	$2,841,569
Certificates of deposit	2,009,428
Accounts receivable, less allowance for doubtful accounts: 1966, $210,000; 1965, $225,000	9,432,705
Advances to tobacco growers	1,790,086

DOUGLAS AIRCRAFT COMPANY, INC.
Current Assets:

Inventories—Notes B and D	$401,868,103

Note B (in part): Inventories at November 30, including certain items to which the U. S. Government held title by reason of contract provisions, consisted of the following:

Fixed-price contracts and orders in progress	$578,917,342
Materials, spare parts, etc.	108,312,699
Advances under material purchase agreements	32,582,937
	719,812,978
Less advance and progress payments received	317,944,875
	$401,868,103

TABLE 3: CASH ADVANCES

Balance Sheet Description*	Current Asset	Noncurrent Asset	1966 Total
A: Advances to outside growers, packers, planters, producers	6	1	7
B: Advances to suppliers and subcontractors	3	2	5
C: Advances on purchase commitments for raw materials	2	1	3
D: Advances on purchase contracts	2	1	3
E: Advances on construction or purchase of fixed assets	1	—	1
F: Advances for leasehold improvements	—	1	1
G: Advances to employees for selling, travel, and other expenses	—	2	2
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	4	16	20
Total	21	28	49

Number of Companies showing:	
Advances in current assets	20
Advances in noncurrent assets	26
Advances in current assets *and* noncurrent assets	1
Total	47
No reference to advances	553
Total	600

*Refer to Company Appendix Section—A: 34, 116, 158, 299, 406, 527; B: 250, 345, 359, 586; C: 150, 196, 477; D: 439, 481, 487; E: 365; F: 99; G: 88, 173; H: 247, 369; I: 247; J: 64, 198, 274, 461; K: 19, 54, 134, 203, 433, 561.

HUDSON PULP & PAPER CORP.
Current Assets:

Cash	$ 1,479,555
Short-term investments	7,915,732
Receivables, less reserves	8,376,486
Inventories—Note A	11,821,757
Advances on pulpwood, prepaid expenses, etc.	579,441
Total Current Assets	$30,172,971

LOCKHEED AIRCRAFT CORPORATION
Current Assets:
Inventories (Note 2) $285,543,000

Note 2 (in part): Inventories are stated at the lower of cost or estimated realizable value and are summarized as follows:

Work in process	$666,121,000
Materials and spare parts	98,610,000
Advances to subcontractors	77,540,000
	842,271,000
Less advances and progress payments	556,728,000
	$285,543,000

MASONITE CORPORATION
Current Assets:
Advances, secured by mortgages on pulpwood $482,000

NEBRASKA CONSOLIDATED MILLS COMPANY
Current Assets:
Inventories (Note 2) $17,408,511

Note 2: *Inventories*—The composition of the inventories at June 26, 1966 and at June 27, 1965, was as follows:

Wheat and flour	$ 5,475,689
Mixed feed, ingredients and coarse grain	4,524,749
Containers, etc.	831,844
Farm animals, poultry and related inventories	5,532,516
	16,364,798
Advance on commodity purchases	1,043,713
	$17,408,511

Wheat and flour inventories are generally hedged to the extent practicable and are stated at market including adjustment to market of open contracts for purchases and sales. Inventories not hedged are priced at the lower of average cost or market.

RAYONIER INCORPORATED
Assets:

Cash	$ 4,162,318
Marketable securities and time deposits	7,989,769
Accounts receivable	40,017,348
Inventories, at the lower of cost or market:	
Raw materials, in-process and finished goods	22,194,388
Manufacturing and maintenance supplies	7,267,486
Advances to logging contractors	800,840
Total current assets	$82,432,149

STOKELY-VAN CAMP, INC.
Assets:

Cash	$ 3,909,266
Accounts receivable, less allowance for doubtful accounts, $145,000	20,898,198
Inventories, at lower of cost or market; approximately $7,800,000 (1966 and 1965) on the basis of last-in, first-out cost, and the remainder principally on the basis of average cost:	
Finished goods and in process	41,148,877
Raw materials and supplies	22,363,064
	63,511,941
Advances to growers and deferred costs	2,618,669
Prepaid expenses	1,984,597
Total Current Assets	$92,922,671

Noncurrent Assets

THE BENDIX CORPORATION
Investments and Miscellaneous Assets:

Investments in and advances to non-consolidated subsidiaries and associated companies:	
Investments—at cost (Note 2)	$17,000,970
Advances	3,260,417
Real estate not used in the business—at depreciated cost (less reserve, $75,000)	720,130
Sundry investments and receivables	2,170,453
Officers' and employees' receivables (principally travel advances)	1,262,342
Total Investments and Miscellaneous Assets	$24,414,312

BOND STORES, INCORPORATED
Noncurrent Assets
Deferred Charges:

Prepaid rent and advances to landlords on improvements to leased properties	$ 761,652
Unexpired insurance and other prepaid expenses	844,801
	$1,606,453

CALIFORNIA PACKING CORPORATION
Other Assets:

Advances to producers	$3,798,000
Intangible assets carried on books of Canadian subsidiary	3,329,000
Other miscellaneous receivables, deferred charges, etc.	1,581,000
	$8,708,000

CRADDOCK-TERRY SHOE CORPORATION
Noncurrent Assets
Advances to officers and employees $49,480

GENERAL MOTORS CORPORATION
Noncurrent Assets
Other investments and miscellaneous assets . $86,462,644
Notes to Financial Statements

Other Investments and Miscellaneous Assets: Other investments and miscellaneous assets at December 31, 1966 consisted of the following: loans and advances to steel suppliers, $6,866,255; receivables—noncurrent portion (less reserves), $49,615,997; other, $29,980,392.

THE RUBEROID CO.
Investment and Advances:
Advance on raw material supply contract . $1,500,000

ST. REGIS PAPER COMPANY
Other Assets:

Advance payments under land and timber purchase contracts	$14,352,783
Non-current receivables and miscellaneous investments	11,424,680
Total Other Assets	$25,777,463

TEXAS GULF SULPHUR COMPANY
Investments, Advances and Other Assets:

Securities of and advances to unconsolidated subsidiaries, less reserve for exploration costs, $1,312,630 in 1966 and $1,181,464 in 1965	$ 5,368,739
Advance payments relating to potash property	13,275,257
Notes receivable, advances and other assets	9,824,752
	$28,468,748

CASH DEPOSITS

Deposits of cash and/or securities for specific purposes were segregated in the balance sheets of 60 of the 600 survey companies. The presentations and descriptions of these deposits are summarized in Table 4. Of the 63 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, 18 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 1966.

TABLE 4: DEPOSITS—CASH AND/OR SECURITIES

Balance Sheet Description*	Current Asset	Noncurrent Asset	1966 Total
A: Deposit for "insurance"	—	5	5
B: Deposit with mutual insurance company	—	2	2
C: Deposit with insurance company	—	1	1
D: Deposit with "public agencies"	—	4	4
E: Deposit for dividend payments	1	—	1
F: Deposit for fixed asset commitment	—	1	1
G: Deposit for purchase commitment	2	—	2
H: Deposit with lessors	—	3	3
I: "Deposits" — not identified	10	31	41
J: Other types of deposits	—	3	3
Total	13	50	63
Number of Companies with:			
Deposits in current assets			12
Deposits in noncurrent assets			47
Deposits in current assets *and* noncurrent assets			1
Total			60
No reference to deposits			540
Total			600

*Refer to Company Appendix Section—A: 42, 100, 190, 445, 485; B: 409, 460; C: 244; D: 24, 159, 244, 480; E: 150; F: 129; G: 128, 487; H: 140, 192, 288; I: 54, 122, 272, 338, 426, 534; J: 192, 218, 284.

Current Assets

AMETEK, INC.
Current Assets:
Deposits and prepaid expenses $672,801

ANCHOR POST PRODUCTS, INC.
Current Assets:
Miscellaneous deposits and advances $23,196

CENTRAL SOYA COMPANY, INC.
Current Assets:
Margin deposits on commodity futures contracts $5,848,959

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

GRUMMAN AIRCRAFT ENGINEERING CORPORATION
Current Assets:
Prepaid expenses and miscellaneous deposits $3,456,707

ELI LILLY AND COMPANY
Current Assets:
Claims, deposits, and other accounts $3,836,588

PEDEN IRON & STEEL CO.
Current Assets:
Prepaid Expenses and Deposits $41,754

Noncurrent Assets

AMERICAN BANK NOTE COMPANY
Other Assets:
Deposits with governmental agencies $169,600
Investment in foreign associated company, at cost 700,000
Prepaid expenses 352,800

THE BORDEN COMPANY
Other Assets (at cost):
Investments and advances
Foreign subsidiary companies $18,569,687
Domestic associated companies 4,026,916
Securities on deposit (Pursuant to Workmen's Compensation Laws, etc.) 1,569,288
Mortgages, receivables, etc. 13,062,474
Total Other Assets $37,228,365

DETROIT STEEL CORPORATION
Other Assets:
Marketable securities — at cost (market prices approximated $28,457,000 in 1966 and $40,889,000 in 1965) ...... $ 9,935,000
Insurance deposits 227,000
Miscellaneous investments and accounts . 216,000
$10,378,000

DIANA STORES CORPORATION
Other Assets:
Rental and service deposits and other deferred charges $271,333
Notes receivable from officers, arising from purchases of capital stock (secured by pledge of such stock) 99,863
Sundry 220,813
$592,009

GENERAL CABLE CORPORATION

Prepaid Expenses and Deferred Charges:

Prepaid insurance premiums and premium deposits with insurance companies	$ 627,193
Other	587,966
	1,215,159

Investments:

U.S. Government and municipal securities deposited under state labor and insurance laws—at cost	266,818
Associated foreign companies—principally at cost	4,959,175
Miscellaneous—at cost	156,826
	$5,382,819

HEWLETT-PACKARD COMPANY

Noncurrent Assets

Deposit on leasehold and other	$1,450,000

CENTURY ELECTRIC COMPANY

Other Assets:

Municipal bonds—at cost and accrued interest	$ 728,533
Prepaid insurance, sundry receivables, and other accounts	340,714
Deposit on potential new plant location	318,241
	$1,387,488

RAYBESTOS-MANHATTAN, INC.

Sundry Receivables—Noncurrent:

Deposits with mutual fire insurance company	$273,099
Notes and accounts receivable	99,984
Total Sundry Receivables—Noncurrent	$373,083

ST. JOSEPH LEAD COMPANY

Other Assets:

Securities on deposit with Governmental agencies	$ 963,048
Cash and marketable securities—Fire Insurance Fund (see contra)	370,544
Total Other Assets	$1,333,592

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 1966 and 1955 in Table 5, according to the various bases of valuation.

TABLE 5: MARKETABLE SECURITIES—CURRENT ASSETS

	1966			1955		
		II			II	
Basis of Valuation*	I Government	Nongovernment	Total	I Government	Nongovernment	Total
A: Cost—market value not stated	12	38	50	81	28	109
B: Cost—stated as approximate market	44	140	184	35	22	57
C: Cost—plus accrued interest	4	13	17			
D: Cost—plus accrued interest, which approximates market	8	26	34	66	21	87
E: Cost—market value stated below cost	6	9	15	24	15	39
F: Cost—market value stated above cost	1	19	20	8	23	31
G: Amortized cost, which approximates market	1	9	10	N/C	N/C	N/C
H: Lower of cost or market	3	11	14	6	7	13
I: Market value or approximate market value	2	4	6	8	3	11
J: Other bases	2	6	8	19	13	32
	83	275	358	247	132	379
K: Basis of valuation not set forth	11	50	61	61	17	78
Total	94	325	419	308	149	457
Number of Companies presenting:						
Government securities in current assets	32	—	32	216	—	216
Government and nongovernment securities in current assets	61	61	61	81	81	81
Nongovernment securities in current assets	—	261	261	—	59	59
Total	93	322	354	297	140	356
No marketable securities in current assets			246			244
Total			600			600

*Refer to Company Appendix Section—I: Government Securities—A: 104, 381, 564; B: 89, 171, 488; C: 275, 284, 419; D: 231, 338, 408; E: 24, 145, 596; F: 370; G: 240; H: 100, 443, 454; I: 136, 363; J: 397, 493; K: 27, 279, 399. II: Nongovernment Securities—A: 232, 433, 526; B: 9, 463, 544; C: 28, 101, 308; D: 11, 379, 559; E: 77, 300, 445; F: 280, 365, 369; G: 239, 329, 553; H: 120, 362, 518; I: 55, 93, 431; J: 222; K: 151, 358, 567.
N/C—Not compiled.

The use of "cost" basis for 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 "plus accrued interest, which approximates market." The number of companies indicating that the market value is above or below cost is declining. Of the total number of companies using the cost basis, over 75 per cent referred also to the relative market values.

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. Thirty-six companies listed marketable securities among the noncurrent assets.

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

Examples—Marketable Securities

The following examples, taken from the 1966 reports, show the valuation of marketable securities as presented in the current asset section of the balance sheets surveyed.

Cost—Market Value Not Stated

BRIGGS & STRATTON CORPORATION
Current Assets:

Cash	$3,339,539
Certificates of deposit, including accrued interest	8,140,555
United States Government securities, at cost	7,861,482

THE MAY DEPARTMENT STORES COMPANY
Current Assets:

Cash	$10,575,404
United States Government and other marketable securities—at cost	4,399,187

Cost—Market Value Stated Below Cost

BEECH-NUT LIFE SAVERS, INC.
Current Assets:

Cash	$7,942,128
Marketable securities—at cost (market value 1966, $8,543,830)	8,580,960

EASTMAN KODAK COMPANY
Current Assets:

	(In thousands)
Cash	$ 24,968
Marketable securities at cost (market value $424,300,000)	426,202

Cost—Stated as Approximate Market

NATIONAL DISTILLERS AND CHEMICAL CORPORATION
Current Assets:

Cash	$43,230,000
U. S. Government and other short-term investments — at cost which approximates market	38,717,000

Cost Plus Accrued Interest

MOUNT VERNON MILLS, INC.
Current Assets:

Cash	$1,383,828
Short-term marketable securities, at cost plus accrued interest	1,241,430

Cost Plus Accrued Interest, Which Approximates Market

CELANESE CORPORATION
Current Assets:

	(In thousands of dollars)
Cash	$82,780
Marketable securities, at cost and accrued interest (approximates market)	38,627

Cost—Market Value Stated Above Cost

BEATRICE FOODS CO.
Current Assets:

Cash (including certificates of deposit)	$23,070,062.94
Marketable securities, at cost (market value $3,100,000.00)	1,480,567.24

RITTER PFAUDLER CORPORATION
Current Assets:

Cash	$5,942,000
Marketable securities at cost (market value 1966—$2,129,000)	1,605,000

Amortized Cost, Which Approximates Market

BRISTOL-MYERS COMPANY
Current Assets:

Cash	$11,252,943
Marketable securities (at amortized cost which approximates market)	1,964,106

ELECTROLUX CORPORATION
Current Assets:

Cash	$6,354,946
Marketable securities, at amortized cost which approximates market	9,643,306

Basis of Valuation Not Set Forth

ARMSTRONG CORK COMPANY
Current Assets:

Cash	$ 8,770,000
U. S. Treasury and other securities	26,664,000

McDONNELL AIRCRAFT CORPORATION
Current Assets:

Cash	$ 2,316,778
Marketable securities	43,510,186

Cost, Not in Excess of Market

NATIONAL DAIRY PRODUCTS CORPORATION

Current Assets:	
Cash	$18,838,195
U. S. Government and other short-term securities at cost, not in excess of market	50,628,025

Lower of Cost or Market

THE BORDEN COMPANY

Current Assets:	
Cash	$48,898,044
U.S. Government and other marketable securities (At lower of cost or market)	6,334,637

OSCAR MAYER & CO. INC.

Current Assets:	
Cash	$ 5,668,588
Marketable securities, at lower of cost or market	12,460,267

Approximate Market Value

CHICAGO PNEUMATIC TOOL COMPANY

Current Assets:	
Cash	$3,395,229
Marketable securities, at approximate market value	4,625,633

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 91 survey companies disclosed 161 special features applicable to accounts receivable as follows:

Special Features of Trade Receivables

Special Feature*	Number of Presentations 1966	1965
A: Assigned receivables	13	15
B: Discounted	22	18
C: Pledged	12	10
D: Used as security on collateral for debt	14	12
E: Contingent liability	48	36
F: Factored or hypothecated	2	1
G: Sold	46	38
H: Secured by collateral or otherwise	4	5
Total	161	135

*Refer to Company Appendix Section—A: 109, 179, 283, 360, 459, 515; B: 90, 119, 128, 289, 383, 452; C: 196, 212, 237, 284, 560, 582; D: 148, 218, 251, 337, 515, 562; E: 73, 141, 210, 247, 288, 385; F: 102, 283; G: 71, 188, 226, 352, 474, 578; H: 213, 255, 279, 550.

TABLE 6: TRADE RECEIVABLES†

Current Asset Description*	1966 Balance Sheet	1966 Notes	1966 Elsewhere in Report	1955
A: Accounts receivable or Receivables	441	1	—	439
B: Accounts and notes receivable combined	157	—	—	153
C: Notes receivable	9	—	—	18
D: Installment accounts receivable	15	5	3	14
E: Installment notes receivable	5	1	—	4
F: Trade acceptances—bills—drafts	2	—	—	14
G: Employees' receivables	2	1	—	2
H: Deferred receivables	—	—	5	5
I: Contracts receivable	11	—	—	11
J: Equity in (installment) accounts sold	4	1	2	5
K: Claims receivable	7	—	—	2
L: Reimbursable expenditures	2	—	—	1
M: Various other	1	1	1	17
Total	656	10	11	685

†One company in 1955 and one in 1966 presented no trade receivables in current assets.
*Refer to Company Appendix Section—A: 111, 124, 239, 336, 446, 566; B: 53, 115, 263, 313, 468, 582; C: 125, 199, 213, 490, 574, 591; D: 33, 211, 221, 386, 474, 489; E: 16, 109, 222, 279, 316, 401; F: 15, 26; G: 242, 505, 572; H: 68, 226, 260, 352, 361; I: 64, 191, 231, 243, 377, 410; J: 37, 226, 268, 386, 474, 489; K: 11, 48, 198, 220, 268, 469; L: 246, 415; M: 16, 64, 489.

The number of special features presented in the 1966 reports has been compared in the tabulation above with similar information for 1965, revealing an increasing trend 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 1966 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, and in the examples of terminology for uncollectible accounts to be found later in this section.

Accounts Receivable or Receivables

THE AMALGAMATED SUGAR COMPANY

Current Assets:	
Cash	$ 345,000
Short-term securities at cost (approximates market)	11,875,000
Accounts receivable	12,631,000
Inventories, at lower of average cost or market:	
Refined sugar	7,227,000
Supplies and by-products	5,294,000
Advance processing and refining costs	2,493,000
Prepaid expenses and other current assets	410,000
Total Current Assets	$40,275,000

MIRRO ALUMINUM COMPANY

Current Assets:	
Cash	$ 1,328,875
U. S. Treasury bills, at cost	1,986,527
Accounts receivable, trade, less allowance of $75,000 for discounts and losses	4,945,373
Inventories, priced at the lower of cost (first-in, first-out) or market—	
Finished goods	5,193,770
Work in process	3,483,537
Raw materials and supplies	7,158,260
Total inventories	$15,835,567
Prepaid expenses and other assets	383,219
Total Current Assets	$24,479,561

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

CHOCK FULL O'NUTS CORPORATION

Current Assets:	
Cash	$ 4,016,199
Receivables, less allowance for doubtful accounts and discounts	3,912,737
Inventories, at lower of cost (generally average) or market	3,165,657
Prepaid expenses	196,190
Total Current Assets	$11,290,783

DIANA STORES CORPORATION

Current Assets:	
Cash	$ 3,661,111
Trade accounts receivable, less allowance of $155,435 for doubtful accounts and deferred service charges ($149,877 in 1965)	5,107,346
Other accounts receivable	1,870,633
Merchandise inventories, at lower of cost or market	22,818,974
Unexpired insurance premiums and other prepayments	613,640
Total Current Assets	$34,071,704

SQUARE D COMPANY

Current Assets:	
Cash	$ 7,838,992
Marketable securities—at cost (approximates market)	20,252,399
Receivables, less allowances for losses, adjustments and discounts (1966—$325,000; 1965—$325,000)	25,088,605
Inventories (Note B)	54,194,319
Insurance and other expenses paid in advance	544,580
Total Current Assets	$107,918,895

UTAH-IDAHO SUGAR COMPANY

Current Assets:	
Cash	$ 1,405,860
Trade and other receivables, less allowances for doubtful accounts, freight, and discounts of $123,464 in 1966 and $175,166 in 1965	4,957,116
Inventories—at lower of cost or market—Note B	35,142,649
Prepaid expenses	330,625
Total Current Assets	$41,836,250

Accounts and Notes Receivable

THE DOW CHEMICAL COMPANY

Current Assets:	
Cash	$ 17,448,153
Marketable securities (at cost, less reserve) and time deposits	109,771,247
Accounts and notes receivable:	
Trade, less allowance for doubtful accounts	195,642,239
Miscellaneous	59,218,552
Inventories—at lower of cost or market	195,245,831
	$577,326,022

THE KENDALL COMPANY

Current Assets:	
Cash	$ 4,838,000
Accounts and notes receivable:	
Trade (less allowance for doubtful balances and discounts — $430,000 in 1966, $400,000 in 1965)	25,644,000

PULLMAN INCORPORATED

Current Assets:	
Cash	$ 29,916,807
Marketable securities, at cost which approximates market value	482,984
Accounts and notes receivable (including for 1966, instalments of $66,159,742 due after one year), less allowance for doubtful items (1966 — $2,844,318; 1965 — $2,547,250) and unearned finance charges	186,299,537
Inventories, at lower of cost or market (including $7,177,768 for 1966 on a last-in, first-out basis)—	
Finished goods	8,033,567
Costs accumulated on uncompleted contracts and work in process	71,762,537
Raw materials, service parts and operating supplies	26,904,760
Total Inventories	106,700,864
Total Current Assets	$323,400,192

SUNRAY DX OIL COMPANY

Current Assets:	
Cash and time deposits	$ 41,335,000
U. S. Government securities, at cost approximating market	5,790,000
Accounts and notes receivable, less reserve	81,386,000
Crude oil and refined products, principally at the lower of cost or market	53,406,000
Materials and supplies, at or below cost	6,397,000
Total Current Assets	$188,314,000

Notes Receivable

J. I. CASE COMPANY

Current Assets:	
Cash	$ 1,755,037
Notes and accounts receivable	
Customers—	
Notes	12,744,635
Accounts	9,197,342
Miscellaneous	1,175,945
Allowance for doubtful receivables	(1,000,000)
	22,117,922
Due from nonconsolidated subsidiaries	
J. I. Case Credit Corporation	6,982,085
French subsidiaries	3,093,512
Inventories (Note 4)	97,649,239
Prepaid expenses	470,293
Total Current Assets (Note 3)	$132,068,088

TIDEWATER OIL COMPANY

Current Assets:	
Cash	$ 26,777,000
Short-term marketable securities — at cost, which approximates market	74,000
Notes receivable ($139,000,000 received in January 1967)	177,526,000
Accounts receivable, less estimated doubtful accounts: 1966 — $661,000; 1965 — $1,351,000	99,248,000
Inventories	
Crude oil and products—at cost (principally on last-in, first-out basis), which is substantially below market	21,417,000
Materials and supplies, at or below cost	6,716,000
Prepaid expenses	6,669,000

WHITE MOTOR CORPORATION

Current Assets:	
Cash	$ 18,441,237
Trade receivables	
Accounts	50,697,280
Notes and installment contracts	13,122,606
	63,819,886
Less allowance for doubtful receivables	2,731,000
	61,088,886
Inventories—at lower of cost (first-in, first-out) or market—Note B	
Finished goods	111,918,824
Raw materials, work in process, and supplies	111,953,100
	223,871,924
Prepaid expenses	969,195
Total Current Assets	$304,371,242

Installment Accounts Receivable

MONTGOMERY WARD & CO., INCORPORATED

Current Assets:	
Cash	$ 30,502,316
Receivables, including equity in accounts sold, less reserves for doubtful accounts and unearned carrying charge income	231,505,046
Merchandise inventories, at the lower of cost or market	400,205,598
Prepaid catalog costs, supplies, etc.	42,022,500
Total Current Assets	$704,235,460

Notes to Financial Statements

Receivables:	
Total Receivables (principally customer installment accounts	$913,406,710
Less—Reserves for doubtful accounts and unearned carrying charges	20,346,636
	$893,060,074
Less—Accounts sold to credit subsidiary (net of amount withheld pending collection)	661,555,028
	$231,505,046

THE NATIONAL CASH REGISTER COMPANY

Current Assets:	
Cash	$ 13,393,957
Marketable securities at cost (approximate market)	10,351,387
Receivables	117,308,064
Inventories	159,479,675
Prepaid expenses	2,507,189
	$303,040,272

Schedules Supporting Financial Statements

Receivables:	
Current accounts	$ 71,322,723
Installment accounts	47,659,214
	118,981,937
Less—provision for estimated doubtful accounts	1,673,873
	$117,308,064

SONOTONE CORPORATION

Current Assets:	
Cash and time deposits	$2,418,419
Accounts Receivable:	
Regular accounts	1,898,728
Instalment accounts	1,387,300
Other	296,464
	3,582,492
Allowance for possible losses in collection	175,000
	$3,407,492

SNAP-ON TOOLS CORPORATION

Current Assets:

Cash	$ 1,594,711
Accounts receivable	
Customers, less allowance for doubtful receivables	3,826,975
Installment receivables (including amounts maturing after one year) less unearned finance charges and allowance for losses	3,850,515
Salesmen, dealers and branch managers	1,571,781
Other	119,848
Inventories—at the lower of cost or market	
Finished stock	10,559,121
Work in process	3,688,314
Raw materials	2,544,922
Prepaid expenses	558,982
Total Current Assets	$28,315,169

Installment Notes Receivable

FAIRCHILD HILLER CORPORATION

Current Assets:

Cash	$ 7,144,216
Marketable securities (Note 1)	1
Accounts and notes receivable:	
Government contracts (including unbilled items) (Note 2)	25,218,655
Commercial (including installment notes due after one year of $662,350 and $494,959)	6,884,041
Inventories (Note 3):	
Government contracts (after deducting amounts applied to billings and progress payments of $14,944,501 and $10,230,134)	29,360,830
Commercial programs	36,940,754
Mortgage notes receivable (Note 4)	340,000
Prepaid expenses, etc.	1,129,154
Total Current Assets	$107,017,651

JIM WALTER CORPORATION

Assets:

Cash	$ 20,209,345
Marketable securities, at cost (market value $733,700)	841,410
Instalment notes receivable (Notes 3 and 6)	204,891,167
Less—	
Provision for possible losses	(2,171,732)
Unearned time charges	(83,730,943)
	118,988,492
Trade receivables, less $1,841,019 provision for possible losses	24,425,766
Other notes and accounts receivable	5,013,730

Trade Acceptances—Bills—Drafts

AMERICAN CAN COMPANY

Assets:

	(In thousands)
Cash and temporary cash investments	$ 33,452
Accounts and bills receivable, less allowances	128,545
Inventories (Note 2)	230,978
Total Current Assets	$392,975

ALLIED MILLS, INC.

Current Assets:

Cash	$ 2,083,414
Accounts, drafts and notes receivable	15,364,957
Less allowance for doubtful accounts	1,265,783
	14,099,174
Inventories, valued at lower of average cost or market:	
Finished and semi-finished products	9,789,521
Raw materials	15,947,740
Bags and supplies	495,920
	26,233,181
Prepaid insurance, etc.	648,506
Total Current Assets	$43,064,275

Employees' Receivables

GENERAL BOX COMPANY

Current Assets:

Cash	$ 280,077
Receivables—	
Trade, less $74,500 ($36,000 in 1965) allowance for doubtful accounts	3,358,731
Employees	53,862
Other	82,864
Inventories, at the lower of average cost or market	2,749,387
Prepaid expenses and other assets	275,272
Property under construction to be sold and leased back (Note 4)	415,958
Total Current Assets	$7,216,151

UNITED WHELAN CORPORATION

Current Assets:

Cash	$ 2,861,012
Marketable securities	12,492
Accounts and notes receivable (Note 3)	8,420,316
Inventories, at cost (first-in, first-out) or market, whichever is lower—primarily merchandise held for resale	5,532,309
Prepaid expenses	597,641
Total Current Assets	$17,423,770

Note 3 (in part): Accounts and notes receivable due within one year comprise:

Trade receivables	$6,549,806
Due from Volume Merchandise, Inc. (Note 2)	1,185,297
Due from subsidiaries and affiliates of Volume Merchandise, Inc. (Note 2)	133,800
Notes receivable for stock sold under Employees Stock Purchase Plans (Note 8)	604,553
Advances to employees	39,772
Other	380,760
	$8,893,988
Allowance for uncollectible amounts	473,672
	$8,420,316

Contracts Receivable

EVANS PRODUCTS COMPANY

Current Assets:

Cash	$ 3,620,000
Receivables, less allowance ($625,000 in 1966) for doubtful accounts	25,951,000
Contracts receivable	5,382,000
Inventories	65,236,000
Prepaid expenses and advances	2,273,000
Total Current Assets	$102,462,000

BATH IRON WORKS CORPORATION

Current Assets:

Cash	$ 727,566
Receivables—	
Shipbuilding contracts, including amounts withheld by the Department of the Navy in accordance with contract provisions—$5,919,371 in 1966 and $5,415,666 in 1965	8,042,325
Federal income tax refund	2,011,000
Other	3,204,553
Excess of expenditures on shipbuilding contracts plus estimated earnings and less estimated losses recorded thereon over billings (Note 1)	8,444,584
Materials, supplies and miscellaneous work in process, at the lower of cost (first in—first out) or market	5,874,936
Expenses paid in advance	181,961
Total Current Assets	$28,486,925

Deferred Receivables

FEDERATED DEPARTMENT STORES, INC.

Current Assets:

Cash	$ 54,002,382
Accounts receivable (see page 11)	282,973,780
Merchandise inventories (Note 2)	153,785,919
Supplies and prepaid expenses	5,638,548
Total Current Assets	$496,400,629

Schedules Supporting Financial Statements

Accounts Receivable:

Due from customers:	
Thirty-day accounts	$ 88,834,691
Deferred payment accounts	196,501,643
Other accounts receivable	8,019,404
	$293,355,738
Less:	
Provision for possible future losses and deferred service charges	$ 10,335,021
Accounts sold without recourse net of amounts due from purchasers	46,937
	$ 10,381,958
	$282,973,780

THE MAY DEPARTMENT STORES COMPANY

Current Assets:

Accounts and notes receivable	$215,986,795

Schedules Supporting Financial Statements

Accounts and Notes Receivable:

Due from customers	
30 day charge accounts	$ 39,069,337
Deferred payment accounts	174,371,658
Other accounts and notes receivable	11,318,155
	$224,759,150
Less allowance for	
Doubtful accounts	$ 8,022,797
Deferred carrying charges	749,558
	$ 8,772,355
	$215,986,795

Equity in Installment Accounts Sold

AMERICAN OPTICAL COMPANY

Current Assets:

Cash	$ 2,574,532
Marketable securities, at cost (same as market) and accrued interest	2,303,096
Notes and accounts receivable, including $475,557 equity in $4,755,574 of deferred payment contracts sold to banks in 1966, less allowance for possible losses	23,927,883
Inventories at the lower of cost (substantially "first-in, first-out") or market:	
Finished goods	19,827,182
Work in process	18,778,814
Raw materials	6,326,202
Total inventories	44,932,198
Prepaid expenses	380,860
Total Current Assets	$74,118,569

RITTER PFAUDLER CORPORATION

Current Assets:

Cash	$ 5,942,000
Marketable securities at cost (market value 1966—$2,129,000)	1,605,000
Accounts, notes and installment receivables net of deferred income and allowance for doubtful accounts	39,199,000
Inventories	40,086,000
Prepaid expenses	1,167,000
Total Current Assets	$87,999,000

Notes to Financial Statements

Accounts, Notes and Installment Receivables:

Included in this caption are:

Accounts receivable	$30,483,000
Notes receivable and installment contracts	11,524,000
Equity in installment contracts sold	850,000
	42,857,000
Less—	
Deferred income on installment contracts and other receivables	2,819,000
Allowance for doubtful accounts	839,000
Total	$39,199,000

Amounts due after one year included in receivables totaled $7,902,000 at December 31, 1966.

Claims Receivable

ELI LILLY AND COMPANY

Current Assets:

Cash		$ 12,047,007
United States government securities—at cost (approximately market)		35,635,727
Trade accounts receivable, after deducting allowances of $1,342,001 (1966) and $1,232,090 (1965) for cash discounts and possible losses		39,706,608
Claims, deposits, and other accounts		3,836,588
Inventories—at the lower of cost (generally first-in, first-out method) or market:		
Finished products		$ 25,548,606
Work in process		23,589,521
Raw materials		31,434,771
Supplies		3,894,816
		$ 84,467,705
Total Current Assets		$175,693,635

REYNOLDS METALS COMPANY

Current Assets:

Cash, including certificates of deposit ...	$ 52,941,211
Marketable securities—at cost (approximate market) ...	26,035,920
Receivables:	
Customers, less allowances for losses .	120,570,352
Unconsolidated subsidiaries and other associated and related companies ..	7,767,610
Other notes, accounts, and claims ...	10,438,608
	$138,776,570
Prepaid expenses ...	12,113,552
Inventories of products, materials, and operating supplies—Note C ...	205,325,536
Total Current Assets ...	$435,192,789

Accounts Receivable Assigned

CITY STORES COMPANY

Current Assets:

Cash ...	$11,400,516
Accounts receivable—Note B ...	35,914,816
Merchandise inventories—Note C ...	41,278,130
Supplies and prepaid expenses ...	4,046,487
Total Current Assets ...	$92,639,949

Note B: *Accounts Receivable*—The Company has agreements with various banks which provide, in effect, for a form of revolving credit under which accounts receivable are assigned to the banks, and the banks remit amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances representing the Company's equity. Under the agreements, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

The accounts receivable are summarized as follows:

Accounts receivable customers and others—after deducting $27,351,239 and $9,236,653, respectively, received on account of the sale of a portion of installment receivables ...		$52,937,962
Less:		
Accounts receivable assigned net of equity of $1,557,116 and $3,269,623, respectively ...	14,014,045	
Allowances for doubtful accounts ...	3,009,101	
		17,023,146
		$35,914,816

DOUGLAS AIRCRAFT COMPANY, INC.

Current Assets:

Cash ...	$ 15,805,712
Marketable securities ...	6,000,000
Accounts receivable from U.S. Government, including unreimbursed costs and fees under cost-reimbursement type contracts—Notes B and D ...	44,733,218
Other trade receivables—Notes C and D	23,503,450
Refundable federal income taxes—Note E ...	12,315,521
Inventories—Notes B and D ...	401,868,103
Prepaid expenses ...	14,071,132
Total Current Assets ...	$518,297,136

Note C (in part): The Airline Financing 5¼% Secured Notes, due 1974, are secured by assignment of trade receivables ($10,204,632 at November 30, 1966) and certain lease payments receivable to 1974 which aggregate $7,500,000 from November 30, 1966. The principal payments on the Notes in fiscal 1967 will aggregate $2,628,997, with varying amounts due in succeeding years.

Note D (in part): *Bank Loans and Credit Agreements*—The Company has pledged or assigned as collateral for $65,124,132 notes payable to banks (1) all receivables and inventories, aggregating approximately $61,500,000 at November 30, 1966, relating to U. S. Government contracts other than those with National Aeronautics and Space Administration, and (2) certain trade receivables ($29,623,934 at November 30, 1966) and certain aircraft lease payments receivable to 1971, which aggregate $13,983,229 from November 30, 1966.

Notes Receivable Discounted

E. W. BLISS COMPANY

Notes to Financial Statements

Note 4: *Commitments and Contingencies*—At December 31, 1966, the Company was lessee of buildings and equipment with annual rentals approximating $540,000 through 1971 and amounts thereafter which are not considered material.

The Company was contingently liable for $488,000 of customers' notes discounted at December 31, 1966.

Accounts Receivable Pledged

WARD FOODS, INC.

Current Assets:

Cash ...	$ 4,162,954
Notes and accounts receivable, less allowance for doubtful accounts, 1966, $786,713; 1965, $233,556 ...	24,424,544
Inventories, at lower of cost (average or first-in, first-out) or market:	
Raw materials and supplies ...	7,962,287
Finished products and work in process ...	13,469,125
Prepaid insurance, taxes, etc. ...	349,189
Total Current Assets ...	$50,368,099

Notes to Financial Statements

Assets Pledged as of December 31, 1966:

Pledged as collateral for a portion of long-term debt:	
Accounts receivable ...	$ 500,904
Investments (at cost) ...	2,025,423
Property and plant (at depreciated value) ...	5,390,531
Pledged as collateral for a portion of notes, drafts and acceptances payable:	
Inventory and receivables ...	2,871,154
Inventory and/or receivables and/or cash pledged as collateral for drafts and acceptances payable which were originally collateralized by documents and trust receipts ...	1,372,471

In addition to the above, the companies had pledged as collateral for a portion of their long-term debt the capital stock of, and notes receivable from, certain consolidated subsidiaries in which the company's share of related net assets and notes payable at December 31, 1966 was approximately $25,600,000.

Receivables as Collateral or Security for Debt

CUDAHY COMPANY

Current Assets:

Cash ...	$ 870,962
Receivables, less reserve—including $12,462,918 in 1966 and $10,714,556 in 1965 assigned as collateral under provisions of the credit agreements described in Note 2 ...	13,210,552
Inventories, at the lower of first-in, first-out or market—including $13,362,475 in 1966 and $7,744,237 in 1965 to which a security interest has been granted as collateral under provisions of the credit agreements described in Note 2 ...	16,544,088
Prepaid expenses ...	668,398
Total Current Assets ...	$31,294,000

Note 2 (in part): *Agreements With Banks, First Mortgage Bonds*—The Company has 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 in 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 its investments in subsidiaries. Maximum borrowings at any time are limited to 75% of customers' accounts receivable not more than sixty days past due and 60% of designated inventories. The loans bear interest at ½% over the prime bank interest rate and are due on demand.

Installment Receivables Sold

ADDRESSOGRAPH MULTIGRAPH CORPORATION
Notes to Financial Statements

Note 1: As of July 31, 1966, installment accounts receivable and certain lease obligations of customers were sold, without recourse, to banks for the purpose of enabling the Company to adopt the installment method of reporting income for federal tax purposes. Under this procedure, profit on future installment sales and certain lease obligations will continue to be recognized currently in financial statements but such profits will not become taxable until collections are made. The net proceeds of $16,248,000 from this sale were used to pay current liabilities and maintain cash balances.

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.

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

The following tabulation summarizes the 163 presentations of noncurrent receivables presented by the survey companies in their annual reports for 1966, and is supplemented by selected examples.

Noncurrent Receivables—1966

Noncurrent Asset Description*	Number of Presentations
A: Accounts receivable or Receivables	37
B: Long-term receivables	40
C: Notes receivable	35
D: Notes and accounts receivable combined	20
E: Employees' receivables	17
F: Deferred receivables	4
G: Contracts receivable	7
H: Trade acceptances—bills—drafts	1
I: Claims receivable	1
J: Various other	1
Total	163

*Refer to Company Appendix Section—A: 32, 48, 250, 319, 403, 586; B: 61, 151, 247, 382, 418, 468; C: 97, 137, 252, 337, 479, 539; D: 60, 130, 276, 330, 445, 555; E: 29, 136, 255, 381, 449, 524; F: 21, 26, 65, 307; G: 66, 158, 213, 218, 377, 561; H: 26; I: 35; J: 119.

In Noncurrent Asset Section

Accounts Receivable or Receivables

GENERAL DYNAMICS CORPORATION
Other Assets:

Equity in net assets of unconsolidated subsidiaries (Note 5)	$13,018,123
Receivables not currently due and other assets	24,459,928
	$37,478,051

[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.

WESTINGHOUSE ELECTRIC CORPORATION
Other Assets:

Purchase price of going businesses acquired in excess of their net tangible assets (Note 3)	$ 45,094,269
Non-current customer receivables, less allowance for doubtful accounts	50,885,237
Long term contracts in process	2,749,022
Progress payments to sub-contractors	1,198,333
Mortgages receivable	9,825,690
Miscellaneous	12,033,573
	$121,786,124

Long-term Receivables

RAYTHEON COMPANY
Other Assets:

Patents, processes, and other assets less accumulated amortization: 1966, $1,678,738; 1965, $1,214,996	$3,211,834
Deferred charges and long-term receivables	3,655,134

STANDARD OIL COMPANY OF CALIFORNIA

Long-Term Receivables, Less Reserve	$42,958,000

Notes and Accounts Receivable

CANNON MILLS COMPANY
Other Receivables and Investments:

Notes and accounts receivable	$1,729,833
Investments in capital stocks of other corporations (at cost or less)	2,406,400
Total Other Receivables and Investments	$4,136,233

PHILADELPHIA AND READING CORPORATION
Other Assets:

Intangibles (Note 2)	$ 8,376,000
Non-current notes and accounts receivable	7,817,000
Sundry other assets	1,588,000
Total Other Assets	$17,781,000

Notes Receivable

DRAVO CORPORATION
Investments and Other Assets:

Notes receivable—trade, due after one year	$ 811,084
Notes from officers and employees for common stock purchases	627,180
Miscellaneous	365,041
Total Investments and Other Assets	$1,803,305

R. G. LeTOURNEAU, INC.
Other Assets:

Construction and rental equipment, at cost, net of depreciation of $1,402,000 in 1966 and $728,000 in 1965 (Notes 2 and 4)	$4,057,000
Portion of notes receivable due beyond one year	724,000
Portion of receivable from stockholder due beyond one year (Note 8)	259,000
Deposits and other	152,000
Unamortized debenture issue expense	119,000
	$5,311,000

Employees' Receivables

McCORMICK & COMPANY, INCORPORATED
Other Assets:

Receivables from employees, etc. (group life insurance and capital stock pledged as collateral)	$338,874
Other	325,859
Total Other Assets	$664,733

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

Notes receivable from officers and employees (secured by H. K. Porter Company, Inc. common stock, 8,640 shares in 1966)	$ 223,948
Miscellaneous investments	1,586,054
Total Other Assets	$1,810,002

Deferred Receivables

AMERICAN CAN COMPANY
Noncurrent Assets

Deferred accounts and bills receivable	$1,665,000

ARVIN INDUSTRIES, INC.
Other Assets:

Special financing accounts receivable	$284,700
Investments and sundry receivables—Note A	568,648
	$853,348

Contracts Receivable

ASHLAND OIL & REFINING COMPANY
Investments and Other Assets:

Unconsolidated foreign subsidiaries — at cost, less reserve	$ 3,973,578
Other companies—at cost	5,784,287
Notes and accounts receivable, contracts, and other, less reserve	12,756,631
	$22,514,496

CONSOLIDATED FOODS CORPORATION
Investments and Other Assets:

Long term accounts, notes, and contracts receivable, less amounts receivable in one year	$ 8,386,014
Leasehold improvements, at cost less amortization	5,180,341
Sundry noncurrent assets and deferred charges	3,289,482
Total Investments and Other Assets	$16,855,837

CONTROL DATA CORPORATION
Noncurrent Assets

Long-term contracts receivable	$3,098,148

METRO-GOLDWYN-MAYER INC.
Investments and Other Assets:

Investment in nonsubsidiaries, at cost	$ 2,683,000
Television contract instalments due after one year	13,357,000
Miscellaneous receivables and other assets	4,994,000
	$21,034,000

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 of Table 7 summarizes the primary descriptive terms, such as "allowance," "reserve," "provision," etc., used in the balance sheet to describe *uncollectible accounts.* The second section sets forth the various secondary terms used in such balance sheet descriptions. The third section shows the various combinations of primary and secondary terms used in 1966 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 1966 survey reports follow Table 7.

TABLE 7: UNCOLLECTIBLE ACCOUNTS

Primary Descriptive Term*	1966**	1965	1960	1950
"Allowance"—used alone	84	74	52	169
Allowance, etc.	252	250	230	
"Reserve"—used alone	72	77	117	248
Reserve, etc.	20	25	38	
Provision, etc.	26	29	38	37
Estimated, etc.	17	17	22	36
Deduction, etc.	—	—	3	3
Other terms	6	6	6	4
Total	477	478	506	497
No "uncollectible accounts" indicated	123	122	94	103
Total	600	600	600	600

*Combined with:	1966	1965	1960
Doubtful accounts	207	212	195
Doubtful notes and accounts	3	3	6
Doubtful amounts	1	1	1
Doubtful balances	2	2	3
Doubtful items	7	7	10
Doubtful receivables	19	18	14
Doubtful	1	2	4
Uncollectible accounts	5	5	5
Uncollectible amounts	4	4	3
Uncollectibles	2	2	2
Loss(es)	29	27	37
Collection or credit losses	8	8	11
Carried forward	288	291	291
Brought forward	288	291	291
Receivable losses	1	1	1
Possible losses	21	22	22
Possible losses: collection, credit or future	6	6	6
Bad debts	4	5	12
Allowances	1	1	—
Other phrases	—	—	1
"Allowance"—used alone	84	74	52
"Reserve"—used alone	72	77	117
Other terms used alone	—	1	4
No "uncollectible accounts"	123	122	94
Total	600	600	600

	Primary Descriptive Term Above:					
**1966 Descriptive Terms Combined as:	Allowance	Reserve	Provision	Estimated	Other	Total
Doubtful	198	18	12	7	5	240
Uncollectible	4	1	1	5	—	11
Losses	48	1	12	3	1	65
Bad debts	2	—	1	1	—	4
With other phrases	—	—	—	1	—	1
Used alone	84	72	—	—	—	156
Total	336	92	26	17	6	477

Allowance—(336 Companies):
- Allowance(s) (*82, 142, 210, 393, 455, 546)
- Allowance(s) of $xxx (*63, 147, 248, 384, 485, 543)
- Allowance(s) for cash discounts and doubtful accounts: $xxx (*307, 404)
- Allowances for cash discounts, returns and doubtful accounts: $xxx (*392)
- Allowance for claims, discounts and doubtful notes and accounts, $xxx (*186)
- Allowance for discounts and doubtful accounts (*327, 383)
- Allowance for discounts and doubtful accounts of $xxx (*156, 472)
- Allowances for discounts and doubtful receivables $xxx (*276)
- Allowance for doubtful (*552)
- Allowance(s) for doubtful accounts (*35, 175, 263, 324, 474, 590)
- Allowance(s) for doubtful accounts $xxx (*29, 96, 119, 138, 250, 506)
- $xxx allowance for doubtful accounts (*242)
- Allowances for doubtful accounts and cash discounts (*92)
- Allowance(s) for doubtful accounts and discounts (*120, 137, 255)
- Allowance for doubtful accounts and discounts: $xxx (*80)
- Allowances ($xxx) for doubtful accounts and discounts (*91)
- Allowances for doubtful accounts, freight, and discounts of $xxx (*575)
- Allowance(s) for doubtful accounts of $xxx (*23, 182, 266, 353, 486, 524)
- Allowance for doubtful balances and discounts—$xxx (*325)
- Allowance for doubtful items (*416)
- Allowance(s) for doubtful items: $xxx (*149, 184, 230)
- Allowance for doubtful items ($xxx) and unearned finance charges (*452)
- Allowance for doubtful notes and accounts (*271)
- Allowance(s) for doubtful receivables (*89, 125, 223, 259, 505, 591)
- Allowance(s) for doubtful receivables: $xxx (*70, 231, 234, 322, 406)
- Allowance for doubtful receivables and discounts, $xxx (*521)
- Allowance(s) of $xxx for doubtful accounts (*36, 129, 237, 379, 422, 508)
- Allowance of $xxx for doubtful accounts and deferred service charges (*192)
- Allowance(s) of $xxx for doubtful accounts and discounts (*14, 25, 302)
- Allowance for amounts uncollectible (*213)
- Allowance for uncollectible accounts of $xxx (*201)
- Allowance for uncollectible amounts (*572)
- Allowance for uncollectibles of $xxx (*130)
- Allowance for collection expense and losses on customer accounts (*489)
- Allowance for collection losses (*318)
- Allowance(s) for loss(es) (*111, 122, 178, 265, 469, 553)
- Allowance(s) for losses $xxx (*7, 81, 150, 177, 251, 297)
- Allowances for losses, adjustments and discounts $xxx (*512)
- Allowances for losses and discounts $xxx (*420)
- Allowance for losses and refunds (*13)
- Allowance for losses and unearned interest: $xxx (*310)
- Allowances for losses and unearned finance charges (*83)
- Allowance for losses on receivables (*88)
- Allowance for possible credit losses (*220)
- Allowance(s) for possible loss(es) (*33, 37, 47, 58, 249)
- Allowance(s) for possible losses $xxx (*435, 465, 481, 558)
- Allowance for possible losses in collection (*507)
- Allowances for possible losses in collection $xxx (*239)
- Allowance for possible losses of $xxx (*289, 331)
- Allowances for possible losses on collection (*16)
- Allowances of $xxx for cash discounts and possible losses (*341)
- Allowance of $xxx for discounts and losses (*381)
- Allowance of $xxx for possible losses (*41)
- Deferred interest income ($xxx) and allowances for collection losses (*279)
- Allowance for bad debts (*426, 464)

Reserve—(92 Companies):
- Reserve(s) (*95, 187, 247, 328, 446, 516)
- Reserve(s) of $xxx (*17, 180, 212, 320, 488, 560)
- Reserves for discounts and doubtful accounts $xxx (*283)
- Reserve(s) for doubtful accounts (*388, 597)
- Reserve(s) for doubtful accounts: $xxx (*157, 312, 510, 585)
- Reserve for doubtful accounts and allowances of $xxx (*166)
- Reserve for doubtful accounts and discounts of $xxx (*173)
- Reserve for doubtful accounts and unearned carrying charge income (*386)
- Reserve for doubtful accounts of $xxx (*447)
- Reserve for doubtful notes and accounts (*490)
- Reserves for returns and allowances and doubtful receivables (*188)
- Reserve of $xxx for doubtful accounts (*50, 103, 434)
- Reserves of $xxx for doubtful accounts and carrying charges (*262)
- Reserve for uncollectible accounts of $xxx (*46)
- Reserves for possible losses on receivables (*109)
- Unearned finance charges and reserves: $xxx (*211)
- Net of reserve (*396)

Provision—(26 Companies):
- Provision for allowances and doubtful accounts (*549)
- Provision for allowances and doubtful accounts—$xxx (*221)
- Provisions for allowances, claims and doubtful balances of $xxx (*305)
- Provision for doubtful accounts (*28, 438)
- Provision for doubtful accounts of $xxx (*148)
- Provision for doubtful accounts and allowances (*171, 243)
- Provision for doubtful accounts, etc. (*260)
- Provision for doubtful receivables of $xxx (*448)
- Provision for estimated doubtful accounts (*395)
- Provisions of $xxx for doubtful accounts (*568)

*Refer to Company Appendix Section.

Provisions of $xxx for uncollectible accounts (*123)
Provision against losses $xxx (*38)
Provision for collection losses: $xxx (*134)
Provision for discounts and losses: $xxx (*62)
Provision for losses (*232)
Provision for losses in collection $xxx (*288)
Provision for losses of $xxx (*65)
Provision for possible future losses and deferred service charges (*226)
Provision for possible losses (*316, 374)
Provision for possible losses—$xxx (*101, 595)
Provision of $xxx for possible losses in collection (*216)
Provision for bad debts: $xxx (*264)

Estimated—(17 Companies):
Estimated doubtful accounts (*273, 382, 414)
Estimated doubtful accounts: $xxx (*542)
Estimated doubtful accounts, discounts and allowances $xxx (*551)
Estimated doubtful accounts of $xxx (*346)
Estimated doubtful amounts (*518)
Estimated amount uncollectible (*432)
Estimated amount uncollectible $xxx (*445)
Estimated uncollectible accounts (*583)
Estimated uncollectible amounts (*352)
Estimated uncollectibles (*519)
Estimated collection losses (*254, 355)
Estimated losses: $xxx (*443)
Estimated bad debts (*570)
Estimated allowances of $xxx (*11)

Various Other Terms—(6 Companies):
After deduction of $xxx for doubtful accounts, discounts, returns and allowances (*113)
$xxx for doubtful accounts and allowances (*87, 306)
$xxx for doubtful accounts and cash discounts (*348)
Net of doubtful accounts and allowances (*300)
Reduced for possible losses and cash discounts (*110)

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 annual reports has decreased from 278 in 1955 to 201 during the year under review. There were 54 companies which made specific reference to United States Government contracts or defense business within the balance sheet, and 147 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.

*Refer to Company Appendix Section.

TABLE 8: GOVERNMENT CONTRACTS AND DEFENSE BUSINESS

	Balance Sheet Information*	1966	1955
	Current Asset Section		
A:	Accounts receivable due from government	37	62
B:	Inventory less billings or progress payment received	33	42
C:	Unbilled costs or fees	12	14
D:	Reimbursable expenditures or recoverable costs	8	15
E:	Fees or costs less progress payments received	5	4
F:	Other references to government contracts or defense business in current assets	1	17
	Noncurrent Asset Section		
	References to government contracts or defense business in noncurrent assets	—	2
	Current Liability Section		
G:	Estimated price adjustments	4	9
H:	Advances or progress payments received	3	2
I:	Other references to government contracts or defense business in current liabilities	2	11
	Noncurrent Liability Section		
	References to government contracts or defense business in noncurrent liabilities	—	3
	Total	105	181
	Number of Companies Referring to Government Contracts or Defense Business		
	In balance sheet presentation	54	88
	In report, but not included in balance sheet presentation	147	190
	Not referring to contracts, defense business, etc.	399	322
	Total	600	600

*Refer to Company Appendix Section—A: 97, 184, 231, 345, 478, 550; B: 7, 71, 221, 415, 456, 555; C: 22, 115, 214, 222, 272, 462; D: 164, 246, 415, 478, 548, 586; E: 284, 334, 353, 389, 410; F: 360; G: 148, 247, 367, 540; H: 88, 183, 401; I: 196, 509.

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," without further definition. Some of the various terms used by the companies to identify such contracts are given below.

Descriptive Terms Used to Identify U.S. Government Contracts
Cost-plus-fixed-fee contracts
Cost type contracts
Cost-reimbursement or expenditure-reimbursement type contracts
Cost-plus-incentive type contracts
Defense contracts
Fixed-price type or fixed-fee contracts

Fixed-price incentive type contracts
Price redetermination contracts
Prime contracts
Research-development type contracts
Subcontracts
U.S. Government contracts
U.S. Ordnance contracts

The amount and nature of the information given in the 1966 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.

Special Feature

Certain assets pledged as collateral or security, or title vested in U.S. Government, for loan or financial aid from government
Certain receivables due to company from government pledged to secure loans obtained from nongovernment sources
Government-owned plant and equipment operated by company
Price redetermination or contract adjustment clause
Contract completed during year

The following examples selected from the 1966 annual reports illustrate the methods of disclosure used by the companies regarding their United States Government contracts.

Cost-Plus-Fixed-Fee Contracts

NORTHROP CORPORATION
Current Assets:

Cash	$ 4,224,511
Accounts receivable	41,300,847
Unreimbursed costs and fees under cost-plus-fee contracts, less allowances (1966 — $1,231,075; 1965 — $1,071,631) for adjustments	20,424,471
Inventories of fixed-price contracts in process, materials, etc., less progress payments—Note B	71,512,355
Prepaid expenses	4,453,250
Total Current Assets	$141,915,434

Cost Type Contracts

DOUGLAS AIRCRAFT COMPANY, INC.
Financial Review

Of the 1966 sales under government contracts, space programs accounted for $350,914,000, military missiles for $58,525,000, and military aircraft for $151,443,000. Of these sales, 56 per cent were under cost-type contracts, compared with 66 per cent in 1965. The remaining government sales were principally under fixed-price incentive type contracts.

NORTH AMERICAN AVIATION, INC.
Financial Review

Sales Contracts and Inventories: Substantially all sales for 1966 were under United States Government contracts or subcontracts. Many of these contracts provide for cost and performance incentives whereunder the company receives increases in fees or profits for surpassing stated targets or experiences decreases in fees or profits for failure to achieve such targets.

Cost-type contracts accounted for 73 per cent of 1966 sales. Sales under these contracts represent costs incurred plus a proportion of the profit (except as explained below) expected to be realized on the contract in the ratio that costs incurred bear to total estimated costs.

Fixed-price-incentive contracts accounted for a substantial portion of the other 27 per cent of 1966 sales. Under such contracts, target costs and sales prices are set by negotiation, and the company participates in the savings or additional costs experienced.

Cost-Reimbursement Type Contracts

ROHM AND HAAS COMPANY
Letter to Stockholders

General: *Redstone*—The major effort of the Redstone Research Laboratories at Huntsville, Alabama has continued to be on advanced solid propellants, propulsion systems and applied problems. These laboratories, operated by Rohm and Haas Company under a cost reimbursement contract with the United States Army Missile Command, have maintained their staff at approximately a constant level over the past five years.

VARIAN ASSOCIATES
Notes to Financial Statements

Note 4: *Commitments and Contingent Liabilities*—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 or from renegotiation.

Commitments for plant expansion at September 30, 1966, were approximately $4,500,000.

Fixed-Price Type or Fixed-Fee Contracts

THE BENDIX CORPORATION
Notes to Financial Statements

Note 7: *Government Contracts and Subcontracts*—Profits on Government contracts are taken into income in proportion to billings made in accordance with the terms of the contracts. Inventories of Government fixed-price type contracts are stated at the accumulated cost of material, labor, and manufacturing overhead, less costs proportionate to amounts billed, but not in excess of amounts estimated to be recoverable. Research and development and selling and administrative expenses are generally charged to income as incurred.

The companies' profits on Government contracts and subcontracts are subject to renegotiation under the Renegotiation Act of 1951. Proceedings with the Government for the purpose of establishing the amounts of refundable profits have not been completed for the years ended September 30, 1966 and 1965 and the amounts, if any, which may be refunded to the Government under such proceedings are not determinable at this time.

THE GENERAL TIRE & RUBBER COMPANY
Review of Operations

Aerojet-General, the company's 84.7%-owned Space Age subsidiary, totaled sales and earnings for 1966 at about the same level as the previous year's results.

Sales totaled $498.8 million and earnings $14.7 million, with an increasing portion of the total from non-rocket propulsion areas.

One of the significant fiscal developments during the year was the increase of government contracts of the fixed-price type, most of which include incentive provisions. Fixed price contracts accounted for 60% of the 1966 sales.

TRW INC.
Letter to Stockholders

Highlighting a record year for TRW in those products that combine electronics and spacecraft was the award of the contract to build the commercial satellites for the Communications Satellite Corporation's advanced global system to be in operation in 1968.

Our aerospace sales in general were up sharply, with improved profitability reflecting the increase in fixed-price and incentive-fee contracts which now represent 80% of the value of TRW's government work on which outstanding performance has enabled us to earn added profit awards.

Cost-Plus-Incentive Type Contracts

COLLINS RADIO COMPANY
Letter to Stockholders

The 41% rate of increase in sales to commercial and foreign customers continues to be greater than for U. S. Government agencies. As a result, the percentage of government sales to total has declined slightly from previous years. With the exception of the Apollo spacecraft program, which is on a cost-plus-incentive-fee basis, substantially all government business is currently under fixed-price contracts.

MARTIN MARIETTA CORPORATION
Financial Review

Sales Contracts: Approximately 60% of sales for the year 1966 were under United States Government contracts or subcontracts. Cost-type contracts accounted for approximately 56% of 1966 sales to the United States Government, with fixed-price type contracts accounting for substantially all of the remainder. An increasing proportion of government contracts provides for performance incentives under which fees are increased for surpassing predetermined performance targets or decreased for failure to achieve such targets. Amounts reported as sales under cost plus incentive fee contracts are based on incurred costs as approved plus an estimate of the fee earned based on performance to date relative to target. Amounts reported as sales under other cost-type contracts are based on incurred costs as approved plus allocable fees, while sales under fixed-price and fixed-price incentive contracts are recorded at contractual selling prices for items delivered, which includes an appropriate proportion of the profit expected to be realized on the contract. With respect to United States Government contracts and subcontracts, 70% of undelivered orders as of December 31, 1966 were under performance incentive contracts, while 67% of billings during the year were on this basis.

Fixed-Price Incentive Type 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, and basic engineering and planning costs applicable to commercial jet transport programs are also charged directly to earnings. At December 31, 1966, work in process aggregated $1,019,642,000, less advances and progress payments of $560,460,000.

To the extent that estimated program costs, determined in the above manner, are expected to exceed total sales price, charges are made to current earnings in order to reduce work in process to estimated realizable value.

Commercial spare parts and general stock materials, aggregating $42,468,000, are stated at average cost, not in excess of realizable value.

LOCKHEED AIRCRAFT CORPORATION
Notes to Financial Statements

Note 2 (in part): Work in process relates principally to U.S. government fixed price or fixed price incentive type contracts. Work in process on such contracts includes all applicable engineering costs. Administrative and general expenses and noncontractual research and development costs are charged to earnings as incurred. As products are delivered, the estimated gross profit for each contract is taken into income in proportion to the sales price of the deliveries. The resultant inventory amounts are at or below estimated realizable value.

Under the contractual arrangements by which the Company receives progress payments from the U.S. government, title to inventories identified with related contracts is vested in the government.

U.S. government contracts are by their terms subject to termination by the government either for its convenience or for default of the contractor. Fixed price contracts for supplies provide that one of the events of default is the contractor's failure to perform the contract in accordance with its terms or failure to make progress so as to endanger such performance.

Government contracts for the development and production of aircraft contain guarantees by the contractor as to performance of the aircraft. The Company has been notified by the government that action must be taken to assure the government that there will be no default in meeting certain performance values when the C-5A aircraft are delivered. In response, the Company outlined a plan of action intended to assure the government that performance of the contract in accordance with its terms is not endangered. The Company has been advised that the government is not presently taking action under the default provisions of the contract and that such decision will apply as long as the Company continues to make satisfactory progress in the implementation of its plan. It is anticipated that the obligations under the contract will be satisfactorily performed.

Sales under cost reimbursement type contracts are recorded as costs are incurred and include applicable fees in the proportion that costs incurred bear to total estimated costs.

Some of the fixed price incentive and cost reimbursement contracts provide for performance incentives under which profits are increased if certain standards are surpassed or are decreased if certain standards are not attained. These incentives are reflected in income when there is sufficient information to relate actual performance to the established standards.

Price Redetermination Contract

UNITED AIRCRAFT CORPORATION
Letter to Stockholders

Sales to the Government also increased in 1966, to $1,063,670,230 compared to $939,516,217 in 1965. The increase was attributable to higher shipments of products and parts, as billings under experimental contracts, aggregating $253,396,619 in 1966, were $95 million lower than in 1965. Most of the Corporation's sales to the Government are made under fixed-price or price-redetermination type contracts; sales under cost-reimbursement type contracts accounted for only 14% of total sales, compared to 18% in 1965. Billings under contracts related to missile and space programs in 1966 amounted to approximately $126 million compared to $172 million in the preceding year. Continued phasing out of United Technology Center's 120-inch solid rocket development program is the principal factor in the decrease.

As announced by the Government in December 1966, Pratt & Whitney Aircraft has been eliminated from the supersonic transport engine development program. As a result, the Corporation is entitled by the terms of its cost-sharing contracts with the Federal Aviation Agency to receive reimbursement for its contract share of the costs incurred through the end of 1966 which had been charged against income. Accordingly, approximately $15,000,000 is reflected as additional sales under this program in 1966.

Sales to the Government and the return thereon are subject to the Renegotiation Act of 1951 which provides for recovery by the Government of profits which it considers excessive. Renegotiation matters have been settled for 1964 and prior years with determinations that no refunds are required of the Corporation. We have every reason to expect the same result for 1965 and 1966 when renegotiation proceedings are completed for those years.

Research-Development Type Contracts

ARVIN INDUSTRIES, INC.
Review of Operations

Electronic Systems: The major effort of this division is "communications." It is deeply involved in information systems—receiving, processing, storage and transmission.

Sales of military communications equipment increased substantially in 1966, and the Electronics Division ended the year with a good order backlog. Improvements in plant operations and material controls were big factors in the better performance on contracts.

1966 was highlighted by the awarding of three research and development contracts by the U. S. Army Electronics Warfare Command.

AVCO CORPORATION
Review of Operations

Avco's research projects are carried out under important government-funded contracts and company financed programs.

Avco is continuing major research in missile, antimissile and space systems, small scientific satellites, reentry vehicles, gas turbine engines, advanced radar, lasers, communications, plasma physics, magnetohydrodynamics, ferrofluids, infrared systems, cardiac assist devices, biosciences, advanced structural concepts, new power sources and medical engineering.

CLEVITE CORPORATION
Review of Operations

Ordnance Operations: Of all Clevite's businesses, underwater ordnance shows the greatest immediate potential for rapid growth. Clevite has had a hand in substantially all of the important technical innovations made in torpedoes during the last fifteen years. As a result, space at the Clevite Research Center has been outgrown. Plans for a new ordnance facility on a 23-acre site east of our Cleveland corporate offices were announced last fall. Construction is now well underway. The building will permit a doubling of capacity and will enable Clevite to participate in major production contracts which heretofore have not been available to us.

During 1966, we were awarded contracts totaling approximately $16 million for production of a new mine-locating system, for production of the Mark 46 torpedo, and for continuing research and development on the propulsion and guidance systems of the Navy's newest antisubmarine torpedo, the Mark 48.

Details of these programs are classified under national security regulations. However, we can say that Clevite has made major contributions to the defense effort in the design and production of lighter, faster and more effective devices for antisubmarine warfare.

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.

FAIRCHILD HILLER CORPORATION
Current Assets:

Cash	$ 7,144,216
Marketable securities (Note 1)	1
Accounts and notes receivable:	
Government contracts (including unbilled items) (Note 2)	25,218,655
Commercial (including installment notes due after one year of $662,350 and $494,959)	6,884,041
Inventories (Note 3):	
Government contracts (after deducting amounts applied to billings and progress payments of $14,944,501 and $10,230,134)	29,360,830
Commercial programs	36,940,754
Mortgage notes receivable (Note 4)	340,000
Prepaid expenses, etc.	1,129,154
Total Current Assets	$107,017,651

Note 2: Loans payable to banks are made under a Revolving Credit Agreement that permits the Corporation to borrow, with certain restrictions, up to $75,000,000 during the period ending, December 31, 1968. The Agreement also provides, among other covenants, that the Corporation will assign monies due or to become due under all significant defense production contracts and two significant non-defense contracts, will maintain consolidated net current assets of $23,000,000 to be increased by the net proceeds of any equity type securities and/or long term debt issued subsequent to December 31, 1966, will maintain consolidated stockholders' equity including debt subordinated to the bank loans of at least $42,000,000 to be increased by the net proceeds of any equity type securities and/or debt subordinated to the bank loan issued subsequent to December 31, 1966, and places certain restrictions upon the declaring of dividends. Under the latter provision accumulated earnings of $3,155,925 were not restricted for the payment of dividends at December 31, 1966; however, the net current assets provision reduced such amount to $2,050,567 as of that date.

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. Title to work in progress identified with government contracts under which progress payments have been received is vested in the United States Government.

COLLINS RADIO COMPANY
Current Assets:

Cash	$ 4,990,563
Accounts and notes receivable (Note 1):	
United States Government, prime and subcontracts	38,561,447
Others (less provision for doubtful accounts of $433,661 — 1966 and $350,029 — 1965)	31,634,295
Inventories, at the lower of cost or market, except United States Government inventories at cost (less unliquidated progress payments of $23,326,747 — 1966 and $16,360,253—1965) (Note 1)	82,652,606
Prepaid expenses	1,300,028
Total Current Assets	$159,138,939

Note 1 (in part): *Notes Payable and Long-Term Liabilities*—A bank credit agreement dated February 10, 1966 provides a revolving credit of up to $50,000,000 extending to November 30, 1966. The company intends to apply for extension of all or a portion of this credit. At July 29, 1966, $23,500,000 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 and the terms of the 5⅜% senior notes. At year end, the total collateral available for this purpose approximated $92,000,000.

DOUGLAS AIRCRAFT COMPANY, INC.
Notes to Financial Statements

Note B (in part): Inventories at November 30, including certain items to which the U. S. Government held title by reason of contract provisions, consisted of the following:

Fixed-price contracts and orders in progress	$578,917,342
Materials, spare parts, etc.	108,312,699
Advances under material purchase agreements	32,582,937
	719,812,978
Less advance and progress payments received	317,944,875
	$401,868,103

Note D: *Bank Loans and Credit Agreements*—The Company has pledged or assigned as collateral for $65,124,132 notes payable to banks (1) all receivables and inventories, aggregating approximately $61,500,000 at November 30, 1966, relating to U. S. Government contracts other than those with National Aeronautics and Space Administration, and (2) certain trade receivables ($29,623,934 at November 30, 1966) and certain aircraft lease payments receivable to 1971, which aggregate $13,983,229 from November 30, 1966.

In December 1966, a demand debenture was issued as collateral for borrowings up to $46,600,000 ($45,659,322 borrowed at November 30, 1966) of Douglas Aircraft Company of Canada Ltd. Such demand debenture is a first lien, in the event of default, against all the business and assets of the Canadian subsidiary.

NORTH AMERICAN AVIATION, INC.
Current Assets:

Cash	$ 34,250,000
Accounts receivable — principally from the United States Government	203,484,000
Inventories — less progress payments received on contracts under which title to related inventories vests in the United States Government: 1966 — $69,060,000; 1965 — $81,357,000	169,604,000
Prepaid expenses	9,431,000
Total Current Assets	$416,769,000

ADMIRAL CORPORATION

Current Assets:	
Cash	$ 8,164,820
Notes and accounts receivable:	
Due from United States Government	3,488,466
Trade, less allowance for losses (1966—$2,648,162; 1965—$1,874,613)	43,884,768
	47,373,234
Inventories—at the lower of cost or market:	
Government contracts, less progress payments (1966 — $9,135,424; 1965 — $4,061,795)	7,629,444
Civilian	76,381,334
	84,010,778
Total Current Assets	$139,548,832
Current Liabilities:	
Notes Payable:	
Banks:	
Civilian line—domestic	$ 28,000,000
Civilian line—foreign	139,552
Defense line	9,450,000
Current installments of long-term debt—domestic—Note C	2,746,531
	$ 40,336,083

NORTHROP CORPORATION

Current Assets:	
Cash	$ 4,224,511
Accounts receivable	41,300,847
Unreimbursed costs and fees under cost-plus-fee contracts, less allowances (1966 — $1,231,075; 1965 — $1,071,631) for adjustments	20,424,471
Inventories of fixed-price contracts in process, materials, etc., less progress payments—Note B	71,512,355
Prepaid expenses	4,453,250
Total Current Assets	$141,915,434

Note B (in part): *Inventories*—Title to substantially all inventories related to contracts with the U.S. Government is vested in the U.S. Government pursuant to the provisions of the contracts. Certain fixed-price contracts in process contain price redetermination and incentive provisions, to which applicable recognition has been given in the financial statements.

Amounts stated for inventories comprised the following classifications:

Fixed-price contracts, orders, etc. in process	$116,115,028
Raw materials, purchased parts, and supplies	15,214,668
	$131,329,696
Less progress payments received	59,817,341
	$ 71,512,355

UNITED AIRCRAFT CORPORATION

Current Assets:	
Cash	$ 58,395,290
Accounts receivable:	
United States Government	126,307,496
Commercial customers	146,976,955
Other	3,308,262
Inventories, at cost (see page 22)	660,178,311
Less—Payments, secured by lien, from United States Government on uncompleted contracts	*270,861,096*
Total Current Assets	$724,305,218

Renegotiation

There were 56 survey companies that referred to renegotiation or to renegotiable sales in their 1966 reports. Of these companies, four included in their balance sheets, mostly under current liabilities, a provision for estimated renegotiation liability, and an additional six companies referred to such provision in the notes to the financial statements. The remaining 46 companies made no provision for possible renegotiaton 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 possible to predict the Renegotiation Board's actions.

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

Examples—Renegotiation

The following examples, taken from the 1966 reports, illustrate the nature and scope of the information disclosed therein concerning renegotiation and the provision, if any, made therefor.

TABLE 9: ESTIMATED RENEGOTIATION LIABILITY

Balance Sheet or Other Presentation*	1966	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	6	9	16
Letter to stockholders	—	5	5
D: No provision made for possible renegotiation liability, although reference made thereto or to "renegotiable sales"	46	133	175
Number of Companies Referring to:			
Renegotiation or renegotiable sales	56	181	218
Not referring thereto	544	419	382
Total	600	600	600

*Refer to Company Appendix Section—A: 75, 272, 540; B: 247; C: 7, 48, 214, 309, 448, 576; D: 97, 101, 298, 353, 476, 505.

Set Forth Under Current Liabilities

THE BARDEN CORPORATION
Current Liabilities:

Current installments of long-term debt	$ 200,000
Accounts payable, accrued expenses and sundry liabilities	2,139,386
Taxes accrued and withheld, other than U.S. and foreign income taxes	682,728
Reserves for U.S. and foreign income taxes and, in 1966, renegotiation—Notes A and B	1,407,597
Total Current Liabilities	$4,429,711

Note B: A portion of the sales and net profits of the Company is subject to the Renegotiation Act. Renegotiation proceedings have been concluded and the Company has received clearance through the year ended October 31, 1964. The accompanying financial statements include a reserve for renegotiation refund for the year ended October 31, 1966, in an amount which the management considers adequate.

GENERAL ELECTRIC COMPANY
Current Liabilities:

Other costs and expenses accrued	$451,076,107

Financial Summary

Other costs and expenses accrued included payrolls accrued of $37.1 million at December 31, 1966, and interest expense accrued amounting to $6.4 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 others, including installments due within one year on long-term liabilities	$ 32,386,537
Accounts payable and accrued wages	75,479,345
Federal income and other taxes, and renegotiation (Note 4)	17,336,205
Other liabilities	13,367,342
Total Current Liabilities	$138,569,429

Note 4: 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 and 1966; however, the policy of maintaining reserves has been continued.

TEXAS INSTRUMENTS INCORPORATED
Current Liabilities:

	(In thousands)
Loans payable (overseas subsidiaries)	$ 6,432
Accounts payable and accrued expenses	52,637
Income taxes, redeterminations, and renegotiation	27,377
Accrued retirement and profit sharing contributions	23,196
Dividends payable in January	1,620
Total Current Liabilities	$111,262

Referred to in Notes or Financial Review

INTERNATIONAL BUSINESS MACHINES CORPORATION
Financial Review

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

EMERSON ELECTRIC CO.
Notes to Financial Statements

Note 5 (in part): Proceedings under the Renegotiation Act of 1951 have been concluded for all years to and including the year 1963 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.

POOR & COMPANY
Notes to Financial Statements

Note 4: Commitments and contingent liabilities at December 31, 1966: commitments and authorizations for fixed asset additions approximated $115,750; unfunded past-service payments under employee pension plans aggregated approximately $1,147,000; level annual costs of the pension plans of the Company are estimated to approximate $215,000. The consolidated statement of income and retained earnings includes estimated provision for refunds, if any, under renegotiation of government contracts for the year 1966.

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

THE BENDIX CORPORATION
Financial Review

Our earnings on Government contracts and subcontracts continue to be subject to renegotiation under the Renegotiation Act of 1951. Renegotiation proceedings through fiscal 1964 have been completed satisfactorily.

LOCKHEED AIRCRAFT CORPORATION
Notes to Financial Statements

Note 9: 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 determined to be excessive under such Act. 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 amounts previously provided. The net reduction of $2,172,000, after related taxes and expenses, previously had been reported as a special credit in 1965. Retained earnings at the beginning of 1965 have been restated to give retroactive effect to this credit to the prior years to which it is applicable.

Clearances have been received for the years 1957 through 1963 and it is anticipated that earnings for subsequent years will not be considered excessive by the Renegotiation Board.

MARTIN MARIETTA CORPORATION
Financial Review

Renegotiation: Sales of the Aerospace Group are substantially all subject to the Renegotiation Act, but only a nominal amount of the Commercial Group's sales falls within the provisions of the Act. Renegotiation proceedings have now been completed through 1962. As to subsequent years, management believes that no excessive profits have been realized, and no provision for refunds has been made.

McDONNELL AIRCRAFT CORPORATION
Notes to Financial Statements

Note B (in part): Renegotiation of the Company has been concluded through 30 June 1964. It is believed that renegotiation in subsequent years will have no significant effect on the financial statements of the Company and its subsidiaries.

Reference Made to Liability for Renegotiation of Canadian Government Contracts

SPARTON CORPORATION
Current Liabilities:

Notes payable to banks	$ 4,643,750
Accounts payable	4,184,217
Liability for U. S. and Canadian income taxes and renegotiation of Canadian government contracts (Note 1)	462,857
Billings on uncompleted contracts in excess of related costs	151,416
Accrued liabilities	1,418,009
Total Current Liabilities	$10,860,249

Note 1: Renegotiation and Price Redetermination—Government Contracts—Renegotiation proceedings relating to U. S. government contracts have been completed for all years through June 30, 1965 and it is believed that no refunds of material amount will be required in respect of the year ended June 30, 1966.

The United States General Accounting Office has issued a proposed draft report alleging certain excess costs incurred by the Department of the Navy under two fixed price contracts completed by the Company in prior years but a formal report has not yet been issued. The Department of the Navy has made a demand upon the Company for a refund of $1,965,792 in respect of these same two contracts and the Company has appealed this matter to the Armed Services Board of Contract Appeals. In the opinion of counsel, there is no legal basis for recovery by the government and, accordingly, no provision has been made in the accounts.

Renegotiation of contracts with the Department of Defense Production of the Government of Canada has been completed for all years through June 30, 1965 and provision has been made in the accounts for estimated refunds arising from defense sales for the current fiscal year.

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 139 companies exclusive of other details on the balance sheet. An additional 129 companies used the same manner of presentation on the balance sheet but supplied supplementary details as to the composition of the inventory in the notes to the financial statements or elsewhere in the report. The remaining 332 companies provided inventory details on the balance sheet as follows:

INVENTORY CAPTIONS

Separate captions and amounts presented for:	Number of Items
Finished goods or products	159
Work in process	117
Raw materials	54
Materials	1
Supplies	45
Merchandise	28
Various other separate captions	8

Combined caption with one total amount presented for:	Number of Items
Finished goods and work in process	68
Finished goods, work in process, and raw materials	35
Finished goods, work in process, raw materials, and supplies	12
Finished goods and raw materials	4
Finished goods and supplies	2
Work in process and raw materials	15
Work in process, raw materials, and supplies	15
Raw materials and supplies	110
Raw materials and parts	8
Raw materials, supplies, and finished goods	6
Materials and supplies	60
Merchandise and supplies	3
Merchandise and finished goods	2
Merchandise, materials, and supplies	3
Various other combined factors	7

Inventories Pledged

Twenty-nine companies indicated that some portion of their inventory was pledged as security on a loan. At least five companies referred to inventories in transit. Examples of inventories pledged and in transit follow.

Examples

LIGGETT & MYERS TOBACCO COMPANY

Current Assets:

Inventories—principally at average cost (Note 2)	
Leaf tobacco	$230,661,994
Bulk whiskeys	2,571,179
Finished goods and work in process	37,856,027
Other materials and supplies	11,768,423

Note 2: Inventories—Inventories of imported leaf tobacco, bulk whiskey, and cased goods in bond and in transit are subject to Federal, state and local taxes upon withdrawal from bond. In accordance with the practice of the industries, the liability for such taxes has not been recorded in the accounts. When paid, the amount of such taxes will result in a corresponding increase in the cost of inventories.

At December 31, 1966, a portion of a subsidiary company's inventory of bulk whiskey, with an aggregate cost of $851,659, was pledged as collateral to a bank loan of $583,010.

W. T. GRANT COMPANY

Current Assets:

Cash	$ 22,558,641
Accounts receivable:	
Customers' installment accounts not sold	111,199,566
Equity in customers' installment accounts ($65,410,526 and $56,935,089, respectively) sold	3,270,526
	114,470,092
Less allowance for doubtful accounts	7,065,109
	107,404,983
Other accounts receivable, claims, etc.	3,538,376
Total accounts receivable, net	110,943,359
Merchandise inventories (including merchandise in transit)—at the lower of cost or market determined principally by the retail inventory method	151,365,361
Total Current Assets	$284,867,361

MAXSON ELECTRONICS CORPORATION
Notes to Financial Statements

Note 3 (in part): In December 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%. Borrowings under the agreement include $1,600,000 which is evidenced by notes maturing on December 15, 1967. Other borrowings are evidenced by ninety-day notes and aggregated $2,700,000 at September 30, 1966. Borrowings are 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.

THE RATH PACKING COMPANY
Notes to Financial Statements

Note 1 (in part): *Agreement with Banks and Debenture Notes*—At October 1, 1966 and as of the date of this report the Company's credit agreement with several banks and its debenture notes outstanding provide, among other things, the following:

a. Credit arrangement—The Company has a credit agreement with twenty-four banks covering a $20,150,000 short-term line of credit to be effective until December 1, 1966. The Company has assigned and granted a lien on all its inventories, accounts receivable and notes, fixed assets, and all other assets ratably as security for the loans under the agreement and its debenture notes. Maximum borrowing at any time is limited to an amount not in excess of the sum of (1) 80% of trade accounts and notes receivable not more than 90 days past due, (2) 60% of the market value of inventories, and (3) 35% of book value of fixed assets. Working capital is to be maintained in excess of $9,500,000 on the basis of valuing LIFO inventories at market. The Company has failed to meet this provision since June, 1966 but no action relative thereto has been instituted by any lender. The loans bear interest at 1% over the prime commercial rate in effect from time to time in Chicago The present rate is 7%. There is a commitment fee of ½ of 1% per annum for funds available but not borrowed.

The agreement also provides that the Company may not pay dividends or purchase or redeem any of the Company's outstanding capital stock, incur new indebtedness for borrowed money, make expenditures for fixed assets in excess of annual depreciation less prepayments required to be made under the debenture notes for the year.

Pricing Basis

The most commonly used basis of valuation for inventories continues to be "lower of cost or market," as shown in the 1966 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 467 of the 600 survey companies. The remaining 133 companies did not disclose their method of cost determination. 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 third 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 1966 alone, 18 companies more than in 1965, used the first-in first-out (fifo) method of cost determination.

Last-in First-out "Cost"

HUNT FOODS AND INDUSTRIES, INC.

Current Assets:

Cash and certificates of deposit	$ 41,954,000
Marketable securities—At cost (quoted market value: 1966 — $90,000,000; 1965 — $76,500,000)	92,034,000
Receivables — Net of doubtful accounts and allowances	63,071,000
Inventories — At lower of cost (principally last-in, first-out method) or market	130,284,000
Prepaid expenses	1,214,000
Total Current Assets	$328,557,000

TABLE 10: INVENTORY PRICING

I: Basis of Pricing

Bases:*	1966	1965	1960	1950
Lower of Cost or Market—				
A: Lower of Cost or Market	433	431	381	342
B: Lower of Cost or Market; and Cost	51	52	91	67
C: Lower of Cost or Market; and one or more other bases	9	8	20	53
D: "Cost not in excess of Market"	53	49	35	24
	546	540	527	486
Cost—				
E: Cost	33	34	42	63
F: Cost; and one or more other bases	3	3	15	57
Cost; and Lower of Cost or Market (See above)	51	52	91	67
G: Cost; less than market	44	42	13	6
	131	131	161	193
Other Bases—				
H: Cost or less than cost	22	23	14	37
I: Cost or less than cost "not in excess of market"	6	6	8	10
J: Market	3	4	5	29
K: Market or less than market	8	7	4	8
L: Selling price	2	2	1	4
M: Various other bases	2	4	5	30
	43	46	37	118
Total	720	717	725	797

II: Method of Determining "Cost"

Methods:**	1966	1965	1960	1950
A: Last-in first out (lifo)	184	191	196	161
B: Average cost	187	176	157	136
C: First-in first-out (fifo)	231	213	182	134
D: Standard costs	28	28	35	32
E: Approximate cost	4	5	10	16
F: Actual cost	13	13	9	7
G: Production cost	4	5	9	5
H: Replacement or current cost	13	12	6	2
I: Retail method	18	17	16	6
J: Base stock method	3	1	5	6
K: Job-order method	3	3	4	2
L: Accumulated costs	9	6	N/C	N/C
M: Other methods	11	6	11	11
Total	708	676	640	518

Number of Companies:	1966	1965	1960	1950
Stating inventory pricing basis and cost method	271	264	323	361
Stating inventory pricing basis, but cost method with regard to part of inventory only	196	181	103	
Stating inventory pricing basis, but omitting cost method	133	154	174	232
Not stating inventory pricing basis or cost method	—	1	—	7
Total	600	600	600	600

N/C—Not compiled.
*Refer to Company Appendix Section—I: A: 71, 145, 243, 391, 429, 540; B: 44, 129, 209, 383, 473, 569; C: 150, 170, 204, 406, 487, 497; D: 66, 119, 253, 336, 431, 506; E: 57, 156, 275, 348, 470, 516; F: 52, 83, 367; G: 72, 169, 228, 303, 421, 538; H: 24, 165, 273, 326, 518, 583; I: 127, 202, 355, 420, 464, 553; J: 58, 534, 569; K: 55, 61, 249, 388, 459, 545; L: 14, 43; M: 97, 99.
**Refer to Company Appendix Section—II: A: 11, 111, 267, 372, 466, 480; B: 42, 119, 202, 360, 428, 550; C: 81, 164, 291, 333, 450, 577; D: 30, 114, 217, 376, 411, 540; E: 17, 278, 288, 468; F: 79, 93, 131, 156, 171, 445; G: 80, 118, 128, 484; H: 63, 122, 319, 445, 535, 567; I: 68, 140, 226, 361, 489, 594; J: 204, 400, 526; K: 83, 376, 557; L: 196, 231, 284, 358, 360, 415; M: 46, 94, 170, 337, 378, 390.

ALPHA PORTLAND CEMENT COMPANY

Current Assets:

Cash	$ 2,364,880
Short-term investments at cost, which approximates market	1,988,413
Accounts receivable (less allowances — 1966, $200,732; 1965, $262,023)	2,840,280
Estimated Federal income tax recoverable under carry-back provisions (Note C)	2,471,216
Inventories — at cost or market, whichever is lower:	
Finished cement at cost under LIFO method	2,547,980
Raw materials, in process, packages, and operating supplies principally at average cost	1,907,376
Maintenance supplies and repair parts at or below cost	2,155,742
Prepaid expenses	153,251
Total Current Assets	$16,429,138

HARSCO CORPORATION

Current Assets:

Inventories	$33,951,352

Note 2: Inventories—Inventories are valued at the balance sheet dates on various bases as indicated in the following summary:

Finished goods	$ 9,764,760
Work in process	8,342,257
Raw materials and purchased parts	12,279,089
Stores and supplies	1,828,420
Inventories of one of the divisions not susceptible to above classification	1,736,826
	$33,951,352
Valued at lower of cost or market:	
First-in, first-out basis	18,041,122
Average cost basis	14,173,404
Last-in, first-out basis	1,736,826
	$33,951,352

INLAND STEEL COMPANY

Current Assets:

	(In thousands)
Cash	$ 9,734
Marketable short-term securities, at cost and accrued interest	31,418
Receivables, less provisions for allowances, claims and doubtful balances of $3,401,000 at December 31, 1966 and $3,300,000 at December 31, 1965	95,801
Inventories, valued at the lower of cost, principally on lifo basis, or market:	
Raw materials and supplies	59,519
Finished and semifinished steel products	110,767
Total	$307,239

UNITED-GREENFIELD CORPORATION

Current Assets:

Cash	$ 1,483,000
Short-term marketable securities, at cost (approximate market) plus accrued interest	10,212,000
Accounts receivable, less allowance for doubtful accounts of $106,000 in 1966 and $103,000 in 1965	10,302,000
Inventories, at lower of cost, determined principally on basis of "last-in, first-out," or market:	
Finished goods	8,953,000
Work in process	7,962,000
Raw materials and supplies	4,306,000
	21,221,000
Prepaid insurance and other items	595,000

Average "Cost"

AMP INCORPORATED AND PAMCOR, INC.

Current Assets:

Cash	$ 2,424,681
Marketable securities, at cost	330,000
Receivables	21,992,006
Inventories, at lower of cost, principally average, or market—	
Finished goods and work in process	14,883,902
Purchased and manufactured parts	15,402,128
Raw material	8,207,605
Total Inventories	38,493,635
Prepaid expenses, etc.	1,688,668
Total Current Assets	$64,928,990

CANADA DRY CORPORATION

Current Assets:

Inventories—at cost, not in excess of market:	
Materials and supplies (average cost)	$5,840,904
Carbonated beverages and resale extracts (average cost)	2,866,300
Liquors and wines (cost on "first-in, first-out" basis):	
In bond (subject to taxes payable on withdrawal)	7,908,321
Out of bond	2,295,644
Merchandise for resale	319,252

ENDICOTT JOHNSON CORPORATION

Current Assets:

Inventories, on the basis of cost (principally average cost) or market, whichever is lower:	
Finished products	$41,639,845
Footwear in process and raw materials	7,020,141

MASONITE CORPORATION

Current Assets:

Inventories, at the lower of average cost or market—	
Finished stock	$11,355,000
Raw materials and supplies	8,977,000

OLIN MATHIESON CHEMICAL CORPORATION

Current Assets:

Inventories, principally at lower of cost (FIFO or average) or replacement market:	
Raw materials and supplies	$ 72,803,000
Work in process	57,654,000
Finished products	92,089,000
	$222,546,000

First-in First-out "Cost"

COOK PAINT AND VARNISH COMPANY

Current Assets:

Cash	$ 3,917,376
Trade accounts receivable, less allowance of $200,000	6,613,451
Inventories of manufactured and semi-manufactured goods, jobbing goods, raw materials, and supplies—at lower of cost (first-in, first-out method) or market	11,899,089
Prepaid expenses	460,197
Total Current Assets	$22,890,113

THE HOBART MANUFACTURING COMPANY

Current Assets:

Inventories, at cost (generally first-in, first-out), not in excess of market:	
Finished products	$14,976,500
Work in process	17,345,248
Raw materials and supplies	17,733,805

LEAR SIEGLER, INC.

Current Assets:

Inventories—at the lower of cost (determined by the first-in, first-out method) or market:	
Raw materials	$16,969,758
Work in process	8,110,027
Finished goods	17,068,834
	$42,148,619

THE VENDO COMPANY

Current Assets:

Inventories, at lower of cost (first-in, first-out) or market—	
Finished goods	$ 8,822,875
Work in process	15,519,508
Raw materials	2,123,617
Total Inventories	$26,466,000

Standard "Cost"

THE BLACK AND DECKER MANUFACTURING COMPANY

Current Assets:

Inventories—at the lower of standard cost or market:	
Finished products	$24,158,573
Work in process	15,174,572
Raw materials	12,226,146
	$51,559,291

ERIE FORGE & STEEL CORPORATION

Current Assets:

Inventories—Note A:	
Work in process	$3,715,718.16
Raw materials	303,016.72
Supplies	690,378.98
	$4,709,113.86

Note A: *Inventories*—Inventories are stated at the lower of cost (raw materials—mainly cumulative average cost; work in process—mainly standard cost, adjusted at reasonable intervals to reflect changed conditions; supplies—mainly first-in, first-out method) or replacement market.

THE HARSHAW CHEMICAL COMPANY

Current Assets:

Inventories—at lower of cost (principally current standards) or market:	
Finished products	$ 7,512,379
Work in process	3,362,146
Raw materials	4,458,948
Supplies	1,984,278
	$17,317,751

SCM CORPORATION

Current Assets:

Cash	$ 4,183,404
Accounts and notes receivable, less allowance for doubtful accounts — 1966, $1,577,562; 1965, $1,591,375	43,732,176
Inventories — generally at standard cost, not in excess of lower of cost or market	65,170,484

UNIVERSAL AMERICAN CORPORATION

Inventories, primarily at standard or first-in, first-out costs, not in excess of market:	
Finished goods	$10,851,177
Work in process and parts	17,291,832
Raw materials	10,508,433

Current Cost

ART METAL, INC.

Assets:

Current:

Cash	$ 1,987,580
Receivables, less allowances of $281,419 and $279,157	6,851,212
Inventories, at lower of current cost or market	
Finished goods and in process	5,470,637
Raw materials and supplies	3,511,916
Prepaid expenses	537,992
Total Current Assets	$18,359,337

RHEEM MANUFACTURING COMPANY

Current Assets:

Cash and short-term securities	$ 4,808,462
Accounts receivable:	
Commercial less allowance for doubtful accounts (1966, $1,055,000; 1965, $613,000)	24,515,393
Unconsolidated subsidiary and affiliated companies	534,575
Inventories, at lower of current cost or market:	
Finished and in process	12,868,379
Raw materials and supplies	14,913,003
Costs allocable to future operations—insurance, taxes, etc.	603,224
	$58,243,036

Retail Method

THE GRAND UNION COMPANY

Current Assets:

Cash	$18,529,561
Temporary cash investments, at cost	5,908,213
Accounts receivable, less allowance for losses	5,475,516
Inventories, at the lower of cost or market (Note 1)	68,524,429
Total Current Assets	$98,437,719

Note 1: Cost of inventories is determined as follows: at warehouses, "average" or "first-in, first-out"; at retail outlets, "retail method."

J. C. PENNEY COMPANY

Current Assets:

Cash		$ 49,571,012
Receivables, less allowance for doubtful accounts of $15,068,082 and $12,043,503	373,080,537	
Deduct portion sold to J. C. Penney Credit Corporation, less 5% withheld pending collection	298,672,486	
		74,408,051
Merchandise, at lower of cost or market determined mainly by the retail method		384,478,234
Prepaid expenses		9,400,850
Total Current Assets		$517,858,147

Approximate Cost

ALLIS-CHALMERS MANUFACTURING COMPANY

Current Assets:

Cash	$ 28,954,562
Receivables—less reserves of $10,100,000 and $8,350,000 respectively	176,133,911
Inventories—at lower of approximate cost or market including 9% on last-in, first-out basis	282,875,796
Other current assets	3,860,790
	491,825,059
Less—Progress billings and advance collections	22,838,389
Total Current Assets	$468,986,670

REX CHAINBELT INC.

Current Assets:

Inventories (Note 2) ... $35,737,962

Note 2: *Inventories*—Inventories, stated at the lower of approximate cost or market, consisted of the following:

Raw materials and supplies	$ 7,160,049
Work in process and finished goods	28,577,913
	$35,737,962

Cost has been determined on a first-in, first-out basis except for approximately six per cent in 1966 and five per cent in 1965, which has been determined on a last-in, first-out basis.

Job-Order Method

MEREDITH PUBLISHING COMPANY

Current Assets:

Inventories ... $15,952,502

Notes to Financial Statements

Inventories: Raw material inventories are stated at cost (first-in, first-out, or average), not in excess of market. Work in process and finished goods are included at standard or job costs, whichever is applicable. These inventories are summarized as follows:

Raw materials	$ 4,306,572
Work in process	2,726,394
Finished goods	8,919,536
	$15,952,502

Production Cost

SCOTT PAPER COMPANY

Current Assets:

	(In thousands)
Inventories, at lower of cost (principally latest production or purchase cost) or market	
Finished products	$33,427
Work in process	5,943
Pulp, logs and pulpwood	19,646
Other materials and supplies	22,312
	$81,328

Prime Cost

BOND STORES, INCORPORATED

Merchandise Inventories—Note B:

Woolens, trimmings, etc.	$ 5,078,831
Work in process	1,415,061
Finished goods	24,132,958
	$30,626,850

Note B: Merchandise inventories are stated at or below the lower of cost (prime cost as to goods manufactured by the Corporation, retail inventory method or invoice cost as to other merchandise, substantially on the "first-in, first-out" basis) or replacement market. These methods for pricing the merchandise inventories are consistent with the practice of prior years.

Actual or Replacement Cost

DIGITRONICS CORPORATION

Current Assets:

Inventories (Note 1) ... $2,446,889

Note 1: Inventories are carried at the lower of cost or market. Cost is determined on a first-in, first-out basis for raw materials and for such materials transferred to work in process, and on an actual cost basis for other portions of the inventories.

EMHART CORPORATION

Current Assets:

Inventories (Note 2) ... $58,226,000

Note 2: *Inventories*—The inventories are summarized as follows:

Finished goods	$21,114,000
Work-in-process	23,320,000
Raw materials	12,166,000
Supplies	1,626,000
Total	$58,226,000

Finished goods, work-in-process, and raw materials are stated principally at standard cost, which approximates actual cost (principally on first-in, first-out basis) or at market, whichever is lower. Other inventories are stated at actual cost (principally on first-in, first-out basis) or at market, whichever is lower.

Base Stock Method

STEWART-WARNER CORPORATION

Current Assets:

Cash and marketable securities (at cost)	$11,015,154
Receivables, less reserve of $656,000 ($628,196 in 1965)	22,710,281
Inventories, priced at lower of cost (first-in, first-out) or market, less reserve of $4,360,000 in each year to reduce basic inventories to 1945 price levels	35,455,194
Total Current Assets	$69,180,629

Accumulated Cost

THE McKAY MACHINE COMPANY

Current Assets:

Inventories (Note B) ... $5,996,000

Note B: *Inventories*—Inventories of raw materials and supplies are priced at average cost not in excess of market. Work in process and finished material are priced at accumulated costs, not in excess of realizable values.

Commencing January 1, 1966, all direct design engineering costs applicable to specific contracts have been included as part of work in process. Previously these costs were treated as a period cost. This change decreased 1966 consolidated net earnings by $27,000 ($.11 per share). The balance of the adjustment, $221,000 ($.90 per share), has been shown less applicable income tax of $183,000 as an extraordinary income item in the 1966 Consolidated Statement of Earnings.

The consolidated inventories consist of:

Raw materials and supplies	$1,728,000
Work in process and finished material	4,268,000
	$5,996,000

DETERMINATION OF "MARKET"

There were 580 of the 600 companies that mentioned market value in their presentation of inventories. Of these, 81 companies stated 88 methods used in the determination of such values in their 1966 reports, as shown in Table 11.

The following examples, taken from the 1966 reports, illustrate the terms used to describe or amplify the word "market."

Replacement Cost

AMERICAN ENKA CORPORATION
Current Assets:

Inventories	$36,448,112

Notes to Financial Statements

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	$10,757,570
Work in process	12,317,861
Raw materials	9,380,963
General stores	3,991,718
	$36,448,112

NOPCO CHEMICAL COMPANY
Current Assets:

Inventories—at average cost, not in excess of replacement cost:	
Finished goods	$ 5,263,976
Raw materials and work in process	5,400,191
Containers and supplies	534,642
Total Inventories	$11,198,809

Current Replacement Cost

CAMPBELL SOUP COMPANY
Current Assets:

Inventories—Note 2	$166,545,000

Note 2: *Inventories*—

Raw materials, containers, and supplies	$ 89,359,000
Finished products	77,186,000
	$166,545,000

Raw materials, containers, and supplies are priced at average cost but not in excess of current replacement cost. Finished products are priced at average production cost but not in excess of selling price less distribution costs.

Net Realizable Value

KELLOGG COMPANY
Current Assets:

Cash, including certificates of deposit of $28,509,558 in 1966 and $30,665,898 in 1965	$ 35,210,453
United States Government Securities, at approximate cost and market	19,202,012
Accounts Receivable, less allowance of $200,000 for doubtful accounts	22,719,403
Inventories at Lower of Cost (first-in; first-out) or Market (net realizable value)—	
Raw Materials and Supplies	26,993,371
Finished Goods and Materials in Process	15,387,650
Prepaid Expenses	3,325,068
Total Current Assets	$122,837,957

Current Market Value

STANDARD OIL COMPANY (NEW JERSEY)
Notes to Financial Statements

Inventories: Inventories of crude oil, products, and merchandise are carried at cost (about half under the last-in, first-out method and the remainder under the first-in, first-out method), which was substantially less than current market value. Materials and supplies have been valued, in general, on the basis of average cost or less.

TABLE 11: DETERMINATION OF "MARKET"

Methods:*	1966
A: Replacement Cost	6
B: Current replacement cost	5
C: Realizable value(s)	8
D: Estimated realizable value(s)	9
E: Net realizable value(s)	4
F: Current market value(s)	2
G: Hedging procedure value(s)	7
H: Selling market (selling price, or current selling prices)	2
I: Selling price, less allowance for any or all of selling, distribution, other expenses	2
J: Estimated realizable market	3
K: Replacement market	22
L: Current replacement market	4
M: Market less allowances, or allowances for selling, distribution, and other expense	4
N: Estimated recoverable amounts	4
O: Various other	6
Total	88

*Refer to Company Appendix Section—A: 30, 236, 257, 412, 445, 517; B: 39, 62, 118, 170, 276; C: 209, 272, 358, 370, 462, 557; D: 97, 109, 131, 222, 364, 497; E: 48, 164, 323, 478; F: 52, 518; G: 58, 128, 150, 249, 406, 487; H: 43, 83; I: 14, 118; J: 196, 221, 360; K: 98, 113, 167, 239, 307, 416; L: 94, 147, 170, 303; M: 55, 61, 388, 592; N: 88, 196, 284, 415; O: 169, 236, 310, 459, 535.

Hedging Procedure Value

CENTRAL SOYA COMPANY, INC.
Current Assets:

Inventories (Note 2)	$47,603,442

Note 2: *Inventories*—Inventories are comprised of:

Grain, soybeans, soybean oil and soybean meal valued at average cost adjusted for hedges and undelivered contracts	$29,298,709
Feed, special soybean products and poultry at processed cost	10,992,507
Ingredients, containers, supplies and other merchandise at lower of cost, on a first-in, first-out basis, or market	7,312,226
	$47,603,442

The Company's policy of hedging its grain and soybean position is followed to minimize the speculative risk arising from price fluctuations.

Current Selling Price

BEECH AIRCRAFT CORPORATION
Notes to Financial Statements

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

Demonstrator airplanes	$ 1,854,539
Work in process	29,332,524
Raw materials and parts	14,152,360
	$45,339,423

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.

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.

Realizable Value

CONTROL DATA CORPORATION
Current Assets:

Inventories (Note 4):	
Work in process	$44,174,562
Raw materials and purchased parts	27,799,762
Total Inventories	$71,974,324

Note 4: Inventories—Raw materials and purchased parts are valued at the lower of cost or replacement market. Work in process and finished goods are valued at cost not in excess of realizable values. Realizable values on certain inventories are based on engineering estimates of cost to complete. Costs are based on either first-in, first-out or average methods.

FMC CORPORATION
Current Assets:

Inventories (Page 23)	$199,545,980

Financial Review

Inventories are valued at the lower of cost or market. The first-in, first-out method is used to determine costs of chemical and commercial machinery inventories. Essentially all fiber and film inventories are stated on the basis of the last-in, first-out method of cost determination. Substantially all defense inventories are stated on the basis of accumulated costs less the portion of such costs allocated to products delivered, but not in excess of realizable values.

Estimated Realizable Value

METRO-GOLDWYN-MAYER INC.

Inventories, at lower of cost or estimated realizable value—	
Film productions—	
Released, less amortization	$ 58,999,000
Completed—not released	5,976,000
In process	53,785,000
Books and rights	5,449,000
Television productions, less amortization	13,242,000
Other inventories	6,597,000
Total Inventories	$144,048,000

Estimated Realizable 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—1966, $2,286,671; 1965, $3,732,599	$19,991,948
Raw materials and parts	14,292,595
Finished goods	9,905,406
	$44,189,949

Replacement Market

H. C. BOHACK CO. INC.
Current Assets:

Cash	$ 4,808,275
Refundable Federal and State income taxes	1,279,100
Accounts receivable, net of allowance for doubtful accounts	522,371
Inventories, at the lower of cost (first-in, first-out) or replacement market	13,034,712
Prepaid expenses	768,717
Total Current Assets	$20,413,175

P. R. MALLORY & CO. INC.
Current Assets:

Inventories, at the lower of cost (first-in, first-out) or replacement market	$22,635,007

Current Replacement Market

E. W. BLISS COMPANY
Notes to Financial Statements

Note 1: Inventories—At December 31, 1966 and 1965, inventories consisted of the following:

Finished products	$ 9,353,191
Work in process	20,526,810
Raw materials	5,370,269
	$35,250,270

Raw materials are priced at the lower of average cost or current replacement market value. Finished products and work in process are priced at manufacturing costs reduced where necessary to allow for a subsequent margin of gross profit.

Market, Less Allowance for Distribution and Selling Expenses

JOHN MORRELL & CO.
Current Assets:

Inventories (Note 1):	
Product and livestock	$29,050,658
Supplies	5,173,774

Note 1: Inventories—The company values inventories as follows: pork products and live hogs on the basis of last-in, first-out; other meat products on the basis of market, less allowance for distribution and selling expenses; and the balance of inventories, including other livestock and supplies, at the lower of current cost or market.

Estimated Recoverable Amounts

NORTHROP CORPORATION
Notes to Financial Statements

Note B: Inventories—Inventories are priced at the lower of cost or market. Fixed-price contracts in process are stated on the basis of accumulated costs, less the portion of such costs allocated to products delivered, but not in excess of estimated recoverable amounts. Cost relating to delivered products is computed for each contract at the estimated average cost of each unit based on the estimated total cost of the contract. Accumulated costs include applicable administrative and general expenses; however, it is not practicable to determine the amounts of administrative and general expenses in inventory at the beginning and end of each year, and the amount charged against each year's income. Aggregate amounts of administrative and general expenses actually incurred in fiscal years 1966 and 1965 were $52,390,329 and $43,606,428, respectively. Cost of material and supplies are determined under the first-in, first-out or average cost methods.

LIFO INVENTORY COST METHOD

PRESENTATION OF LIFO

One additional company adopted lifo during the year as a method of cost determination. Three companies abandoned lifo, while two companies that had referred to the use of lifo in 1965 made no such reference in the current year.

USE OF LIFO BY INDUSTRIAL GROUPS

A *new industry classification* of the 600 survey companies is presented in Table 12. The table reveals the number of companies identified with each classification, and also the number of companies referring in their annual reports for 1966 to the last-in first-out (lifo) method of inventory valuation. Comparison with prior years has been eliminated from the table this year because of the adoption of the new classification.

Examples

Examples illustrating the disclosures of the use of lifo in the 1966 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."

TABLE 12: COMPANIES CLASSIFIED BY INDUSTRY AND COMPANIES REFERRING TO LIFO

Group Total	Industrial classification†	Lifo Used: 1966
21	Aircraft and Equipment, Aerospace	—
7	Auto Cars and Trucks (*138, 591)	2
17	Auto Parts and Accessories (*12, 111, 143, 237)	4
3	Beverages—Brewing (*56)	1
4	Beverages—Liquors (*398)	1
3	Beverages—Soft Drinks (*145)	1
5	Building—Cement (*18, 335)	2
2	Building—Contracting & Engineering (*198)	1
6	Building—Heating, Plumbing, and Air-Conditioning (*39, 174)	2
9	Building—Roofing, Wallboard (*317)	1
17	Building—Miscellaneous (*41, 62, 400, 566)	4
10	Business Equipment, Supplies (*395)	1
29	Chemicals (*231, 306, 429)	3
1	Coal	—
3	Containers—Glass, etc.	—
3	Containers—Metal, etc. (*26, 163)	2
3	Controls, Instruments	—
3	Dental, Medical Equipment, Supplies (*474)	1
14	Drugs, Cosmetics, etc. (*325)	1
34	Electrical, Electronic Equipment (*129, 184, 247, 463, 512, 586)	6
12	Electrical Equipment, Appliances	—
6	Food—Baking	—
8	Food—Canning, etc. (*116, 257, 300, 339, 527)	5
4	Food—Confections, etc. (*84, 287, 596)	3
6	Food—Dairy Products, etc.	—
10	Food—Meat Products, etc. (*61, 362, 388, 459, 535, 592)	6
17	Food—Packaged and Bulk (*34, 366, 513)	3
7	Food—Sugar (*44, 292, 575)	3
47	Machinery, Equipment, Supplies (*2, 122, 279, 321, 468, 559)	15
4	Merchandising—Apparel Stores	—
10	Merchandising—Department Stores (*16, 140, 226, 262, 352, 361)	7
2	Merchandising—Drug Stores	—
11	Merchandising—Grocery Stores (*228, 332)	2
2	Merchandising—Mail Order and Stores	—
6	Merchandising—Variety Stores	—
6	Merchandising—Miscellaneous	—
18	Metal Fabricating (*50, 244, 466, 486, 522, 547)	8
4	Metals—Aluminum (*19, 322, 469)	3
8	Metals—Copper, Lead, Zinc (*43, 52, 104, 326, 434, 480)	6
2	Metals and Mining, Miscellaneous (*35)	1
6	Motion Pictures, Broadcasting	—
20	Paper Products, Packaging (*189, 312, 372, 421, 588, 589)	10
26	Petroleum (*66, 139, 273, 382, 455, 517)	17
7	Printing, Publishing	—
8	Railway Equipment, etc. (*452)	1
11	Rubber Products, etc. (*227, 254, 593)	3
3	Shipping, Shipbuilding, etc.	—
7	Shoes, Manufacturing, Stores, etc. (*307, 374, 568)	3
3	Soaps, Household Products (*451)	1
31	Steel and Iron, etc. (*11, 166, 280, 349, 444, 570)	21
26	Textile, Apparel Manufacturers, etc. (*90, 147, 267, 303, 390, 556)	15
10	Tobacco Products, etc. (*156, 470)	2
3	Watches, Clocks, etc. (*276)	1
55	Widely Diversified or Not Otherwise Classified (*58, 200, 253, 378, 499, 569)	15
600	Total	184

*Refer to Company Appendix Section.

†Company numbers represent companies referring to the use of Lifo inventory cost method.

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 replacement of, or reduction to, lifo inventories. Since 1950, however, there has been a decrease of nearly 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 1966), "Basic lifo replacement" (18 in 1950, 1 in 1966), and "Purpose not stated" (24 in 1950, 1 in 1966).

Examples of inventory reserves for various purposes follow.

TABLE 13: INVENTORY RESERVES

Purpose Stated*	1966	1960	1955	1950
A: Possible future inventory price decline or losses	2	8	14	49
B: Inventory obsolescence	4	12	12	19
C: Basic lifo replacement	1	5	6	18
D: Reduction to lifo cost	6	2	6	6
E: "Base stock" adjustment	2	4	4	5
F: "Released film" amortization	5	4	5	5
G: Purpose not stated	1	5	16	24
H: Miscellaneous	5	8	15	21
Total	26	48	78	147
Terminology Used				
Reserve	10	23	42	86
Provision	3	6	7	11
Various other terms	13	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: 184, 569; B: 216, 304, 536, 595; C: 535; D: 11, 237, 388, 449, 591; E: 400, 526; F: 195, 364, 377, 549, 583; G: 580; H: 35, 410.
Refer also to Table 14.

Inventory Obsolescence

INGERSOLL-RAND COMPANY
Notes to Financial Statements

Note 2: Inventories are valued at the lower of cost, principally on the first-in, first-out basis, or market and include:

Raw materials	$ 15,632,716
Work in process, finished parts and finished goods	148,964,480
Supplies	900,558
	165,497,754
Less—Estimated obsolescence	1,500,000
	$163,997,754

SYMINGTON WAYNE CORPORATION
Notes to Financial Statements

Note 3: *Inventories*, at the lower of cost or market, may be summarized as follows:

Finished and in process	$18,379,687
Materials and supplies	6,278,804
Provision for obsolescence	(281,801)
	$24,376,690

WORTHINGTON CORPORATION
Current Assets:

Inventories (Note 3)	$118,847,548

Note 3: Inventories consist of finished machines and parts, work-in-process, purchased materials and supplies and are stated at the lower of cost or market, less a provision of $1,000,000 for possible future obsolescence. Cost is principally determined using average costs, except for Alco Products, Inc. where the last-in, first-out method is employed.

Inventory Price Decline or Losses

UNITED STATES SMELTING REFINING AND MINING COMPANY
Notes to Financial Statements

Note 1: Inventories comprise—

Ores, metals in process and on hand	$11,931,337
Fabricated finished products, in process and raw materials, at lower of cost (principally last-in, first-out method) or market	19,781,365
Supplies, at cost	3,502,585
	$35,215,287

Purchased ores are stated at the lower of cost or market. Company mined ores, metals in process and on hand, at other than the fabricating companies, are carried at the average market prices of the respective metals at the time of production at the mines or at market price at the end of the period, whichever is lower. In the case of Company mined ores and metals in process, there has been deducted from the inventory value the estimated cost of further reduction processes. Under this method of valuation, such metal inventories include an indeterminable amount of unrealized profit.

Under the Company's 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 the 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 operating profit in the consolidated statement of income. An amount equivalent to accumulated net gains from metal price fluctuations has been appropriated from retained earnings as a reserve against possible future declines in metal prices.

Lifo Inventory Reserves

ALLEGHENY LUDLUM STEEL CORPORATION
Current Assets:

Inventories (Note 1):	
Raw material	$14,501,022
Semi-finished	50,207,867
Finished	14,564,059
Supplies	1,914,650
	$81,187,598

Note 1: *Inventories*—The principal raw materials, together with the related raw material content and substantially all hourly labor and a portion of burden included in semi-finished and finished goods, are stated at cost under the "last-in, first-out" method. The balance of the inventories is stated at average cost or market, whichever is lower. The amount applied to reduce inventories under the "last-in, first-out" method amounted to $9,373,263 at the year end.

JOHN MORRELL & CO.
Letter to Stockholders

The company's pork product inventories are valued according to the last-in first-out (Lifo) method of valuation by means of a reserve used to reduce market value to Lifo value. Changes in this reserve in 1966 resulted in a modest credit to net income as compared with a substantial charge to net income for 1965.

WHITE MOTOR CORPORATION
Notes to Financial Statements

Note B: Inventories—Inventories of certain subsidiaries are carried in their books and for federal income tax purposes on a last-in, first-out basis; the lifo reserves amounted to approximately $22,723,000 at December 31, 1966, for federal income tax purposes.

Replacement of Lifo Inventories

SWIFT & COMPANY
Current Liabilities:

Provision for replacement of "Lifo" inventories (net after income taxes)	$1,479,610

Normal or Base Stock Adjustment

STEWART-WARNER CORPORATION
Current Assets:

Cash and marketable securities (at cost)	$11,015,154
Receivables, less reserve of $656,000 ($628,196 in 1965)	22,710,281
Inventories, priced at lower of cost (first-in, first-out) or market, less reserve of $4,360,000 in each year to reduce basic inventories to 1945 price levels	35,455,194
Total Current Assets	$69,180,629

Released Film Amortization

WALT DISNEY PRODUCTIONS
Current Assets:

Cash—including time deposits of $600,000 and $4,700,000	$ 3,417,000
Accounts receivable	2,233,000
Inventories—at the lower of cost or market (Note 2)	
Completed productions—less amortization	9,048,000
Productions in process	19,935,000
Story rights and pre-production costs	1,180,000
Merchandise, materials and supplies	2,277,000
Total Current Assets	$38,090,000

Note 2: Inventories and Film Amortization—Costs of completed theatrical and television productions are amortized by charges to income in the proportion that the producer's share of income (less distribution, print, employee participation and advertising costs) received by the company for each production bears to the estimated total of such income to be received. Such estimates of total income are reviewed periodically and amortization is adjusted accordingly.

Supplies Adjustments

AMERICAN METAL CLIMAX, INC.
Notes to Financial Statements

Inventories:

Metals refined and in-process, at the lower of cost (primarily last-in, first-out) or market (at December 31 market quotations: 1966, $56,070,000; 1965, $49,480,000)	$32,030,000
Metal fabricated products, etc., at the lower of cost (first-in, first-out) or market	30,440,000
Ores, concentrates and chemicals, at the lower of cost or market	7,010,000
Operating supplies, at cost, less reserves	8,870,000

Miscellaneous Other Purposes

WAGNER ELECTRIC CORPORATION
Current Assets:

Inventories (Notes 1 and 2)	$44,350,193

Note 1: Acquisition of Business—As of June 30, 1966, the Company purchased 954,062 shares of common stock of the former Wagner Electric Corporation for cash, after requesting tenders, which, together with 73,600 shares previously purchased, resulted in the Company owning approximately 49% of the stock. On September 30, 1966, the Company acquired all the assets and business for $18,067,800 principal amount of 6⅞% Subordinated Debentures, 516,224 shares of Series A $1.6625 Convertible Preferred Stock, the assumption of all the liabilities and the surrender of all shares of common stock previously acquired for cash by the Company. This transaction has been accounted for as a purchase. Accordingly, the consolidated financial statements include the results of operations of the acquired business from September 30, 1966, the date of acquisition.

The allocation of the purchase price has been made on the basis of independent appraisal and valuation of the assets acquired and liabilities assumed. As part of the allocation, reserves of $7,000,000 were recorded for costs and losses estimated to be incurred in connection with the discontinuance of a certain portion of the Motor Division of the acquired business and for other estimated costs and losses to be incurred in connection with the combining of the acquired business with the existing operations of the Company. On the consolidated statement of financial position $3,000,000 of such reserves has been applied to inventories, and $4,000,000 has been classified as a current liability.

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 (22 reserves in 1966), above stockholders' equity section (2 reserves in 1966), or in the current liabilities section (one reserve in 1966), or within the stockholders' equity section (one reserve in 1966). 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 1966, 1965, 1960, 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 30 in 1966.

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

TABLE 14: INVENTORY RESERVES

	Balance Sheet Presentation*	1966	1965	1960	1950
	With Inventories for:				
	Possible future inventory price decline or losses	—	—	4	9
A:	Inventory obsolescence	4	6	11	15
B:	Reduction to lifo cost	6	5	2	5
C:	"Base stock" adjustments	1	1	1	4
D:	"Released film" amortization	5	6	4	5
E:	Purpose not stated	1	1	5	11
F:	Miscellaneous	5	2	6	15
	Among Current Liabilities for:				
G:	Basic lifo replacement	1	1	4	7
	Miscellaneous	—	—	—	1
	Above Stockholders' Equity for:				
H:	Possible future inventory price decline or losses	1	1	2	15
	Inventory obsolescence	—	—	1	4
	Reduction to lifo cost	—	—	—	1
	Basic lifo replacement	—	—	1	9
	Reduction to market	—	—	—	1
I:	"Base stock" adjustments	1	2	3	1
	Purpose not stated	—	—	—	7
	Miscellaneous	—	—	2	2
	Within Stockholders' Equity for:				
J:	Possible future inventory price decline or losses	1	1	2	25
	Purpose not stated	—	—	—	7
	Miscellaneous	—	—	—	3
	Total	26	26	48	147

*Refer to Company Appendix Section—A: 216, 304, 536, 595; B: 174, 237, 388, 449, 591; C: 526; D: 195, 364, 377, 549, 583; E: 580; F: 410; G: 535; H: 184; I: 400; J: 569.
Refer also to Table 13.

Combined With or Shown Under Heading of Other Noncurrent Assets

E. W. BLISS COMPANY

Investments and Other Assets:

Investment in affiliated companies (50% owned), at equity in underlying net assets	$1,743,778
Property and equipment not used in operations	1,135,634
Long-term notes and accounts receivable	923,081
Cash surrender value of life insurance	455,558
Other receivables, deposits, etc.	1,583,600
Total Investments and Other Assets	$5,841,651

THE DUPLAN CORPORATION

Other Assets:

Note receivable	$ 15,000
Cash value of life insurance	194,768
	$209,768

HOUDAILLE INDUSTRIES, INC.

Other Assets:

Cash surrender value of life insurance	$341,026
Patents	1
Charges applicable to future operations, etc.	320,028
Total Other Assets	$661,055

KELSEY-HAYES COMPANY

Investments and Other Assets:

Cash surrender value of life insurance	$ 702,053
Investment in Canadian subsidiary (72.7% owned)—at equity in net assets	4,894,572
Investments in and advances to unconsolidated subsidiaries	924,783
Miscellaneous	684,754
Total Investments and Other Assets	$7,206,162

G. D. SEARLE & CO.

Other Assets:

Prepaid expenses and sundry other assets	$1,668,291
Cash surrender value of paid-up insurance on life of officer	178,666
Common stock in treasury available for Employees' Savings and Profit Sharing Plan, 35,400 shares in 1966 and 36,500 shares in 1965, at cost	1,787,897
Investments in and advances to subsidiaries not consolidated (Note 1)	474,319
Patents, at cost less amortization	392,422
	$4,501,595

As a Noncurrent Asset Separately Set Forth

TOBIN PACKING CO., INC.

Current Assets:

Cash		$ 2,489,263
Trade accounts receivable		2,523,935
Other accounts receivable		188,984
Inventories (at lower of cost or market or at market less allowances in conformity with generally accepted practice in the meat-packing industry)		
Livestock, meats and other merchandise		5,545,912
Manufacturing supplies		829,804
		6,375,716
Prepaid expenses		774,585
Total Current Assets		12,352,483
Mortgages, notes and other investments (at cost)		77,661
Cash surrender value of life insurance		732,992

TABLE 15: CASH SURRENDER VALUE OF LIFE INSURANCE

	Balance Sheet Presentation*	1966	1965	1960	1950
	As a current asset separately set forth	—	—	—	3
A:	As a noncurrent asset separately set forth	3	5	9	31
B:	Combined with or shown under heading of other noncurrent assets	26	32	53	79
C:	Not shown on balance sheet but existence thereof discussed in notes	1	1	1	—
	Number of Companies:				
	Disclosing the above asset	30	38	63	113
	Not disclosing the above asset	570	562	537	487
	Total	600	600	600	600

*Refer to Company Appendix Section—A: 267, 315, 545; B: 50, 181, 282, 387, 490, 524; C: 366.

JANTZEN INC.
Non-Current Assets:

Investment in subsidiary company not consolidated—Note 1	$ 197,314
Cash value of life insurance	750,816
Plant and equipment—at cost less accumulated depreciation: 1966, $6,688,726; 1965, $6,141,779	6,253,857
Intangible assets arising from acquisition of subsidiaries—Note 1	248,485
Patents and trade-marks	1
Working Capital and Non-Current Assets	$26,166,538

CLAIMS FOR REFUND OF INCOME TAXES

Table 16 summarizes the 37 claims for income tax refunds as disclosed by 35 of the survey companies in their 1966 annual reports. One more claim was 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.

TABLE 16: TAX REFUND CLAIMS

Nature of Tax Refund Claims*	1966	1965	1955
Claims for Refund of Federal Income or Excess Profit Taxes:			
Basis of Claims Explained as—			
A: Operating loss carry-back or carry-forward	6	4	16
B: Adoption of lifo inventory	1	1	6
C: Various other	8	6	14
Basis of Claims Not Explained—			
D: Federal income taxes	14	17	20
Excess profits taxes	—	—	9
E: Taxes or income taxes	5	3	4
Claims for Refund of:			
F: State taxes	2	2	1
G: Foreign taxes	1	1	2
Excise taxes	—	2	—
Total	37	36	72

Presentation in 1966	A	B	C	D	E	F	G	1966 Total
Current assets	5	—	2	11	5	2	—	25
Noncurrent assets	—	1	—	1	—	—	1	3
Notes to statements	1	—	6	1	—	—	—	8
Current liabilities	—	—	—	1	—	—	—	1
								37

Number of Companies	1966	1965	1955
Referring to tax refund claims	35	36	62
Not referring to tax refund claims	565	564	538
Total	600	600	600

*Refer to Company Appendix Section—A: 18, 36, 196, 337, 504, 520; B: 260; C: 55, 128, 209, 252, 563, 594; D: 92, 98, 241, 301, 574, 576; E: 80, 167, 292, 426, 515; F: 98, 442; G: 167.

Operating Loss Carry-back or Carry-forward

DOUGLAS AIRCRAFT COMPANY, INC.
Current Assets:
Refundable federal income taxes—Note E $12,315,521

Note E: *Income Taxes*—The credit for federal and Canadian income taxes for fiscal 1966 consists of $12,315,521 refundable taxes arising from carry-back of operating loss and $12,016,637 applied to reduce deferred income taxes principally as a result of giving effect to the remainder of operating loss and applicable investment credit.

Income taxes which would otherwise have been payable in fiscal 1963, 1964, and 1965, were deferred to future years because of certain income tax and financial reporting differences, principally with respect to development costs (see Note F to financial statements). Deferred income taxes of $34,430,095 at November 30, 1965, previously reported as an offset to development costs deferred, have been reclassified in the statement of consolidated financial position to conform to November 30, 1966 classification.

The Company credits operations for the investment credit in the year of acquisition with respect to normal property additions (other than tooling), on the basis of delivered aircraft with respect to that applicable to tooling, and generally over the lives of leases with respect to that applicable to leased aircraft.

R. G. LeTOURNEAU, INC.
Notes to Financial Statements

Note 5: The Internal Revenue Service has examined the Federal income tax returns of the Company and subsidiaries for the years 1961 through 1965 and has proposed certain assessments. The deficiencies, which have been protested, result principally from a difference as to how a sale and lease-back of production equipment in 1961 should be treated. Management feels that adequate provisions have been made to cover any possible deficiencies.

Refundable Federal income taxes in the amount of $179,000 for the year ended December 31, 1966 are included in accounts receivable and are the result of the carryback to 1965 of net operating losses incurred in 1966 less a provision for any possible deficiency referred to above. The refund is composed of:

Federal income tax credit relative to the write-off of construction and rental equipment	$839,000
Provision for Federal income taxes on income before extraordinary item	660,000
Federal income taxes refundable	$179,000

The Company has adopted the "flow through method" of accounting for the investment credit in its accounts and accordingly has reduced Federal income taxes for the year ended December 31, 1965 by $158,000, the amount of the investment credit utilized. The Company also received benefit in computing its Federal income tax expense for 1965 from a net operating loss carryforward of $552,000 and an unused investment credit carryforward of $100,000.

An investment credit against future Federal income taxes in the approximate amount of $330,000 is available for years subsequent to 1966.

A. O. SMITH CORPORATION
Current Assets:

Cash	$ 8,808,591
Marketable securities, at cost (approximates market)	749,521
Receivables	39,415,294
Estimated federal income taxes recoverable through loss carry over of an acquired company	5,325,000
Inventories, at lower of cost (first-in, first-out) or market	61,707,341
Prepaid expenses	833,109
Total Current Assets	$116,838,856

Federal Income Taxes Not Explained

BATH IRON WORKS CORPORATION
Current Assets:
Federal income tax refund $2,011,000

LESLIE SALT CO.
Current Assets:

Federal income taxes refundable	$96,903

Taxes or Income Taxes Not Explained

BAYUK CIGARS INCORPORATED
Current Assets:

Income taxes recoverable	$587,000

PEDEN IRON & STEEL CO.
Current Assets:

Tax Refund Claims Receivable	$71

State Taxes

H. C. BOHACK CO. INC.
Current Assets:

Cash	$4,808,275
Refundable Federal and State income taxes	1,279,100

Foreign Taxes

CONTROL DATA CORPORATION
Noncurrent Assets
Deferred Charges and Other Assets:

Development, systems application and acquisition costs related to leases, less amortization (Note 2)	$16,858,682
Patents at purchase cost, less amortization	345,154
Recoverable foreign taxes and deposits	421,948
Other assets	786,535
Total Deferred Charges and Other Assets	$18,412,319

Other

THE BOEING COMPANY
Current Assets:

Refundable taxes on income	$17,427,000

Notes to Financial Statements

Federal Income Taxes: Income taxes have been settled with the Internal Revenue Service for all years through 1963, except for certain pending refund claims which have not been recorded in the accounts. Adequate provision for income taxes is believed to have been made for the years 1964 through 1966. The deferred Federal income tax liability stated in the balance sheet represents the noncurrent portion of taxes payable on earnings from installment sales of commercial aircraft. Refundable taxes on income principally represents carryback to prior years of investment tax credit in excess of the amount allowable against 1966 income taxes.

THE BRISTOL BRASS CORPORATION
Notes to Financial Statements

Note C: The Company follows the Treasury Department's "Depreciation Guidelines" in computing depreciation for income tax accounting purposes, but uses its regular depreciation practice for financial statement purposes. Depreciation computed for income tax purposes exceeded the book provision by approximately $110,800 in 1966. The resulting tax benefit of $53,200 has been deferred for future years when the provision for depreciation exceeds the amount allowable for income tax purposes.

Claims for refund of federal income taxes arising from the recomputation of tax using guideline depreciation for the years 1962 through 1965 are currently pending. Amounts recovered on these claims will be added to deferred federal income taxes and will have no effect on income.

GENERAL REFRACTORIES COMPANY
Notes to Financial Statements

Note 2: *Federal Income Tax Liabilities*—Provisions for income taxes made in the accompanying statements of income give effect to reductions of $2,000,000 and $1,200,000 for 1966 and 1965, respectively, for foreign taxes paid in prior years and are deemed adequate. A definite determination of the company's federal income tax liabilities for years after 1960 is not now possible. The U.S. Treasury Department has not completed its examination of the company's tax returns for the years 1961 and 1962. 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 in final form. Further, the method of computing the company's foreign income tax credits for these years may be affected by the outcome of the company's claim to recover approximately $900,000 of additional federal income taxes and interest paid upon the partial disallowance of certain foreign tax credits for the years 1954 through 1960. The company has deferred for financial reporting purposes the related cost of these additional taxes and interest pending settlement of the aforementioned claim. A refund of $750,000 to a foreign subsidiary resulting from the redetermination of prior years' taxes also remains deferred and not credited to income, since these taxes are part of the current claim.

In the event the company's position in respect to both the percentage depletion and foreign tax credit issues should not be sustained, consolidated net income for the years 1966 and 1965 would be decreased approximately $500,000 and $550,000, respectively. Consolidated net income for the other years subsequent to 1960 would not be materially affected in the aggregate.

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 taxes payable for 1966 have been reduced $4,606,109; 1965, $5,354,030. This does not affect reported net income because the provision for income taxes includes an amount equivalent to the income taxes deferred.

The investment tax credit for the year amounted to $1,595,127; 1965, $1,295,798, and has been included in net income as a reduction of the provision for income taxes. Effective October 10, 1966 the investment tax credit has been suspended by Congress until January 1, 1968.

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.

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 op-

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

erations under unusual conditions such as serious inflation or currency devaluation. However, when the 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 No. 6* was observed in the review of the 600 survey companies.

Of the 600 survey companies, 583 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.

TABLE 17: PROPERTY, PLANT AND EQUIPMENT

Basis of Valuation*	1966	1965	1960	1955	1950
A: Cost	553	545	515	457	396
B: Cost plus appraisal value or appraisal value with subsequent additions at cost	4	4	15	24	46
C: Cost or below cost	3	3	6	10	17
D: Approximate cost	3	3	4	12	11
E: Substantially, or principally, at cost	15	15	N/C	N/C	N/C
F: Basis of predecessor plus additions at cost	2	3	4	3	2
G: Various other	3	5	18	41	63
Number of Companies					
Stating valuation basis for property, plant and equipment	583	578	562	547	535
Not stating valuation basis for property, plant and equipment	17	22	38	53	65
Total	600	600	600	600	600

N/C—Not compiled
*Refer to Company Appendix Section—A: 16, 108, 223, 390, 472, 554; B: 371, 421, 480; C: 191, 332, 459; D: 116, 202, 464; E: 18, 175, 205, 325, 383, 592; F: 217, 561; G: 52, 117, 426.

Examples

Illustrations of the various methods of presentation of the value of property, plant and equipment as disclosed in the 1966 reports are as follows:

At Cost

ALUMINUM COMPANY OF AMERICA

Properties, Plants and Equipment, at cost:	
Land and land rights, including mines	$ 73,471,479
Structures, machinery and equipment	2,084,141,468
	2,157,612,947
Less, accumulated allowances for amortization, depletion and depreciation	1,140,341,888
	1,017,271,059
Construction work in progress	63,724,076
Total Properties, Plants and Equipment	$1,080,995,135

CHERRY-BURRELL CORPORATION

Plant and Equipment, at cost:	
Land	$ 134,817
Buildings	4,784,978
Machinery & equipment	5,764,389
	10,684,184
Less—Reserves for depreciation and amortization	5,962,992
	$ 4,721,192

THE FIRESTONE TIRE & RUBBER COMPANY

Property, Plants and Equipment, at Cost:	
Land and improvements	$ 25,123,771
Buildings and building fixtures	199,880,002
Machinery and equipment	728,732,729
	953,736,502
Less: Accumulated depreciation	465,707,396
	$488,029,106

MUNSINGWEAR, INC.

Plant and Equipment, at cost:	
Land	$ 403,483
Buildings and leasehold improvements	5,732,025
Machinery and equipment	9,895,161
	16,030,669
Less allowance for depreciation and amortization	8,143,454
Net Plant and Equipment	$ 7,887,215

POOR & COMPANY

Property, Plant and Equipment, at Cost:	
Land	$ 405,458
Plant and equipment	7,016,757
Total	7,422,215
Less accumulated depreciation	2,970,252
Balance	$4,451,963

UNION CAMP CORPORATION

Property:	
Plant property and equipment—at cost	$394,654,203
Less accumulated depreciation	176,699,300
Net plant property and equipment	217,954,903
Timberlands and equipment—at cost	57,706,436
Less accumulated depletion and depreciation	28,660,919
Net timberlands and equipment	29,045,517
Funds set aside for plant additions held by trustee	3,377,693
Net Property	$250,378,113

Cost Plus Appraised Value

ST. JOSEPH LEAD COMPANY

Property, Plant and Equipment (Note 3)	$168,175,847
Less accumulated depreciation and depletion	100,224,325
Property, Plant and Equipment—Net	$ 67,951,522

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	$ 3,600,000
Buildings, woods facilities and equipment (including construction in progress $6,104,000 in 1966 and $16,730,000 in 1965), at cost	236,762,000
	240,362,000
Allowance for depreciation	130,194,000
Property, Plant and Equipment—Net	$110,168,000

THE RATH PACKING COMPANY

Property, Plant and Equipment, not in excess of cost:	
Land	$ 378,961
Plant and equipment	39,909,491
Total	40,288,452
Less accumulated depreciation	21,587,068
Net	$18,701,384

Approximate Cost

CALIFORNIA PACKING CORPORATION

Plant and Equipment, at approximate cost less depreciation (details on page 15)	$111,949,000

Schedules Supporting Financial Statements

Plant and Equipment:	
Land, other than ranch lands	$ 8,256,000
Buildings	59,196,000
Floating equipment	2,520,000
Machinery and other equipment	138,851,000
Ranch lands, improvements and equipment	29,016,000
	237,839,000
Less—Accumulated depreciation	125,890,000
Plant and Equipment, at approximate cost less depreciation	$111,949,000

E. I. du PONT de NEMOURS & COMPANY

Plants and Properties (at approximate cost)	$3,715,864,145
Less: Accumulated depreciation and obsolescence	2,158,073,595
	$1,557,790,550

Basis of Predecessor Company with Subsequent Additions at Cost

ERIE FORGE & STEEL CORPORATION

Property, Plant, and Equipment—Notes B and C:		
Land		$ 355,617.78
Land improvements	$ 60,404.16	
Buildings	5,166,960.96	
Equipment	14,027,018.29	
	$19,254,383.41	
Less allowances for depreciation and amortization	9,857,334.49	9,397,048.92
		9,752,666.70
Work orders in process (principally the installation of two electric furnaces with an approximate cost to complete of $850,000.00)		968,298.54
		$10,720,965.24

Note B: Property, Plant, and Equipment—Property, plant and equipment acquired from predecessor company in 1950, are included herein at amounts recorded in that company's books. Additions since that date have been recorded at cost. Allowances for depreciation and amortization include provisions recorded in predecessor company's books.

Substantially or Principally at Cost

THE GILLETTE COMPANY

	(In thousands)
Property, Plant and Equipment, substantially at cost:	
Land	$ 4,459
Buildings	38,147
Machinery and equipment	73,839
	116,445
Less accumulated depreciation	41,541
Net Property, Plant and Equipment	$ 74,904

HAT CORPORATION OF AMERICA

Fixed Assets—substantially at cost:	
Land	$ 434,259
Buildings, machinery and equipment	8,545,272
	8,979,531
Less: Reserves for depreciation	6,042,263
Total Fixed Assets	$2,937,268

UNITED MERCHANTS AND MANUFACTURERS, INC.

Property, Plant and Equipment, less reserves of $82,776,842 and $80,128,427, respectively (Note D)	$90,648,370

Note D: Property, Plant and Equipment—Property, plant and equipment, stated principally at cost, consist of the following:

Land	$ 2,735,849
Buildings, machinery, equipment and leasehold improvements, less reserves of $82,776,842	82,399,391
Buildings, machinery and equipment under construction	5,513,130
	$90,648,370

Depreciation and amortization charged to operations amounted to $9,521,736.

Various Other

CALUMET & HECLA INC.

Property, Plants and Equipment:	
Land and standing timber	$ 6,603,881
Mine lands	5,772,000
Plants and equipment, less accumulated depreciation and amortization	34,875,012
Capital work in progress	5,450,196
Total Property, Plants and Equipment—Note 2	$52,701,089

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 1966 expenditures so treated amounted to $1,568,925, now carried at the net value of $815,841.

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. Depreciation of magnesium producing facilities is computed on an economic life basis. This is a change from the straight-line method used in prior years, and resulted in an increase in depreciation of $300,000. Other plants and equipment are depreciated on the straight-line method, based on estimated useful life. Accumulated depreciation and amortization at December 31, 1966 and 1965 amounted to $40,977,881 and $38,283,389, respectively. Depreciation and amortization charged to operations in 1966 was $3,837,482.

PEDEN IRON & STEEL CO.

Fixed Assets Used in Business:	
Buildings (at cost)	$1,513,110
Furniture and fixtures (at cost)	632,843
Automotive equipment (at cost)	549,155
Other equipment (at cost)	494,056
Total Depreciable Assets	3,189,164
Less accumulated depreciation	2,086,915
Net Depreciable Assets	1,102,249
Land and paving (Note A)	336,063
Net Fixed Assets	$1,438,312

Note A: Land and Paving is stated at cost with the exception of the main warehouse site which is carried at $100,000, the valuation placed thereon at the time of re-organization in 1933.

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 57 companies in 1966. The term *accumulated* has gained wide acceptance, increasing in usage from 98 companies in 1950 to 395 companies in 1966. The term *allowance* was used in 1966 by 99 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 1966 the frequency of their combination with the primary terms.

TABLE 18: ACCUMULATED DEPRECIATION

Primary Descriptive Terms	*1966	1965	1960	1955	1950
A: Reserve—used alone	5	5	12	9	275
Reserve, etc.	52	62	106	157	
B: Accumulated, etc.	395	378	266	190	98
C: Allowances, etc.	99	105	129	127	108
D: Depreciation — used alone	21	21	34	41	80
Depreciation, etc.	23	22	37	44	
E: Provision, etc.	2	2	6	13	17
F: Other phrases used	3	5	10	19	22
Total	600	600	600	600	600

*1966 Term Used With:	Primary Term Shown Above: A	B	C	E	F	None Used	1966 Total
Depreciation	28	235	50	1	1	21	336
Depreciation—amortization	16	106	33	1	—	11	167
Depreciation—amortization —depletion	5	21	6	—	—	7	39
Depreciation—amortization —obsolescence	1	3	—	—	—	—	4
Depreciation—depletion	2	22	8	—	—	5	37
Depreciation—obsolescence	—	6	1	—	—	—	7
Other phrases used	—	2	1	—	2	—	5
Reserve—used alone	5	—	—	—	—	—	5
Total	57	395	99	2	3	44	600

Examples

The terminology used in some of the 1966 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—(57 Companies):
- Depreciation, depletion and amortization reserves (*516)
- Reserve(s) (*179, 212, 320, 356, 560)
- Reserves for intangible drilling and development costs, depreciation, depletion, etc. (*21)
- Reserves for depletion, depreciation, and amortization (*503)
- Reserve(s) for depreciation (*49, 103, 283, 377, 461, 585)
- Reserve(s) for depreciation and amortization (*99, 135, 293, 391, 410, 526)
- Reserves for depreciation, amortization and obsolescence (*510)
- Reserves for depreciation, amortization, etc. (*109)
- Reserves for depreciation, etc. (*246)
- Reserves for depreciation and depletion (*359)
- Reserve(s) for depreciation, depletion, and amortization (*46, 400, 437)

Accumulated—(395 Companies):
- Accumulated allowances for amortization, depletion and depreciation (*19)

*Refer to Company Appendix Section.

Accumulated allowances for depreciation and amortization (*9, 16, 262)
Accumulated depletion, depreciation and amortization (*534)
Accumulated depreciation (*7, 111, 267, 309, 441, 597)
Accumulated depreciation and amortization (*34, 181, 232, 370, 402, 539)
Accumulated depreciation and amortization and provision for plant closings (*23)
Accumulated depreciation, amortization and depletion (*28)
Accumulated depreciation, amortization, and obsolescence (*113, 186)
Accumulated depreciation and depletion (*35, 127, 261, 311, 443, 588)
Accumulated depreciation and depletion and allowance for loss on abandonment and disposal (*252)
Accumulated depreciation and provision for losses on disposal (*39)
Accumulated depreciation and depletion, etc. (*385)
Accumulated depreciation and depletion of $xxx (*425)
Accumulated depletion, depreciation, and other allowances (*553)
Accumulated depreciation, depletion, and amortization (*66, 165, 273, 382, 494, 569)
Accumulated depreciation, depletion, amortization and provision for loss on disposal (*297)
Accumulated depreciation and obsolescence (*155, 202, 250, 266, 338, 464)
Accumulated depreciation and quarry depletion (*270)
Accumulated depreciation, etc. (*132, 292)
Accumulated depreciation reserves (*562)
Accumulated reserves (*429)
Accumulated provisions for depreciation (*529)
Accumulated provisions for depreciation and amortization (*568)
Accumulated wear and exhaustion (*318)

Allowances—(99 Companies):
Allowances for depletion, depreciation and amortization (*355)
Allowance(s) for depreciation (*15, 168, 205, 384, 401, 577)
Allowance(s) for depreciation and amortization (*25, 137, 208, 393, 408, 548)
Allowance(s) for depreciation and depletion (*175, 204, 373, 455, 533)
Allowances for depreciation and revaluation (*14)
Allowances for depreciation, depletion, and amortization (*142, 403, 465, 469)
Allowances for depreciation, depletion, amortization, etc. (*358)
Allowances for depreciation and obsolescence (*200)

Depreciation—(44 Companies):
Depreciation (*92, 157, 248, 398, 414, 546)
Depreciation and amortization (*122, 166, 264, 387, 531, 579)
Depreciation, amortization and cost depletion (*335)
Depreciation, amortization and depletion (*305)
Depreciation and depletion (*18, 518, 532, 570)
Depreciation, depletion, and amortization (*43, 319, 492, 517, 538)
Depreciation and depletion to date (*445)

*Refer to Company Appendix Section.

Provision—(2 Companies):
Cumulative provisions for depreciation (*284)
Provision for depreciation and amortization (*62)

Accrued, Estimated, and Various Other—(3 Companies):
Amount charged to expense to date (*366)
Portion allocated to operations to date (*51)
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."

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

[1] Paragraph 9 of Opinion No. 5 of accounting principles board of the American Institute of Certified Public Accountants.

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.

Forty-two companies* reported the existence of leases which were treated as purchases of property or as sale-and-leaseback transactions. The following tabulation includes 73 presentations by the 42 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	38
B:	The company may acquire property without further payment or with only nominal payment upon expiration of lease	13
C:	The report states that the lessee has treated the lease as a purchase for tax purposes	8
D:	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	4
E:	Report refers to the amortization of material gains or losses resulting from sale-and-leaseback transactions	4
F:	Payments under lease aggregate approximate purchase over term of lease plus payments for interest and carrying charges	6
	Total	73

*Refer to Company Appendix Section—A: 98, 131, 237, 383, 467, 553; B: 8, 131, 272, 365, 477; C: 22, 82, 551; D: 100, 383; E: 365, 565; F: 318, 383, 466.

Examples—Lease Agreements Which in Substance are Purchases of Property

The examples below illustrate the type of information furnished in 1966 reports for leases which in substance are purchases of property or which are sale-and-leaseback transactions.

Leases Recorded as Assets and Liabilities

ARMOUR AND COMPANY
Noncurrent Liabilities

Long term debt (Notes 5 and 9):

	(In thousands)
First Mortgage 2¾% Sinking Fund Bonds, Series F, due July 1, 1971	$16,000
First Mortgage 3% Sinking Fund Bonds, Series G, due July 1, 1971	8,286
Notes Payable—Banks	60,000
Equipment lease obligations	5,103
	$89,389

Note 9 (in part): *Commitments and Long-Term Leases*—Rent expense for real property under long term leases for 1966 amounted to approximately $4,180,000 and will approximate that amount for the next five years. These leases extend for varying periods up to thirty years, with the Company obligated under most leases to pay for insurance, maintenance and other costs of operating the properties.

The Company holds automotive and other equipment under leases having relatively short terms. In accordance with a pronouncement by the American Institute of Certified Public Accountants the cost of additions under these leases for the 1965 and 1966 years have been capitalized in 1966, with the lease obligations reflected as liabilities in the consolidated statement of financial position.

COOK PAINT AND VARNISH COMPANY
Noncurrent Liabilities

Long-Term Debt—Less current maturities:

Lease purchase agreement relating to manufacturing plant and equipment carried at $1,016,571. Payable $6,642 monthly including interest at approximately 4.2%	$1,141,861
Other	139,939
	$1,281,800

BURNDY CORPORATION
Noncurrent Assets

Property, Plant, & Equipment—at cost:	
Land and improvements (Note 2)	$ 891,160
Buildings (Note 2)	10,147,872
Machinery and equipment	10,833,552
	21,872,584
Less accumulated depreciation	8,838,166
	$13,034,418

Noncurrent Liabilities

Long-Term Debt—portion due after one year:	
Note payable—insurance company (Note 4)	$ 4,333,000
Notes payable—banks (Note 4)	2,600,000
Long-term lease/purchase obligations (Note 2)	673,783
Long-term debt of foreign subsidiaries	530,357
	$ 8,137,140

Note 2: On August 17, 1966 the Company entered into an agreement to lease land and a plant in New Milford, Connecticut, at an annual rental of $50,000 and to purchase such property for an additional payment of $515,000; $100,000 was paid on the date of the agreement and $415,000 is payable at the expiration of the 10-year lease term.

The transaction is reflected in the financial statements as a purchase. The land and building are carried in the appropriate asset accounts in the amount of $800,000, representing the present value of the deferred payments provided for in the agreement. The related obligations under the agreement are included in the balance sheet as long-term debt.

CENTURY ELECTRIC COMPANY
Noncurrent Assets

Property, Plant, and Equipment:	
On the basis of cost:	
Land	$ 981,580
Buildings, machinery, and equipment	21,617,944
Property rights under lease—Note B	1,700,000
Allowances for depreciation and amortization (deduction)	(15,316,525)
	$ 8,982,999

Noncurrent Liabilities

Capitalized Lease Obligations:	
Less portion classified as current liability —Note B	$ 1,586,833

Note B: *Capitalization of Lease*—The capitalized lease obligation relates to land, building, and equipment leased from the City of Lexington, Tennessee under an agreement dated March 1, 1965. An additional $200,000 was capitalized in 1966 under a supplemental agreement dated March 1, 1966.

The construction of the above facilities was financed by sale of Lexington, Tennessee Industrial Revenue Bonds. The original issue bears interest of 6.0% to 4.1% per annum and matures serially in progressive annual amounts ranging from $50,000 in 1967 to $113,000 in 1985. The supplemental issue bears interest of 4.75% and matures in 1986 and 1987 in the amount of $100,000 in each of those years. The payments to be made by the Company are in an amount equal to principal and interest payments due on the bonds through 1987.

CONTAINER CORPORATION OF AMERICA
Noncurrent Liabilities

Long-term Debt, less current portion (Note 1):	
3.30% sinking fund debentures, due 1980	$23,865,000
4.40% sinking fund debentures, due 1987	24,006,000
Lease obligations	7,723,000
Other	13,890,000
Total Long-term Debt	$69,484,000

Note 1: Sinking fund requirements for the 3.30% sinking fund debentures are $1,400,000 annually through 1979 and $8,400,000 in 1980 and for the 4.40% sinking fund debentures are $1,000,000 annually beginning in 1968 through 1986 and $6,000,000 in 1987. Under the terms of the more restrictive of the indentures and certain other restrictions, approximately $62,000,000 of the consolidated earnings retained at December 31, 1966, were not restricted as to cash dividends on and acquisitions of the company's capital stock.

Certain land and buildings acquired during 1966 were financed by long-term 25 year lease arrangements. The assets ($8,184,000) have been recorded in the property accounts and the corresponding obligations were recorded as long-term debt. Similar transactions prior to 1966 were not material. Other long-term debt relates primarily to overseas subsidiaries and matures in varying installments principally over the next five years.

EMERSON ELECTRIC CO.
Notes to Financial Statements

Note 2: *Long-term Debt and Dividend Restriction*—The long-term debt is summarized as follows:

5½% promissory note payable in annual installments of $1,000,000 beginning November 1, 1968	$10,000,000
5% promissory notes payable in semiannual installments of $275,000 to February 1, 1978	6,325,000
5¼% notes payable to bank in quarterly installments of $187,500	4,062,500
Obligations under long-term lease agreements—payable in semiannual installments to 1987	3,550,000
Other—obligation of foreign subsidiary	675,000
	24,612,500
Less current maturities	1,490,500
	$23,122,000

Pursuant to a loan agreement dated July 22, 1966, the Company borrowed $10,000,000 and will borrow an additional $10,000,000 between January 16 and December 15, 1967.

In addition to other covenants, the long-term debt agreements include restrictions on the payment of cash dividends. At September 30, 1966 the amount of unrestricted retained earnings was approximately $49,800,000.

The obligations under long-term lease agreements result from transactions which the Company considers in substance to be installment purchases and accordingly has recorded the property, plant and equipment so acquired at the amount of the related liability for the Industrial Revenue Bonds.

THE HOBART MANUFACTURING COMPANY
Noncurrent Liabilities

Long-Term Lease Obligation (Note 3)	$2,402,646

Note 3: Effective January 1, 1966, the Company entered into a twenty-year lease agreement with the City of Mt. Sterling, Kentucky, for an industrial building, related facilities, and equipment, financed by the proceeds from the City's $2,750,000 Industrial Building Revenue Bonds (due serially from January 1, 1967 to 1986) issued for this purpose. The lease provides for rental payments of approximately $200,000 a year, sufficient for the Trustee to pay interest and retire maturing bonds. The Company has the option to acquire the property after December 31, 1975, for the total of outstanding bonds and accrued interest; it also has the option to renew the lease for two additional ten-year periods at a nominal rental. At December 31, 1966, the Company's long-term lease obligation of $2,402,646 represents the portion of the funds expended and included in property, plant, and equipment ($2,492,646), less the annual rental payment applicable to the principal amount of bonds maturing January 1, 1967.

Company May Acquire Property Upon Expiration of Lease with Nominal Payment

FRUEHAUF CORPORATION
Noncurrent Liabilities

Other Liabilities:	
Deferred compensation	$ 2,162,916
Deferred taxes on income (Note E)	16,460,279
Long-term lease obligations (Note F)	6,113,000
Long-term debt (Note G)	35,069,594
Total Other Liabilities	$59,805,789

Note F: *Long-term Leases*—Fruehauf Corporation or Fruehauf Trailer Company of Canada Limited are lessees under 87 long-term lease agreements expiring from 1967 to 1987. Annual rental requirements of such leases will amount to approximately $2,380,000 in 1967, exclusive of taxes, insurance, maintenance, and repairs which are also payable by the companies.

Under the terms of 45 of the lease agreements, the companies have the right to purchase the properties after certain specified periods (generally five years from the date of the lease). The rental payments and purchase prices in most cases decline gradually over the terms of these leases. If all the rights to purchase were presently exercisable, the aggregate purchase price would amount to approximately $16,670,000.

In accordance with an Opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants issued in September 1964, the Corporation has capitalized certain leasehold interests acquired since that date and recorded the related liability. The assets are included in property, plant, and equipment and are being depreciated over their estimated useful lives. The long-term lease obligations are payable over 20 years in equal annual amounts of approximately $320,000. The lease agreements provide purchase options, generally giving the Corporation the right to purchase the facility for the unpaid principal balance owing plus a nominal amount.

Lease Treated as a Purchase for Statement and Tax Purposes

ARVIN INDUSTRIES, INC.
Noncurrent Liabilities

Long-Term Liabilities:	
5.1% Sinking Fund Debentures, due 1990 ($750,000 to be retired annually 1972 to 1989)—Note B	$18,000,000
Obligations under lease agreements—net of current portion—Note F	4,859,500
	$22,859,500

Note F: Lease Obligations—The Company has in effect nine long-term leases for plant facilities which have been treated as purchases for statement and tax purposes. These lease obligations, which expire at various times from 1982 to 1991, require annual payments averaging approximately $372,000 to 1982 and $192,000 from 1983 to 1991. The Company also has a number of short-term leases for warehouse space, equipment, etc., for periods ranging from three months to three years for which rentals totaling about $254,000 were paid in 1966.

JOHNSON & JOHNSON
Noncurrent Liabilities

Construction Costs of Leased Property (Note 5)	$5,587,258

Note 5: Construction costs of $5,587,258 were incurred to December 31, 1966, for partial completion of an equipped plant in each of Gainesville and Royston, Georgia, being built under leases with two County Development Authorities. The leases provide for rentals, over a period of twenty years from July 1, 1966, sufficient to pay the $9,200,000 principal, interest at 4.25% per annum and underwriting expenses on bonds sold by the Authorities to cover the total construction costs. At the end of the twenty year period, the properties will be sold to the Company for a nominal amount. For accounting and tax purposes, both transactions are being treated as projects being constructed and owned by the Company.

Capitalized Amount for Leased Property Depreciated Over Useful Life

THE BORDEN COMPANY
Notes to Financial Statements

Long-Term Debt (in part):

	Long-Term	Due Within One Year
Sinking fund debentures:		
2-7/8%, due 1981	$37,693,000	—
4-3/8%, due 1991	48,000,000	$1,843,000
Promissory notes:		
3-1/2%, due 1973	850,000	50,000
Assumed from acquired companies:		
5-1/5%, due 1979	808,000	73,000
5-1/4%, due 1978	850,000	80,000
5-3/8%, due 1981	10,600,000	500,000
5-5/8%, due 1979	630,000	50,000
Long-term lease obligations	59,095,433	4,890,902
	$158,526,433	$7,486,902

Commencing in 1966 certain equipment for which the Company has entered into lease arrangements has been treated as purchased equipment; such equipment has been capitalized and is being depreciated over its estimated useful life. The effect of this change on consolidated net income for 1966 was not material. For purposes of comparison the consolidated balance sheet and statement of consolidated resources provided and applied for 1965 have been revised to reflect similar eequipment on a purchase basis. The arrangements generally provide for payment over a period of eight years from the time the related equipment is placed in operation. Payments are required in annual amounts of approximately $7,000,000 for equipment which was operational at Dec. 31, 1966; payments will be required in annual amounts of approximately $3,500,000 for equipment in process of installation when such equipment becomes operational.

GENERAL REFRACTORIES COMPANY
Notes to Financial Statements

Note 4: Long-term Debt—Long-term debt due after one year is as follows:

Banks, 6 per cent payable in 1971	$10,000,000
Insurance companies, 5⅜ per cent payable $1,250,000 annually	12,500,000
Mortgages and notes payable, principally foreign, due through 1986	2,156,225
Capitalized lease	3,255,498
	$27,911,723

The loan agreements with banks and insurance companies contain certain restrictions on working capital, total liabilities and foreign investments and a limitation on the payment of cash dividends and stock transactions based upon earnings. Further, the retained earnings attributable to certain of the foreign subsidiaries are subject to restrictions by law respecting the payment of cash dividends. At December 31, 1966, approximately $6,600,000 of the consolidated retained earnings were not so restricted.

Under the terms of a long-term lease with a municipality expiring in 1982 for land, buildings and equipment, the domestic subsidiary is committed to pay annual rentals of approximately $410,000 through 1968, and $345,000 thereafter, with options to purchase beginning in 1972 at the face amount of the applicable bonds then outstanding. For financial reporting purposes, this lease has been treated as a purchase and depreciation is being recognized over the estimated useful lives of the building and equipment. Accordingly, the aforementioned lease payments have been treated as being applicable first to interest, at the annual rate of 4⅞ per cent, and then to principal.

Report Refers to Amortization of Material Gains or Losses Resulting from Sale-and-Leaseback Transactions

GENESCO, INC.
Above Stockholders' Equity

Deferred credits to income (Note 5)	$27,166,916

Note 5: Deferred Credits to Income—The following amounts will be taken into income or used to absorb certain losses over a period of years:

Deferred income credits	$19,226,210
Unamortized net excess of equity in companies acquired over cost, not specifically allocated and reserve for lease commitments on closed stores	7,940,706
	$27,166,916

Deferred income credits represent profits after taxes including $1,037,429 in 1966, from sales of real properties and equipment which were leased back. The deferred amounts are being amortized over the lives of the respective leases. Amortization in the current year amounted to $959,446.

The unamortized net excess of equity over cost, not specifically allocated and reserve for lease commitments arose principally from the Kress acquisition in 1963. The excess of adjusted cost over net equity of nonconsolidated subsidiaries and 50% owned companies, mostly represented by goodwill, is also reflected in this account. Credits and charges to this account are being amortized over a ten year period which resulted in a net credit to other income of $922,625 for the year. Losses which may arise from the closing of Kress stores will be applied against the unamortized balance.

R. H. MACY & CO., INC.
Above Stockholders' Equity

Deferred Credits:	
Federal income taxes (Note 1)	$20,221,000
Deferred investment credit ($2,973,545 and $2,161,319) and unamortized capital gains on sales and leasebacks (Note 2)	6,374,473
Deferred contingent compensation and pension costs, less estimated Federal income tax effect	1,675,144
Total Deferred Credits	$28,270,617

Note 2: In December, 1965, Val-Fair Shopping Center, a wholly owned subsidiary, acquired a shopping center in San Jose, California, previously owned by a corporation in which Macy's held a 50% equity interest. In April, 1966, the subsidiary sold the property for $14,000,000 and leased it back. The net gain on these transactions of approximately $2,190,000 is being amortized over 35 years. The leases are for an initial term of 35 years at total annual rentals of approximately $903,000, with six 10-year renewal options at annual rentals of $245,000. Also provided is an option to repurchase the land at the expiration of the initial term for approximately $3,800,000.

Based on rulings of the Commissioner of Internal Revenue in respect of similar transactions, the gain on the sale of the improvements will not be recognized for Federal income tax purposes and Val-Fair Shopping Center will continue for tax purposes to deduct depreciation on said improvements and a portion of the leaseback rent as the equivalent of interest.

Rentals Aggregate, Over Period of Lease, Approximate Purchase Price Plus Interest and Carrying Charges

REVERE COPPER AND BRASS INCORPORATED
Noncurrent Liabilities

Long-Term Lease Obligations (Note B)	$59,030,000

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, 1966, 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. Semiannual 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 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 retirements to be included in rental payments aggregate approximately $2,000,000 in 1968 and increase approximately $100,000 annually thereafter through 1987.

PHOENIX STEEL CORPORATION
Noncurrent Assets

Cash, restricted funds in escrow (Notes 4 and 5)	$25,012,295
Noncurrent Liabilities	
Long-term debt (less current portion shown above):	
Industrial revenue bonds 5¾% due 1991 (Note 5)	$35,000,000
Revolving bank loan 6%, due 1971	5,500,000
Miscellaneous	74,729
	$40,574,729

Note 5: Capital Improvements and Financing—The Company has contracted for a modernization program at its Claymont plant at a cost of approximately $30,000,000. The major portion has or will come from the restricted funds in escrow.

The Company arranged with Northern Delaware Industrial Development Corporation for the financing of plant improvements and other purposes 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 Development Corporation will construct to the Company's specifications a continuous casting mill and make other improvements to the Claymont property. The Company also sold (and leased back) its properties at Claymont to the Development Corporation. The bonds are 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.

Under the terms of the lease, payments for the next five years are required as follows: 1967, $300,000; 1968, $1,050,000; 1969 and 1970, $2,415,700; 1971, $3,177,375. Thereafter the annual fixed payment vary from $2,986,880 to $1,465,970, and average $2,895,740 over the remaining term of the lease. The lease provides that upon the payment of all of the outstanding bonds of the Development Corporation, the Claymont property with the improvements will, at the Company's option, be reconveyed to the Company for $1.

In accordance with generally accepted accounting principles, the sale has not been recognized and the entire transaction has been treated as a project being constructed and owned by the Company. Interest accruing during the construction period is being capitalized as part of the cost of the project.

Method of Disclosure

Table 19 summarizes the nature of the information disclosed in the 1966 survey reports with regard to long-term leases and the related methods of disclosure.

There were 313 survey companies that referred to, or implied, the existence of long-term leases in their 1966 reports. Of these companies, 265 provided in varying degrees and combinations such factual information as is indicated in the upper part of Table 19, while 22 companies merely implied or indicated the existence of such leases by reference to leaseholds or leasehold improvements. The remaining 26 companies referred to their long-term leases only in a general way without relating any fundamental features. The foregoing information was usually presented in the notes to the financial statements. Balance sheet reference to long-term lease commitments was made by 45 companies.

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 1966 annual reports to illustrate the various types of long-term lease disclosures are as follows:

Footnote Disclosure

ACF INDUSTRIES, INCORPORATED
Notes to Financial Statements

Note 5: Lease Commitments—As of April 30, 1966 annual rent for properties leased to the Company for terms expiring after three or more years was approximately $857,000 for manufacturing facilities and $596,000 for office space, plus in some cases real estate taxes and other expenses. Most of such leases expire prior to April 30, 1983.

TABLE 19: LONG-TERM LEASES

	Details set forth in:					
Disclosure by Lessees:*	Footnotes	Letter to Stockholders	1966 Total	1965 Total	1960 Total	1951 Total
A: Annual rental amount	147	6	153	141	137	59
B: Minimum annual rental	92	1	93	81	N/C	N/C
C: Aggregate rental amount	23	1	24	18	11	2
D: Basis for calculating rent other than time	32	—	32	28	N/C	N/C
E: Lease expiration date	70	4	74	56	28	14
F: Number of leases	45	—	45	47	60	37
G: Renewal or purchase option	61	4	65	46	15	13
H: Sell-leaseback feature	11	3	14	13	22	3
I: Unrealized profit on sale and leaseback	2	—	2	3	N/C	N/C
J: Term of leases	55	3	58	74	87	12
K: Schedule of rentals by period of years	44	—	44	31		
L: Type or types of property	127	15	142	81	N/C	N/C
M: Obligations assumed or guarantees made	13	—	13	13		
N: Restrictions on dividends, debt, or further leasing	4	—	4	3		
Total	726	37	763	635	360	140

Number of Companies	1966	1965	1960	1951
Setting forth details of long-term leases	265	237	117	61
Mentioning long-term leases but omitting details thereof	26	28	68	
Indicating long-term leases (without mention thereof) by reference to leaseholds or leasehold improvements	22	27	37	139
	313	292	222	200
Neither referring to nor indicating long-term leases	287	308	378	400
Total	600	600	600	600

*Refer to Company Appendix Section—A: 25, 123, 351, 441, 525, 582; B: 4, 116, 226, 293, 386, 497; C: 48, 117, 196, 241, 295, 548; D: 68, 192, 283, 346, 405, 594; E: 60, 172, 278, 342, 394, 528; F: 12, 149, 245, 306, 491, 586; G: 87, 181, 237, 332, 466, 592; H: 37, 177, 242, 365, 438, 560; I: 255; J: 100, 290, 598; K: 84, 148, 260, 295, 489, 560; L: 46, 144, 265, 395, 477, 553; M: 140, 237, 479; N: 121, 337.
N/C—Not compiled.

ACME MARKETS, INC.

Note 5: Lease Commitments—The company and subsidiaries were lessees under 734 leases (including 63 leases for stores under construction) expiring more than three years after April 2, 1966. Such leases call for minimum annual rentals (excluding taxes, insurance and maintenance expenses where payable by the lessee) totaling $18,704,000, of which about 10% relates to leases expiring within 5 years, 47% relates to leases expiring within 10 years, 74% relates to leases expiring within 15 years, and 92% relates to leases expiring within 20 years. Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals.

THE BARDEN CORPORATION
Notes to Financial Statements

General: (1) The accompanying consolidated financial statements include the operations of the Company's former domestic subsidiaries from November 1, 1965 to April 30, 1966, the date on which such subsidiaries were merged into the Company. (2) The aggregate minimum annual real estate rentals amount to approximately $220,000 as at October 31, 1966. One lease (minimum annual rental $67,500) expires in 1985, three leases (minimum annual rentals aggregating $53,000) expire in 1987, one lease (minimum annual rental $37,000) expires in 2004, and the others at various dates from 1968 to 1971. Certain of the leases provide, among other things, for the payment of taxes and insurance. (3) Commitments for capital expenditures at October 31, 1966, amounted to approximately $1,235,000.

CONSOLIDATED CIGAR CORPORATION
Notes to Financial Statements

Note 7: Commitments—The Corporation has twenty-seven noncancellable leases that expire more than 3 years from December 31, 1966. Annual rentals over the lease terms aggregate approximately $26,230,000 and are detailed as follows:

Years	Approximate aggregate rentals
1967-1975	$15,910,000
1976-1982	7,650,000
1983-1988	2,670,000

The Corporation plans capital expenditures of approximately $3,000,000 during 1967.

Total rent expense, including equipment rentals of $1,812,000, for the year 1966 was approximately $4,600,000.

DIGITRONICS CORPORATION
Notes to Financial Statements

Note 11: The Company rents its plant in Albertson, Long Island, under a lease expiring in 1970 with an annual rental of $46,500.

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION
Below Stockholders' Equity

Contingencies and Commitments (Notes 6 and 7)

Note 7: Contingencies and Commitments—The company is contingently liable as guarantor of $490,000 of a loan made to a nonconsolidated foreign subsidiary, and is also contingently liable in an amount of approximately $866,000 on notes receivable which were sold.

At December 31, 1966, the company was obligated under 18 long-term leases expiring between 1970 and 1978 with minimum annual rentals aggregating $1,033,000. Rent expense for 1966 and 1965 aggregated approximately $2,095,000 and $1,580,000, respectively.

At December 31, 1966, the companies had plans for capital expenditures in 1967 of approximately $25,000,000.

KEYSTONE STEEL & WIRE COMPANY
Notes to Financial Statements

Note C: A subsidiary occupies offices and manufacturing facilities under a lease agreement which provides for annual rentals of $516,000 through June 30, 1977; $292,000 through June 30, 1982; further reduced rentals for the remaining seven years of the original lease period; and, at the lessee's option, six five-year renewal periods at substantially reduced rentals. The lease further provides that the lessee shall pay all taxes, repairs, and insurance.

LIBBY, McNEILL & LIBBY
Notes to Financial Statements

Note 8: *Long-Term Lease Commitments*—Annual rentals under leases expiring more than three years from July 2, 1966 on property and equipment amount to approximately $2,220,000 of which rentals on leases of more than 20 years duration are $800,000.

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 $2,879,068 are outstanding at July 2, 1966. Of these bonds, the Company owns $591,154 and has guaranteed payment of principal and interest on an additional $1,377,438 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 at termination of the leases.

THE RATH PACKING COMPANY
Notes to Financial Statements

Note 6: *Commitments and Pension Costs*—Commitments and contingencies at October 1, 1966 include: Commitments for fixed property additions of $65,000; additions to automation fund of $70,000 during the next fiscal year; maximum annual rentals for the next fifteen years of $261,800 (excluding taxes, insurance and maintenance expenses) under four sale-and-lease back agreements for branch house facilities; annual rentals of $85,000 under equipment leases expiring between three and eight years subsequent to balance sheet date; unfunded past-service costs under a retirement plan of $1,985,000 not presently being amortized; and unfunded past-service costs under a pension plan of $7,155,000 being paid in over a period of twenty-nine years through payments, including interest, of approximately $405,000 per year.

Net charges to operations for costs of pension plans of the Company are on the level cost method of reporting such costs. 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 1966 and 1965 were $61,000 and $162,000 respectively.

SIGNAL OIL AND GAS COMPANY
Notes to Financial Statements

Note 9: *Commitments and Contingencies*—At December 31, 1966, the companies had long-term leases covering tankships, office buildings, service stations, and other facilities. Aggregate minimum annual rentals payable on such leases in 1967 will amount to approximately $8,300,000 (after deducting estimated service station sub-lease income). Tankship charters, included therein, amount to approximately $2,900,000 and have an average remaining life of eight years. Other leases expire at various dates in the future.

There are various lawsuits and claims pending against the companies. In the opinion of the companies' counsel, none of the actions will result in any material liability.

U.S. INDUSTRIES, INC.
Above Stockholders' Equity

Deferred Credit—Gain on sale and leaseback transaction—Note E	$4,699,886

Below Stockholders' Equity
Commitments—Notes E, G and I

Note E: *Long-Term Leases*—On December 30, 1963, the Company sold certain real estate and equipment, which were then leased back from the purchaser for ten years, with various renewal and repurchase options. The net gain on the sale was deferred and is being amortized ratably over the initial ten-year period of the leases as an adjustment of the related rental cost, with appropriate adjustment for items repurchased by the Company. The aggregate annual rental under these leases is $1,731,840.

Other long-term leases in effect at December 31, 1966, which expire between 1970 and 1999 provided for aggregate annual rentals of approximately $2,517,000, which decline to $1,604,000 by 1973, to $687,000 by 1977, to $402,000 by 1982 and to $4,000 by 1987.

HYGRADE FOOD PRODUCTS CORPORATION
Notes to Financial Statements

Note 6: Leases with a term of more than three years after October 29, 1966 are 39 in number and involve annual rentals payable of approximately $385,000 expiring as follows: 1970, $221,000; in 1971, $23,000; in 1972 and later, $141,000.

WALGREEN CO.
Notes to Financial Statements

Note 3: *Lease Obligations*—At September 30, 1966, the company and its subsidiaries had 442 leases expiring more than three years after that date (some of which contain percentage rental clauses) with minimum annual rentals of approximately $9,510,000.

Disclosure in Operations or Financial Review

ANDERSON, CLAYTON & CO.
Review of Operations

The Long Reach Docks in Houston were sold in December, 1965 for $6.5 million to the Harris County (Texas) Navigation District, providing funds for investment in the expansion of this subsidiary. These shipside terminal facilities continue to be operated by Gulf Atlantic under a five year lease agreement.

CLARK EQUIPMENT COMPANY
Operations Review

Until recently, Cortez drive-away shell units were fabricated for Clark at Evergreen, Ala., by the Southern Coach Division of Flexible Company. In November, 1966, Clark leased a Southern Coach facility at Evergreen and is now producing body shells using the experienced Southern Coach work force under Clark management. Interior installation work, formerly done at Greenville, Ala., also is being handled at the leased facility. Power trains are produced at the Jackson and Buchanan, Mich., plants. The leased facility is large enough to take care of Cortez production requirements for the next two to three years.

OLIN MATHIESON CHEMICAL CORPORATION
Financial Review

Leasing Arrangements: The company and its subsidiaries rent, under long-term leases, certain properties including plants, warehouses, tank cars, office space and other facilities. The majority of such leases expire within a ten-year period except for two major plant leases which expire in 1977 and 1981. The aggregate gross rentals under all long-term leases approximated $15,780,000 per annum at December 31, 1966, plus, in certain cases, real estate taxes and other charges. Rental income on sub-leases of certain of these properties approximates $2,266,000 per annum.

Reference or Disclosure in Balance Sheet

CUDAHY COMPANY
Noncurrent Liabilities

Long-Term Liabilities:	
Purchase agreements payable, 4¾%, due in annual installments to October 1968, less current maturities	$ 312,684
Lease obligations, excluding amounts due within one year (Note 5)	790,116
	$1,102,800

Above Stockholders' Equity
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 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, 1969 to 1977. Such leases, excluding motor vehicle rentals, will require rental payments of $282,000 in 1967; as of October 29, 1966, the aggregate of future rental payments was $1,600,000.

AIR PRODUCTS AND CHEMICALS, INC.
Above Stockholders' Investment
Commitments and Contingencies (Note 4)

Note 4: *Commitments and Contingencies*—The Company expects that capital additions presently authorized, including equipment being constructed under sale-of-product and lease agreements, will require the expenditure of approximately $44,000,000 subsequent to September 30, 1966. Purchase commitments for such future capital additions amounted to approximately $13,000,000 as of September 30, 1966.

The Company and certain subsidiaries have entered into noncancellable long-term lease agreements principally for revenue producing industrial gas delivery and handling equipment. At September 30, 1966, the average remaining term of all leases, excluding a lease for office space mentioned below, approximated 7½ years. Average annual rental payments on leases through September 30, 1969, is approximately $8,000,000 and subsequent annual rentals approximate $6,000,000. Certain leases entered into prior to September 30, 1964, include options to buy or renew at nominal amounts prior to the end of the estimated economic lives of the equipment. Most of the lease agreements entered into after September 30, 1964, for similar equipment include options to buy or renew at nominal amounts when the expiration of the leases approximates the estimated economic lives of the equipment. In addition, a foreign subsidiary has a long-term lease agreement for office space. This agreement will provide for annual rental payments of approximately $340,000 over a 35-year period.

The Company has been notified of the possibility that a contractor which erected facilities for a licensee of Houdry Process Corporation may prosecute claims or bring suit against the Company based upon the contention that certain equipment designed by, and initially operated with the assistance of, Houdry failed to meet process performance guarantees or upon some other theory. Counsel and management believe that the Company has a reasonable basis for defending against any such suit which may be brought.

BURLINGTON INDUSTRIES, INC.
Below Stockholders' Equity
Contingent liabilities and commitments (Note E)

Note E: *Contingent Liabilities, Commitments, and Other Matters*—(1) The provision for taxes on income is subject to final determination by Federal and other taxing authorities. Federal income tax returns of the Corporation have been examined by the Internal Revenue Service through the fiscal year ended in 1962, with domestic subsidiaries examined through fiscal years ended in 1962 to 1965. Tax liabilities, if any, resulting from such examinations have been paid or provision made in the accompanying financial statements.

The provision for Federal income taxes amounted to $58,179,216 ($57,393,416 in 1965) after deducting $6,740,047 ($3,395,973 in 1965) investment credit under the Revenue Act of 1964.

(2) The Corporation and subsidiary companies have leases principally for manufacturing facilities and sales offices with minimum annual rentals totaling approximately $4,310,000 ($5,320,000 at October 2, 1965), of which about 58% (66% at October 2, 1965) relate to leases expiring within ten years; certain leases (current annual rentals of approximately $905,000) have options for extension at substantially reduced annual rentals. Commitments for additions to fixed assets and other capital items amounted to approximately $74,000,000 at October 1, 1966 ($78,000,000 at October 2, 1965).

(3) The Corporation and its subsidiaries have sundry claims, suits, etc pending against them, and also have certain guarantees which were made in the ordinary course of business. It is impossible to state the ultimate liability in these matters, but in the opinion of Management adequate provision has been made therefor in the accounts and, in any event, they will have no material adverse effect upon the financial condition of the Corporation.

W. T. GRANT COMPANY
Below Stockholders' Equity
Long-Term Leases and Contingent Liability—Note F

Note F: At January 31, 1966, the Company was lessee of real property under 1,107 leases expiring subsequent to January 31, 1969. at aggregate minimum annual rentals of approximately $31,174,000 (exclusive of taxes and other expenses payable under terms of certain of the leases). This amount includes approximately $24,191,000 for minimum annual rentals under 863 leases which were on a percentage of sales basis with specified minimum annual rentals, but does not include any amount for 10 leases which were on a percentage of sales basis without any specified minimum annual rentals.

The Company amended its Retirement Plan to provide increased benefits to eligible employees effective January 1, 1966. Based on actuarial estimates, the unfunded liability for past service benefits was approximately $5,200,000 at January 31, 1966.

MSL INDUSTRIES, INC.
Above Stockholders' Equity
Commitments and Contingent Liabilities (Note 6)

Note 6: *Commitments and Contingent Liabilities*—Major plant, warehouse and office space leases require future annual rentals aggregating approximately $700,000 in 1967 and 1968, $550,000 in 1969 to 1971, and decreasing amounts thereafter. The total commitment for future rentals under these leases is approximately $6,000,000 at December 31, 1966.

MSL has pension plans, certain of which are union administered, for employees at several of its divisions. The estimated current service cost of the pension plans is approximately $300,000 per year and the estimated amount required to fund those plans with respect to past service is $1,700,000. Annual contributions (based on actuarial computations) are made to reduce the unfunded past service liabilities. The past service costs are being amortized over approximately twenty year periods.

MSL is contingently liable for approximately $3,000,000 with respect to certain mortgage and equipment trust obligations assumed by the Chicago and North Western Railway Company in connection with the sale of the railroad assets and business in 1960.

SMALL TOOLS, CONTAINERS, DIES, ETC.

Small tools, returnable containers, dies, etc., were disclosed in the 1966 annual reports of 90 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 1966 survey reports.

The examples which follow illustrate the various methods of presentation and valuation referred to above.

Current Asset Section

THE COLORADO MILLING & ELEVATOR COMPANY

Inventories:	
Wheat, other grains, flour and millfeed—at market after appropriate adjustment with respect to open commodity contracts	$6,451,906
Formula feeds, beans, other merchandise, containers and supplies—at lower of first-in, first-out cost or market	1,397,402
Advances on commodity purchases	706,520
Total Inventories	$8,555,828

DETROIT STEEL CORPORATION

Inventories—at lower of cost or market:	
Finished and in-process	$14,144,000
Raw materials	6,824,000
Rolls, molds, and supplies	4,253,000
	$25,221,000

GRANITE CITY STEEL COMPANY

Inventories:	
Finished and semifinished products, at lower of average cost or market	$16,023,669
Raw materials, supplies and by-products, at lower of average cost or market	18,948,449
Rolls and other short-life equipment, at depreciated values	4,639,194

TABLE 20: SMALL TOOLS, CONTAINERS, DIES, ETC.

	Balance Sheet Presentation						
		Shown in Noncurrent Asset Section					
Type of Asset*	Shown in Current Asset Section Under Inventories	Separately Set Forth	Under Fixed Assets	Under Deferred Charges	Under Other Assets	Shown in Notes to Financial Statements	1966 Total
A: Small tools, tools	—	1	19	2	—	4	26
B: Dies, lasts	—	1	6	2	—	2	11
C: Jigs, fixtures	—	2	2	1	—	1	6
D: Molds, chills, flasks, stools	2	—	—	—	—	3	5
E: Drawings, patterns	—	4	4	1	—	1	10
F: Returnable containers, cases	5	—	6	—	—	2	13
G: Rolls	4	—	1	—	—	1	6
H: Component parts, stores	20	1	—	1	—	3	25
I: Spare parts, spares	7	1	1	1	1	5	16
J: Equipment—annealing, repair, can-making, and charging box	2	—	—	—	—	—	2
K: Utensils, silverware, signs	—	—	1	—	—	—	1
L: Other	—	—	1	—	—	—	1
Total	40	10	41	8	1	22	122

	Balance Sheet Valuation					
Type of Asset	Amortized Value	Unamortized Value	Nominal Value	Inventory Value	Fixed or Arbitrary Value or Value Not Shown	1966 Total
Small tools, tools	14	2	—	2	8	26
Dies, lasts	5	2	2	—	2	11
Jigs, fixtures	2	—	2	—	2	6
Molds, chills, flasks, stools	—	—	—	4	1	5
Drawings, patterns	3	2	4	—	1	10
Returnable containers, cases	2	—	—	7	4	13
Rolls	1	1	—	4	—	6
Component parts, stores	—	—	—	23	2	25
Spare parts, spares	2	1	—	12	1	16
Equipment—annealing, repair, can-making, and charging box	1	—	—	1	—	2
Utensils, silverware, signs	1	—	—	—	—	1
Other	1	—	—	—	—	1
Total	32	8	8	53	21	122

Number of Companies Presenting	
Small tools, containers, dies, etc.	90
Account not presented	510
Total	600

*Refer to Company Appendix Section—A: 49, 138, 201, 351, 410, 555; B: 36, 65, 112, 201, 307, 591; C: 88, 112, 278, 581; D: 170, 349; E: 112, 278, 307, 581, 591; F: 119, 442; G: 166, 170; H: 191, 236, 280, 510; I: 18, 97, 419, 440, 452, 498; J: 166; K:493; L: 285.

LONE STAR CEMENT CORPORATION

Inventories at the lower of average cost or market:

Finished products and process stocks	$12,676,583
Packages, fuel, spare machinery parts and general supplies	9,848,325

THE PARKER PEN COMPANY

Inventories, priced at the lower of cost (first-in, first-out) or market—

Finished products	$ 4,501,227
Work in process	3,633,625
Raw materials and parts	5,419,510
Total Inventories	$13,554,362

Noncurrent Asset Section Separately Set Forth

ALLEGHENY LUDLUM STEEL CORPORATION

Patents, Patterns and Goodwill	$1.00

BURNDY CORPORATION

Intangibles — Unamortized purchased designs, drawings, patents, and goodwill	$235,100

UNITED STATES STEEL CORPORATION

Operating parts and supplies	$52,292,777

Under Fixed Assets

ADMIRAL CORPORATION

Property, Plant and Equipment—at Cost:	
Land	$ 1,317,407
Buildings and equipment, less accumulated depreciation (1966—$19,835,675; 1965—$17,524,109); including unamortized cost of tools and dies, leasehold and land improvements	45,934,683
	47,252,090
Construction in progress—Note G(1)	952,567
	$48,204,657

AMERICAN BANK NOTE COMPANY

Fixed Assets, at cost:	
Land	$1,016,900
Buildings, less accumulated depreciation of $4,969,500 — 1966 and $4,790,000 — 1965	3,900,400
Machinery and equipment, less accumulated depreciation of $8,391,400 — 1966 and $7,860,100 — 1965	7,966,000
Dies and rolls (cost of additions is charged to income currently)	3,077,000

FALSTAFF BREWING CORPORATION

Property, at Cost Less Accumulated Depreciation:	
Land	$ 3,162,067
Buildings, machinery and equipment	81,150,067
Cooperage and bottles	23,333,748
Total	107,645,882
Less accumulated depreciation	32,172,349
Remainder	75,473,533
Leasehold improvements—unamortized portion	512,802
Total Property—depreciated book value	$ 75,986,335

H. J. HEINZ COMPANY

Fixed Assets—at cost:	
Land	$ 9,928,794
Buildings and leasehold improvements, less accumulated depreciation of $26,112,132 ($23,729,607 in 1965)	79,944,596
Equipment, boats and fixtures, less accumulated depreciation of $76,866,888 ($68,680,520 in 1965)	90,512,987
Lug boxes, baskets and pallets, less amortization	1,351,294
	$181,737,671

INTERNATIONAL BUSINESS MACHINES CORPORATION

Plant, Rental Machines and Other Property . . . at cost:	
Land	$ 64,945,186
Buildings	519,537,104
Factory, laboratory and office equipment	862,819,065
	1,447,301,355
Less: Accumulated depreciation	612,923,505
	834,377,850
Rental machines and parts	4,359,665,979
Less: Accumulated depreciation	2,095,425,215
	2,264,240,764
	$3,098,618,614

INTERNATIONAL HARVESTER COMPANY

Property (page 25):	
Real estate, machinery and equipment	$1,006,354,226
Less accumulated depreciation	558,889,145
Net balance	447,465,081
Tooling and pattern equipment, less amortization	33,506,805
Total Property	$ 480,971,886

Under Deferred Charges

LILY-TULIP CUP CORPORATION

Deferred Charges, principally machine parts	$4,137,988

OWENS-ILLINOIS, INC.

Deferred Charges:	
Repair parts inventories, at cost	$21,450,514
Other deferred items	5,986,859
	$27,437,373

Under Other Assets

KEYSTONE STEEL & WIRE COMPANY

Other assets, principally operating parts and supplies	$2,100,648

Notes to Financial Statements

DEERE & COMPANY

Summary of Property and Equipment:	
Land	$ 12,849,756
Buildings and building equipment	155,725,167
Machinery and equipment	202,537,531
Dies, patterns, tools, etc.	45,978,290
All other	34,235,431
Total	451,326,175
Less reserves for depreciation	231,880,832
Net Investment in Property and Equipment	$219,445,343

DRAVO CORPORATION

Inventories and Contracts in Progress (in part): Cost of inventories and contracts in progress are determined at actual direct costs and overhead approximately at cost, except that the costs of approximately $18,078,000 of manufacturing and resale inventories are determined by the last-in, first-out method; used tools and equipment are at cost, less estimated depreciation, and certain supplies are valued, generally, at the lower of cost or market.

REPUBLIC STEEL CORPORATION

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	$ 42,685,856
Scrap	10,395,562
Fuel	10,068,378
Ferrous metals and alloys	8,469,668
Rolls, molds, and stools	14,537,391
Stores and manufacturing supplies	14,422,865
Miscellaneous materials	4,564,364
Pig iron	14,390,600
Product—semi-finished	49,548,525
Product—finished and in process	116,858,796
Total	$285,942,005

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 1966 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 there 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 1966, 1960, 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 1966 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.

**Accounting Research Bulletin No. 51* was reissued in 1961 as part of *Accounting Research and Terminology Bulletins, Final Edition,* 1961.

Cost

AMERICAN MACHINE & FOUNDRY COMPANY
Noncurrent Assets

Investments and Advances, at cost:	
Foreign subsidiaries and 50% owned companies (Note 1)	$30,091,780
Other	7,966,159
	$38,057,939

Note 1: Principles of Consolidation—The consolidated statements include the accounts of all U.S. and Canadian subsidiaries. The Company's equity in the net assets of non-consolidated foreign subsidiaries and 50% owned companies, without provision for United States taxes which would be incurred upon receipt of dividends, exceeded its cost of investment in such companies by $1,067,000 at December 31, 1966. The Company's portion of the net income of such companies was $1,219,000 in 1966 and $1,065,000 in 1965. Dividends were received from these companies in amounts of $550,000 in 1966 and $250,000 in 1965.

ARMSTRONG CORK COMPANY
Noncurrent Assets

Investments in foreign subsidiaries, at cost (Note 1)	$16,214,000

Note 1: The Company's 1966 earnings include dividends of $472,000 received from foreign subsidiaries. Net earnings of such subsidiaries for the year were $526,000. The Company's equity in the net assets of foreign subsidiaries (wholly-owned) at December 31, 1966, based on their audited financial statements, was $24,859,000 at applicable rates of exchange.

THE BORDEN COMPANY
Noncurrent Assets

Other Assets (at cost):	
Investments and advances:	
Foreign subsidiary companies	$18,569,687
Domestic associated companies	4,026,916

EMHART CORPORATION
Noncurrent Assets

Investments:	
Monsanto Company common stock — at quoted market value at date of acquisition (1966 market value, $4,125,000)	$3,623,000
Associated companies — at cost	1,994,000
Other investments — at cost	489,000

PUROLATOR PRODUCTS, INC.
Noncurrent Assets

Investments:	
Unconsolidated subsidiary (Note 1)	$ 421,377
Affiliated companies (Note 2)	287,849
Other	556,100

Note 1 (in part): *Principles of Consolidation and Pooling of Interests*—The consolidated financial statements include the accounts of Purolator Products, Inc. and its wholly-owned subsidiaries (except for an Argentine company) after the elimination of all significant intercompany transactions and profits. Net current assets of consolidated foreign subsidiaries amounting to $1,200,000 are included in the statement of financial condition on the basis of exchange rates prevailing at December 31, 1966. Other assets, consisting of property, plant and equipment, amounting to $1,525,000, are included on the basis of exchange rates prevailing at the dates of acquisition. Retained earnings include the Company's equity in the undistributed earnings of consolidated foreign subsidiaries amounting to $1,545,000. Earnings of consolidated foreign subsidiaries amounting to $348,000 for the year ended December 31, 1966 are included in the statement of earnings.

The Argentine subsidiary, which is wholly-owned, has not been included in the consolidation because of exchange restrictions. The Company's equity in the net assets of this subsidiary amounted to approximately $770,000 at December 31, 1966. The earnings of this subsidiary are not material within the accounts of the Company.

Note 2: *Affiliated Companies*—The investments in affiliated companies represent the cost of minority interests in companies in Mexico, Spain, Venezuela and India. The statement of earnings includes dividends of approximately $19,400 received from these affiliates.

TABE 21: UNCONSOLIDATED SUBSIDIARY AND AFFILIATED COMPANIES

	I: Unconsolidated Subsidiary			II: Affiliated Companies		
Balance Sheet Presentation	1966	1960	1951	1966	1960	1951
Investment in	124	141	116	144	133	91
Investment in, Advances to	81	99	82	80	55	39
Investment in, Advances to, Receivables due from	8	1	3	7	—	1
Investment in, Receivables due from	15	18	21	10	10	12
Equity in net assets	6	2	—	1	—	—
Equity in net assets of and advances to	3	—	—	4	—	—
Securities or stock of	2	—	—	8	4	—
Miscellaneous or other assets	20	5	1	19	2	1
Total	259	266	223	273	204	144
Basis of Valuation*						
A: Cost	94	121	104	127	124	78
B: Cost less reserve	22	27	18	22	13	16
C: Cost or below cost	19	20	15	24	26	14
D: Cost plus accumulated earnings or equity in earnings	29	16	3	20	5	—
E: Substantially at cost	3	1	2	3	—	—
F: Book value	7	—	—	5	—	—
G: "Not in excess of cost"	1	2	2	2	1	1
H: Equity in net assets	69	30	9	31	1	—
I: Miscellaneous other bases	7	22	32	5	5	6
Total	251	239	185	239	175	115
Basis of valuation not set forth	37	44	51	48	28	22
Less reserve—(basis of valuation not set forth)	2	2	8	—	4	9
Total	290	285	244	287	207	146
Number of Companies with Investment Account for:						
Unconsolidated subsidiary companies	259	266	223	—	—	—
Affiliated companies	—	—	—	273	204	144
Account not presented	341	334	377	327	396	456
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—I: Unconsolidated Subsidiaries—A: 13, 110, 213, 303, 446, 500; B: 17, 124, 234, 363, 467, 577; C: 52, 142, 286, 326, 552, 583; D: 48, 128, 213, 342, 469, 502; E: 371; F: 304, 425, 461, 528; G: 403; H: 17, 140, 208, 310, 431, 510; I: 207, 278, 414, 480, 585. II: Affiliated Companies—A: 24, 141, 206, 301, 402, 548; B: 25, 236, 325, 468, 499; C: 61, 172, 385; D: 70, 134, 247, 334, 362, 521; E: 371; F: 461, 484, 490; G: 305; H: 35, 139, 255, 339, 412, 573; I: 557.

Cost Less Reserve

AMERADA PETROLEUM CORPORATION
Noncurrent Assets

Investments:	
Stock of The Louisiana Land and Exploration Company, 978,000 shares, at cost (value on basis of market quotation: December 31, 1966, $57,579,750; December 31, 1965, $48,288,750)	$ 59,246
Investment in and advances to Esperanza Petroleum Corporation (unconsolidated subsidiary), at cost less reserve	1,114,000
Other	890,958
Total Investments	$2,064,204

TRIANGLE CONDUIT & CABLE CO. INC.
Noncurrent Assets

Investments in and Advances to Affiliated Companies—at cost less reserve	$1,577,449

FANSTEEL METALLURGICAL CORPORATION
Noncurrent Assets

Other Assets:	
Investments in and advances to nonconsolidated foreign subsidiaries and affiliates, at cost less reserve (Note 1)	$2,637,499
Patents, trademarks, etc.	58,586
Deferred charges	215,231
	$2,911,316

Note 1: The consolidated financial statements include the Company and its wholly-owned domestic subsidiary. The Company's investment in and advances to nonconsolidated foreign subsidiary companies at December 31, 1966 is stated at underlying net asset value which is $547,000 less than cost. The Company's equity in net tangible assets of affiliated foreign companies exceeds its cost.

LONE STAR CEMENT CORPORATION
Noncurrent Assets

Investments in Unconsolidated Subsidiaries:	
Latin American, at cost less reserve	$12,059,757
Domestic finance companies	4,077,472
Other	1,964,736

GENERAL REFRACTORIES COMPANY
Noncurrent Assets

Investments, including Advances:	
50 per cent owned foreign companies at equity in net assets	$ 4,866,723
Notes receivable, less current maturities	6,323,070
Other, principally associated companies, at cost, less allowance	3,628,119
	$14,817,912

KOPPERS COMPANY, INC.
Noncurrent Assets

Investments at cost less reserve:	
Investments in non-consolidated subsidiaries and 50% owned companies (Note 1)	$ 9,400,269
Other investments (Current value at December 31, 1966—$11,864,000)	8,908,176
Notes and accounts receivable due after one year	5,020,638
	$23,329,083

NATIONAL LEAD COMPANY
Noncurrent Assets

Investments in, at cost or below, and advances to unconsolidated subsidiaries, less reserve of $3,193,775 (Note 3)	$16,020,628
Miscellaneous investments and advances, at cost or below, less reserves: 1966, $1,034,897; 1965, $864,897 (Note 4)	12,023,260

Cost or Below Cost

AMERICAN ZINC, LEAD AND SMELTING COMPANY
Noncurrent Assets

	(In thousands)
Investments and Advances at Cost or Less:	
Joint ventures	$ 97
Other	451
	$548

CHRYSLER CORPORATION
Notes to Financial Statements

Investments and Other Assets: Detail of investments and other assets included in the financial statements is as indicated below. The investment in Rootes Motors Limited is carried at cost less a write-down during 1966 of $9,700,000, to reflect current unfavorable operating results of Rootes Motors Limited.

Investments in and advances to associated companies outside the United States—at cost or less:	
Rootes Motors Limited—Great Britain (45% voting and 66% non-voting interests)	$ 59,139,064
Barreiros Diesel, S.A.—Spain (40% interest)	19,828,311
Simca Industries, S.A.—France (24% interest sold in 1966)	—
Fabricas Auto—Mex S.A.—Mexico (33% interest)	8,868,351
Chrysler-Cummins Limited—Great Britain (50% interest)	7,210,000
Other	332,653
	95,378,379
Investments in and advances to unconsolidated subsidiaries—at equity:	
Finance and insurance companies	135,026,427
Retail sales outlets	48,543,081
Leasing companies	34,608,447
Other	7,765,638
	225,943,593
Sundry advances and investments	24,948,541
Total Investments and Other Assets	$346,270,513

AMERICAN SMELTING AND REFINING COMPANY
Noncurrent Assets

Investments (Note 6 and page 25) $83,153,871

Investments: December 31, 1966

	Shares Owned	Per-cent	Book Value (cost or less)	Market Value(a)
Subsidiaries Not Consolidated:				
Mount Isa Mines Limited	51,204,860	53.7	$12,603,022	$237,590,600
Southern Peru Copper Corp.	402,936	51.5	15,887,144	
Other			602,319	
			29,092,485	
Companies Other Than Subsidiaries:				
Asarco Mexicana, S.A.	3,538,009	49.0	26,925,361(b)	
General Cable Corporation (Note 6)	4,848,590	36.1	4,223,173	164,246,000
Hecla Mining Company	117,930	4.8	3,578,920	4,953,100
Kennecott Copper Corporation	259,254	.8	2,541,657	9,948,900
Revere Copper and Brass Incorporated (Note 6)	938,148	34.2	8,587,014	46,555,600
United Park City Mines Company	379,211	9.8	1,760,427	711,000
Other			6,444,834	
			54,061,386	
Total Investments			$83,153,871	

(a) Amounts shown are based on December 31, 1966 quotations of stock traded on the New York and London Stock Exchanges, but do not purport to represent the realizable or fair value of such large blocks of stock.

(b) Includes cost applicable to notes received in connection with sale of 51% interest to Mexican investors.

COMBUSTION ENGINEERING, INC.
Noncurrent Assets

Investments, at cost or less, including $3,214,171 in 1966 and $3,071,550 in 1965 with respect to associated companies	$4,153,343

PITTSBURGH PLATE GLASS COMPANY
Noncurrent Assets

Investments:	
Investments in jointly-owned companies—at equity	$41,573,000
Investments in subsidiaries not consolidated—at cost or less	5,776,000
Other—at cost or less	6,009,000

STANDARD OIL COMPANY OF CALIFORNIA
Noncurrent Assets

Investments (at or below cost):	
Companies operating in foreign countries	$147,169,000
Companies operating in the United States	10,144,000

TWENTIETH CENTURY-FOX FILM CORPORATION
Noncurrent Assets

Investments and advances, at cost or less:	
Foreign theatre circuits (Note 3)	$4,754,542
Other companies	1,891,040

Note 3 (in part): *Foreign Theatre Circuits*—At December 31, 1966, investments in major foreign theatre circuits not consolidated (Australia, New Zealand and South Africa) consist of investments of $2,329,723 and advances of $2,424,819.

Cost Plus Accumulated Earnings or Equity in Earnings

AMERICAN OPTICAL COMPANY

Noncurrent Assets

Investments and Advances:	
Foreign subsidiaries:	
Investments (Note 1)	$ 8,109,588
Advances	940,000
Other, less allowance for losses	1,011,406
Total Investments and Advances	$10,060,994

Note 1: Principles of Consolidation—The consolidated financial statements include the accounts of the Company, its two domestic subsidiaries and one Canadian subsidiary. Effective in 1966 the Company changed from the cost method to the cost plus equity in net earnings method of accounting for its investments in nonconsolidated foreign subsidiaries. The 1965 statements have been restated to conform to this policy. The investment in nonconsolidated foreign subsidiaries shown in the balance sheet consists of the following:

Investments, at cost (including goodwill of $43,770)	$6,145,217
Equity in unremitted earnings since dates of acquisition included in consolidated retained income	1,964,371
	$8,109,588

The financial statements of non-consolidated foreign subsidiaries are for years ended December 31 as to three subsidiaries and years ended September 30 as to all others.

Dividends received and included in consolidated income during the year amounted to $41,668.

The accounts of the foreign subsidiaries have been converted to United States dollars at appropriate rates of exchange.

THE ARUNDEL CORPORATION

Noncurrent Assets

Investments:	
Unconsolidated companies—Note A	$1,061,559
Other—at cost	147,480
	$1,209,039

Note A: Principles of Consolidation—The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All intercompany transactions and profits have been eliminated in consolidation.

The Corporation's investment in unconsolidated companies, consisting of 55% of the voting preferred stock and 49% of the common stock of Baltimore Brick Company and 50% of the common stock of Adkins Concrete Company, is stated at cost plus equity in undistributed earnings. At December 31, 1966, the Corporation's equity in the net assets of unconsolidated subsidiaries exceeded the carrying value of the related investments by $502,213.

FMC CORPORATION

Noncurrent Assets

Investments (Page 23)	$55,235,815

Financial Review

Investments: Investments consist primarily of 50%-owned companies, plus long-term interest bearing notes receivable due from Sun Oil Company. Investments in the 50%-owned companies are stated at cost plus FMC's one-half interest in undistributed earnings since acquisition. The notes receivable from Sun Oil Company total $17.7 million and are due in 14 annual installments commencing January 1968. These notes, plus cash, were received in payment for FMC's 50 per cent interest in Avisun Corporation, sold in December 1966 for approximate book value.

GIDDINGS & LEWIS MACHINE TOOL COMPANY

Noncurrent Assets

Investments and Other Assets:	
Investments in and advances to nonconsolidated subsidiaries (Note 2)	$2,909,918
Machines leased, at cost less accumulated depreciation (1966, $273,751; 1965, $273,358)	179,051
Other	505,722
Total Investments and Other Assets	$3,594,691

Note 2: Investments in and Advances to Nonconsolidated Subsidiaries—Investment in an overseas subsidiary (51% owned) is carried at cost of $1,830,439. Dividends received and included in income amounted to $95,460 in 1966 and $39,674 in 1965. The Company's equity in the net assets at December 31, 1966 was $1,080,000 in excess of the cost of the investment in the subsidiary and its equity in the 1966 earnings of the subsidiary was $270,000.

Investment in and advance to a 51% owned domestic subsidiary is carried at cost plus equity in undistributed earnings and amounts to $1,079,479 at December 31, 1966. The Company's equity in the earnings of this subsidiary, included in income, was $121,000 in 1966 and $69,500 in 1965.

P. LORILLARD COMPANY

Noncurrent Assets

Investments in Associated Companies (at cost plus equity in earnings)	$3,845,870

ST. REGIS PAPER COMPANY

Noncurrent Assets

Investments:	
Marketable securities, at cost (quoted market value, 1966 — $8,153,102; 1965 — $10,069,735)	$ 6,363,826
Securities of and advances to subsidiaries not consolidated and associated companies (Note 2)	62,834,155
Total Investments	$69,197,981

Note 2: Subsidiaries Not Consolidated and Associated Companies—Investments in securities of and advances to subsidiaries not consolidated (except for subsidiaries in Central and South America), 50 per cent owned companies, and joint ventures are stated at cost plus equity in undistributed earnings since dates of acquisition and St. Regis' equity in the net earnings of such companies is included in consolidated net earnings. All other investments and advances are carried at cost.

Investments in and advances to subsidiaries not consolidated, 50 per cent owned companies, and other associated companies (less than 50 per cent owned) aggregated $62,834,155 at December 31, 1966, of which $25,338,333 relates to companies whose investments are stated at cost plus equity in undistributed earnings since dates of acquisition ($16,457,894 of cost plus $8,880,439 of equity) and $37,495,822 relates to companies whose investments are carried at cost.

The equity in the net earnings of companies whose investments are stated at cost plus equity in undistributed earnings since dates of acquisition exceeded the dividends received from such companies by $1,862,006 in 1966 and $4,112,530 in 1965. The equity in net earnings of companies whose investments are carried at cost exceeded the dividends received from such companies by $879,940 in 1966 and $80,621 in 1965; St. Regis' equity (exclusive of excess cost, $16,690,110, of investment in Southland Paper Mills, Inc. over related net assets at dates of acquisition in 1966) in the related net assets of such companies exceeded cost by $2,320,034.

A. O. SMITH CORPORATION

Noncurrent Assets

Other Assets:	
Investments in and advances to affiliated companies (50% owned) at cost plus equity in undistributed net earnings since acquisition (Note 1)	$6,039,269

Note 1: Investments in and Advances to Affiliated Companies—In 1966 the Company commenced the practice of recording its equity in earnings or losses of its affiliated companies (50% owned). Previously it had carried its investments in such affiliates at cost and recorded dividends received from them, if any, as income upon receipt of such dividends. The 1965 financial statements have been restated, for comparative purposes, to reflect the same treatment in 1965 as was used in 1966. The restatement resulted in reducing previously reported earnings for 1965 by $791,284 ($.33 per share) and increasing the beginning balance of retained earnings by $2,990,818. The change had the effect of reducing earnings for 1966 by $345,000 ($.15 per share).

SWIFT & COMPANY

Noncurrent Assets

Investments and Other Assets:	
Affiliated insurance businesses, at cost plus equity in accumulated earnings—Note 2	$26,800,849
Other affiliated companies, at cost—Note 3	8,693,206
Long-term receivables	6,630,203
Miscellaneous, at cost	612,574

Equity in Net Assets

AVCO CORPORATION
Noncurrent Assets

Investment in Avco Delta Corporation, at equity in net assets (Note 1)	$106,168,861

Note 1: Avco Delta Corporation—The consolidated financial statements of Avco Corporation include the accounts of all wholly-owned subsidiaries other than finance subsidiaries (operated through Avco Delta Corporation). The consolidated financial statements of Avco Delta Corporation are shown separately. Avco's investment in Avco Delta is stated at Avco's equity in the consolidated net assets of Avco Delta which include $55,307,251 of cost in excess of Avco Delta's acquired equity in net assets, which excess is being carried without amortization.

At November 30, 1966, Avco was contingently liable with respect to approximately $21,200,000 of receivables from commercial customers sold to Avco Delta.

THE ELECTRIC STORAGE BATTERY COMPANY
Noncurrent Assets

Other Assets, Net:	
Long-term trade receivables and other assets	$5,111,553
Investments in and advances to affiliates outside the United States	3,005,506

Notes to Financial Statements

Principles of Consolidation: The investments in and advances to affiliates outside the United States consist of: (1) the company's equity of $2,469,486 at December 31, 1966 and $2,601,847 at December 31, 1965 in the net assets of unconsolidated affiliates, in which voting stock ownership is 50 per cent or more but less than 100 per cent; and (2) investments in other affiliates (voting stock ownership, less than 50 per cent), at cost, $536,020 at December 31, 1966 and $545,395 at December 31, 1965.

GULF OIL CORPORATION
Noncurrent Assets

Investments and Long-Term Receivables:	
Associated and other companies (50% or less owned)	$174,575,172
Other investments and long-term receivables	202,068,293
Total Investments and Long-Term Receivables	$376,643,465

Notes to Financial Statements

Investments: Investments and long-term receivables are stated at cost, less allowance for losses, except for the investments in 50% owned companies which are stated at Gulf's equity in these companies.

R. H. MACY & CO., INC.
Noncurrent Assets

Other Assets:	
Investment in Macy Credit Corp., at equity, per statement on page 17	$17,697,633
Miscellaneous, including investment in and advances to affiliated shopping center company	7,747,263
Total Other Assets	$25,444,896

U. S. PLYWOOD-CHAMPION PAPERS INC.
Noncurrent Assets

Investments and Other Assets:	
Equity in and advances to 50% owned companies and joint ventures	$20,722,334
Investments in unconsolidated foreign subsidiaries, at cost less write downs	9,090,206
Other investments, at cost, and long-term receivables	7,591,715
Other assets and deferred charges	15,128,002
Excess of cost of businesses acquired over amounts assigned to net tangible assets	11,448,043
	$63,980,300

A. E. STALEY MANUFACTURING COMPANY
Noncurrent Assets

Investments in Foreign Subsidiaries—Note A	$6,144,815

Note A: *Principles of Consolidation*—The consolidated financial statements include the Company and its wholly-owned domestic and Canadian subsidiaries. The investments in foreign subsidiaries are stated at the Company's approximate equity in underlying net assets, without provision for income taxes, if any, which may be payable if and when earnings are remitted to the United States.

Other

HARNISCHFEGER CORPORATION
Noncurrent Assets

Other Assets:	
Long-term note receivable	$ 719,000
Investments in and advances to wholly-owned and partly-owned companies—	
Domestic, at cost or net realizable value	1,629,729
Foreign, at cost or assigned value	2,433,520
Surrender value of life insurance	1,892,664
	$6,674,913

MERCK & CO., INC.
Noncurrent Assets

Investment in Unconsolidated Foreign Companies	$2,591,642

Note to Financial Statement (in part):

Investments in unconsolidated foreign companies are carried at cost less amortization of cost in excess of equity at dates of acquisition. The Company's equity in the net assets of unconsolidated foreign companies at December 31, 1966 was $1,134,000 in excess of its investment therein. The Company's equity in the earnings of these companies amounted to $989,000 in 1966 and $945,000 in 1965. Dividends received from these companies in these periods amounted to $618,000 and $250,000 respectively.

NATIONAL STEEL CORPORATION
Noncurrent Assets

Investments:	
In associated companies and unconsolidated subsidiaries not wholly-owned — Notes A and B:	
Capital stock	$40,954,303
Notes, debentures and other advances	14,807,196
Total Investments	$55,761,499

Note A: *Associated Companies and Unconsolidated Subsidiaries*—Investments in capital stock of associated companies ($20,780,371) and unconsolidated subsidiaries ($20,173,932) represent partial ownership of various companies, and are stated at amounts which are not in excess of cost.

At December 31, 1966 the Corporation has guaranteed its proportionate share ($17,100,000) of long-term indebtedness of several of these companies, incurred in connection with financing the construction of raw material facilities.

The Corporation's equity in the recorded net assets of the unconsolidated subsidiaries exceeded the carrying amount of its investments in such subsidiaries by $3,250,000 at December 31, 1966. Dividends received from the unconsolidated subsidiaries exceeded the Corporation's equity in the net earnings of such subsidiaries by $720,000 in 1966 and $727,000 in 1965.

TEXAS GULF SULPHUR COMPANY
Noncurrent Assets

Investments, Advances and Other Assets:	
Securities of and advances to unconsolidated subsidiaries, less reserve for exploration costs, $1,312,630 in 1966 and $1,181,464 in 1965	$ 5,368,739
Advance payments relating to potash property	13,275,257
Notes receivable, advances and other assets	9,824,752

ASSOCIATED COMPANIES (50% Jointly Owned)

The 1966 reports of the survey companies disclosed a total of 114 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.

Basis of Valuation*		1966
A:	Cost	32
B:	Cost or less	9
C:	Cost less reserve	8
D:	Cost plus equity in accumulated earnings	15
E:	Underlying net asset value	22
	Other or not disclosed	28
	Total	114

Source of Disclosure*		
F:	Balance Sheet and Income Statement	2
G:	Balance Sheet, Income Statement, and Notes	8
H:	Balance Sheet and President's Letter or Financial Review	10
I:	Balance Sheet and Notes	6
J:	Balance Sheet, Notes, and President's Letter or Financial Review	43
K:	Notes to Financial Statements	3
L:	President's Letter or Financial Review	29
M:	Other Textual Material in Report	3
	Disclosed in Report of Other Joint Owner	10
	Total	114

*Refer to Company Appendix Section—A: 71, 126, 253, 466, 480, 543; B: 61, 286, 516, 525; C: 538, 570; D: 70, 247, 362, 481, 504, 598; E: 35, 144, 252, 416, 484, 532; F: 256; G: 416; H: 56, 123; I: 484; J: 35, 144, 362, 372, 465, 504; K: 266; L: 11, 196, 286, 339, 420, 560; M: 588.

The following examples selected from the 1966 reports are illustrative of the variations of presentation and accounting treatment disclosed.

PRESENTATION

CHRYSLER CORPORATION

Balance Sheet

Investments in and advances to associated companies outside the United States	$95,378,379

Notes to Financial Statements

Investments and Other Assets: Detail of investments and other assets included in the financial statements is as indicated below. The investment in Rootes Motors Limited is carried at cost less a write-down during 1966 of $9,700,000, to reflect current unfavorable operating results of Rootes Motors Limited.

Investments in and advances to associated companies outside the United States—at cost or less	
Rootes Motors Limited—Great Britain (45% voting and 66% non-voting interests)	$ 59,139,064
Barreiros Diesel, S.A.—Spain (40% interest)	19,828,311
Fabricas Auto—Mex S.A.—Mexico (33% interest)	8,868,351
Chrysler-Cummins Limited—Great Britain (50% interest)	7,210,000
Other	332,653
	$ 95,378,379
Investments in and advances to unconsolidated subsidiaries—at equity	
Finance and insurance companies	135,026,427
Retail sales outlets	48,543,081
Leasing companies	34,608,447
Other	7,765,638
	225,943,593
Sundry advances and investments	24,948,541
Total Investments and Other Assets	$346,270,513

ALLIED CHEMICAL CORPORATION

Balance Sheet

Investments:	
Marketable Securities, at cost	$11,694,284
Investments and Advances, at cost	
Subsidiary and 50-percent owned companies	19,115,336
Other	33,025,721
	$63,835,341

Review of Operations

It seems apparent that the atomic energy field has still greater potential for Allied Chemical. To broaden further its activities in this area, the Company, together with Aerojet-General Corporation, is operating—through the Idaho-Nuclear Corporation, a jointly owned subsidiary—the nuclear test reactors and other facilities of the Atomic Energy Commission's National Reactor Testing Station at Idaho Falls. This involves responsibility for annual expenditures of about $29,000,000 of AEC funds, management of the Free World's largest and most versatile research reactors, operation of an industrial-scale plant for reprocessing spent fuel, and conduct of research and development programs in fuels and materials.

ARMCO STEEL CORPORATION

Balance Sheet

Investments—at cost (page 21)	$69,367,259

Schedules Supporting Financial Statements

Investments—at cost	Percentage of Ownership	Amount
December 31, 1966 (in thousands of dollars)		
Foreign Subsidiaries Not Consolidated (Note 1)	100	$ 7,407
Insurance Company Not Consolidated (Note 2)	100	300
Associated Companies (Note 3)		
Reserve Mining Company	50	28,029
Iron Ore Company of Canada	5.13	4,944
Carol Pellet Company	7.69	1,686
A. O. Smith Corporation of Texas	50	500
Iron Ore Transport Company, Limited	18	318
Oglebay Norton Company	3.94	233
Ore Transport, Inc.	18	128
Eight Foreign and Two Domestic Companies	20-50	2,400
Total Associated Companies		38,238
Notes and Accounts Receivable—Not Current, and Miscellaneous Securities, etc.		23,422
Total		$69,367

Review of Operations

The expanded production facilities of the Reserve Mining Co., which Armco owns jointly with Republic Steel Corporation, resulted in record shipments of 10,530,012 gross tons of taconite ore pellets during 1966.

The new facility in Belgium, which is owned jointly with Pittsburgh Steel Company, was officially opened in April for the manufacture of cold-rolled specialty strip products.

MEREDITH PUBLISHING COMPANY
Notes to Financial Statements

Investments: Included is the cost ($2,175,000 at June 30, 1966 and $1,525,000 at June 30, 1965) of a 50 per cent interest in Meredith-Avco, Inc. This company was organized in 1964 to engage in the community antenna television field and, during the initial periods, expects to incur losses as a result of developing and starting CATV systems. For the first year ended June 30, 1965 Meredith's share of the loss was approximately $350,000 and for the year ended June 30, 1966 Meredith's share was approximately $445,000. Such losses are not reflected in the accompanying financial statements because management believes that such initial losses do not constitute a permanent impairment of Meredith's investment. Also included is the Company's cost investment ($895,000 at June 30, 1966 and $325,000 at June 30, 1965) of a 50 per cent undivided interest in equipment leased to Meredith-Avco, Inc.

NATIONAL LEAD COMPANY
Balance Sheet

Miscellaneous investments and advances, at cost or below, less reserves: 1966, $1,034,897; 1965, $864,897 (Note 4)	$12,023,260

Notes to Financial Statements

Note 4: The equity of the Company in the net assets of 50 per cent owned companies, as shown principally by audited financial statements, exceeded the cost of the Company's investments and advances, included in miscellaneous investments, by approximately $19,930,000 at December 31, 1966 and $18,409,000 at December 31, 1965.

Letter to Stockholders

Titanium Metals Corporation of America, jointly owned with Allegheny Ludlum Steel Corporation, is the world's leading producer of titanium metal. The year 1966 was a good year for TMCA with reported earnings after taxes of $4,978,766. TMCA's operating results are not consolidated; the affiliate paid a cash dividend of $750,000 to each of its parent companies, compared to $500,000 each in 1965.

Canada Metal Company, Ltd. has been a Company affiliate since the 1965 sale of one-half interest in it to Consolidated Mining and Smelting Company of Canada. Sales and earnings by this producer of lead oxides and fabricated lead products continued to be satisfactory. In 1966, dividends from this affiliate are included in the Consolidated Statement of Income.

VEEDER INDUSTRIES INC.
Balance Sheet

Investments in and Advances to Unconsolidated Associate Companies—at cost, less reserves—Note C	$1,268,444

Notes to Financial Statements

Note C: The Company's investments in and advances to its unconsolidated Brazilian subsidiary and a 50% owned West German Company are stated at cost less reserves. The Company's equity in their net assets exceeded carrying amount of the investments by $185,978. The Company's share of the combined net loss of the two companies amounted to $175,576 for 1966, and dividends paid to the parent company were $18,100. Reserves of $454,929 have been provided against the Company's investments in and advances to the two companies by charges against income, of which, $264,756 was charged against income for 1966.

Financial Review

As planned, the first year of operation of our joint venture, INFA-HOLO-KROME GmbH, a 50% owned, nonconsolidated company, resulted in an operating loss. In accordance with our policy of stating value on a conservative basis, our investment in INFA-HOLO-KROME is being carried at cost less a reserve of $265,000, provision for which was charged to operations in 1966. In future years, this reserve will be adjusted until such time as this company's deficit has been eliminated.

Treatment of Income

AMERICAN CYANAMID COMPANY
Balance Sheet

Investments and Advances:	
Associated companies, 40% to 50% owned—at cost (equity in net assets $47,100,000; 1965, $43,100,000)	$30,761,098
Other investments and advances	4,603,608
Total Investments and Advances	$35,364,706

Income Statement

Net Sales	$952,575,113
Dividends from associated companies, 40% to 50% owned	7,516,444
Interest	3,417,730
Royalties and licenses	7,189,277
Other income—net	429,385
	$971,127,949

Review of Operations

Medical sales by Cyanamid International increased in 1966 despite the effects of price reductions in antibiotics in Great Britain and other countries. In Iran, a new plant for the formulation and packaging of Cyanamid's pharmaceutical products began operating at Tehran in the second quarter. It is jointly owned with the Khosrowshahi interests. This brings to 17 the number of plants outside the United States and Canada formulating Lederle pharmaceuticals.

Domestic Associated Companies (50% owned): Jefferson Chemical Company, Inc., jointly owned with Texaco Inc., had record earnings and sales in 1966. The company doubled its capacity for the production of propylene oxide and is building a new plant for ethylene amines. New facilities have been completed for the production of intermediates for synthetic polymers and expansion is under way to double morpholine capacity. Plans have been announced for a specialty chemicals plant to be located in the United Kingdom to produce morpholine, piperazine, and related products.

Arizona Chemical Company, jointly owned with International Paper Company, also had record earnings and sales in 1966. Arizona Chemical is proceeding with the expansion and modernization of its tall oil refinery at Panama City, Florida. Completion is expected in mid-1967. Its products have wide usage in the paper industry, the manufacture of soaps and detergents and other chemical applications.

ATLAS CHEMICAL INDUSTRIES, INC.
Balance Sheet

Investments:	
50%-Owned Companies (Note 1)	$8,057,000
Real Estate Held for Investment and Development	531,000
Miscellaneous, at cost	441,000

Income Statement

Earnings from Consolidated Operations	$5,073,000
Equity in Earnings of 50%-Owned Companies (Note 1)	766,000
Net Earnings Before Nonrecurring Income	$5,839,000

Note 1 (in part): *Principles of Statement Presentation*—The Company's investment in non-consolidated approximately 50%-owned companies is carried in the balance sheet at cost, adjusted for Atlas' share of net earnings. The Atlas share of net earnings of such companies 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	$4,121,000
Amount included in consolidated earnings for year	766,000
Less dividends paid to Atlas by 50%-owned companies	(125,000)
Amount included in consolidated retained earnings at end of year	$4,762,000

Financial Review

The Equity in Earnings of 50%-Owned Companies represents the Atlas share of the net earnings of the following companies:

Solar Nitrogen Chemicals, Inc.
Solar Service Company
Kao-Atlas Company, Ltd.
Honeywill-Atlas, Ltd.
Atlas Taiwan Corporation

(The Solar Companies are owned equally by The Standard Oil Company (Ohio) and Atlas.)

CHEMETRON CORPORATION

Balance Sheet

Investments, Advances and Other Assets:	
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 12)	$16,943,826
Other investments, at cost (Note 3)	5,092,900
Other receivables, advances, deposits, etc.	3,013,483
Leasehold improvements and sundry equipment—unamortized costs	3,228,317
Total Investments, Advances and Other Assets	$28,278,526

Income Statement

Net earnings of consolidated domestic companies before nonrecurring gains	$14,461,454
Equity in undistributed earnings of unconsolidated subsidiaries and affiliated companies (Notes 1 and 12)	1,637,597
Net Earnings for the Year	$16,099,051

Note 1 (in part): *Basis of Consolidation*—The statement of consolidated current earnings includes the Company's equity in the undistributed net current earnings of its unconsolidated foreign subsidiaries and foreign and domestic 50% owned companies (except Northern Chemical Industries, Inc.) after elimination of unrealized intercompany profits. The geographical distribution of such current earnings is shown in Note 12. No provision has been made for additional taxes that may result from the distribution of these earnings as dividends since any amounts distributed are dependent upon the working capital requirements of the various companies, and, in the case of foreign companies, upon foreign exchange restrictions.

Note 12: *Investments in and Advances to Unconsolidated Subsidiaries and Affiliated Companies*—Investments in unconsolidated subsidiaries and 50% owned affiliates are carried at cost plus the Company's share of undistributed earnings since dates of acquisition, as described in Note 1. The carrying value of investments in, and advances to, such companies and their undistributed current earnings were as follows:

Investments:	Total	Cost	Equity in Undistributed Earnings	Advances
Foreign Subsidiaries and Affiliated Companies:				
Canada	$ 969,063	$ 337,420	$ 433,561	$ 198,082
Latin America	9,248,933	740,712	7,793,050	715,171
United Kingdom, Germany, etc.	3,946,418	1,943,266	1,463,385	539,767
Total Foreign	14,164,414	3,021,398	9,689,996	1,453,020
Domestic Affiliated Companies—50% Owned	2,779,412	2,033,645	745,767	—
Total—1966	$16,943,826	$5,055,043	$10,435,763	$1,453,020
Total—1965	$13,911,204	$3,532,208	$ 8,798,165	$1,580,831

	Chemetron's Equity in:		
Earnings:	Net Earnings of Unconsolidated Companies	Dividends Paid (a)	Unconsolidated Current Earnings
Foreign Subsidiaries and Affiliated Companies:			
Canada	$ 152,454	$ —	$ 152,454
Latin America	923,273	—	923,273
United Kingdom, Germany, etc.	805,810	319,250	486,560
Total Foreign	1,881,537	319,250	1,562,287
Domestic Affiliated Companies—50% Owned	285,310	210,000	75,310
Total—1966	$2,166,847	$ 529,250	$1,637,597
Total—1965	$1,097,570	$ 481,500	$ 616,070

(a) Included in accompanying statement of consolidated earnings as part of "Other operating and sundry income."

Review of Operations

Midwest Carbide Corporation (jointly owned with Shawinigan Products Corporation)

Chemetron-Noury Corporation (jointly owned with Noury & van der Lande Corporation)

FMC CORPORATION

Income Statement

Income:	
Sales	$1,009,702,886
Equity in earnings of 50%-owned companies (Page 23)	6,585,315
Other income	3,732,277
Total Income	$1,020,020,478

Investments: Investments consist primarily of 50%-owned companies, plus long-term interest bearing notes receivable due from Sun Oil Company. Investments in the 50%-owned companies are stated at cost plus FMC's one-half interest in undistributed earnings since acquisition. The notes receivable from Sun Oil Company total $17.7 million and are due in 14 annual installments commencing January 1968. These notes, plus cash, were received in payment for FMC's 50% interest in Avisun Corporation, sold in December 1966 for approximate book value.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION

Income Statement

Net sales	$898,312,000
Cost of goods sold	742,168,000
Gross profit	156,144,000
Share of net earnings of 50% owned domestic affiliates	5,012,000

Review of Operations

National shares equal ownership with other corporations in four domestic affiliates: Beacon Manufacturing Company, National Helium Corporation, National Petro Chemicals Corporation, and Reactive Metals, Inc.

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, 572 presented prepaid expenses or deferred charges in their 1966 balance sheets. Of the 572 companies displaying such items, 258 companies presented them under "current assets," 143 companies presented them under both "current and noncurrent assets," and the remaining 171 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 1966, 1965, 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," "Development, systems application and acquisition costs related to leases," "Expenditures on account of unfinished voyages," "Prepaid interest," "Prepaid royalties," 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

ALLIED MILLS, INC.
Current Assets:
Prepaid insurance, etc. $648,506

FEDERATED DEPARTMENT STORES, INC.
Current Assets:
Supplies and prepaid expenses $5,638,548

INTERNATIONAL BUSINESS MACHINES CORPORATION
Current Assets:
Prepaid insurance, taxes, etc. $32,602,518

PUROLATOR PRODUCTS, INC.
Current Assets:
Prepaid expenses $1,065,104

WALGREEN CO.
Current Assets:
Prepaid rent, insurance, taxes, etc. $1,440,138

WARNER-LAMBERT PHARMACEUTICAL COMPANY
Current Assets:
Operating supplies, prepaid advertising and other expenses $6,823,545

Curent and Noncurent Asset Section

AIR REDUCTION COMPANY, INCORPORATED
Current Assets:
Prepaid taxes, insurance and other expense $2,085,412
Noncurrent Assets:
Deferred Charges (including pre-operating and start-up expenses—1966, $1,246,406; 1965, $1,669,659) $5,633,511

CHEMETRON CORPORATION
Current Assets:
Prepaid expenses $1,662,219
Noncurrent Assets:
Deferred charges $1,346,207

HEWLETT-PACKARD COMPANY
Current Assets:
(In thousands)
Deposits and prepaid expenses $2,133
Noncurrent Assets:
Deferred research and development expenses, net .... $ 944

INDIAN HEAD INC.
Current Assets:
Prepaid expenses .... $ 939,795
Noncurrent Assets:
Unamortized debt discount and expenses.. $3,068,554

THE MACKE COMPANY
Current Assets:
Prepaid expenses $500,477
Noncurrent Assets:
Location costs, etc., being amortized over 20 years $642,118

RANCO INCORPORATED
Current Assets:
Prepaid expenses $652,885
Noncurrent Assets:
Other Assets, at Cost less Amortization:

Leasehold improvements	$ 167,918
Tooling	1,253,619
	$1,421,537

Noncurrent Asset Section

ALLIED CHEMICAL CORPORATION
Noncurrent Assets:
Deferred Charges:

Deferred and Prepaid Expenses	$20,868,586
Unamortized Debenture Costs	2,486,042
	$23,354,628

PRATT & LAMBERT, INC.
Noncurrent Assets:
Deferred Charges:

Prepaid taxes and insurance	$270,666
Advertising materials and supplies	327,278
Other	107,037
Total Deferred Charges	$704,981

THE WURLITZER COMPANY
Noncurrent Assets:
Prepaid rents, tooling, etc. $1,271,552

TABLE 22: PREPAID EXPENSES AND DEFERRED CHARGES

Terminology Used In	1966	1965	1960	1955	1950
Current Asset Section:					
Prepaid	385	380	330	246	175
Prepaid and deferred	6	5	12	10	4
Paid in advance	4	5	—	—	—
Deferred	1	1	11	5	3
Unexpired	3	4	7	8	6
Costs applicable to future periods	6	7	6	13	7
Various other terms	1	1	3	3	3
Total	406	403	369	285	198
Noncurrent Asset Section:					
Deferred	173	188	184	169	143
Deferred and prepaid	54	59	71	93	94
Deferred with certain items listed thereunder described "prepaid"	16	19	26	59	104
Prepaid	40	41	50	67	65
Costs applicable to future periods	4	6	9	12	17
Unamortized	28	29	42	32	13
Unexpired	2	1	1	6	4
Various other terms	7	2	12	1	10
Total	324	345	395	439	450

Number of Companies presenting:	1966	1965	1960	1955	1950
Prepaid Expenses or Deferred Charges in:					
Current asset section	258	240	203	198	128
Current and noncurrent asset sections	143	159	161	138	76
Noncurrent asset section	171	176	223	251	386
No prepaid expense or deferred charge items	28	25	13	13	10
Total	600	600	600	600	600

	Balance Sheet Presentation			
	1966		1955	
Classification as to Type*	Current Assets	Noncurrent Assets	Current Assets	Noncurrent Assets
A: Advertising	3	2	6	12
B: Debt discount	—	23	1	23
C: Debt expense	—	32	1	52
D: Employee welfare (including pensions)	1	6	2	18
E: Financing expense	—	3	—	6
F: Insurance	50	21	122	122
G: Mine stripping and expense	—	3	—	4
H: Pre-occupation and plant costs	1	5	1	3
I: Rent	4	3	8	22
J: Research and development	1	5	1	8
K: Start-up costs of new production facilities	1	4	—	—
L: Supplies	20	8	17	29
M: Taxes	31	16	59	63
N: Tooling and factory expense	1	7	1	3
O: Various other terms	4	10	8	22
P: "Prepaid or Deferred"	283	170	184	276
"Prepaid or Deferred"**	94	94	41	41
Total	494	412	452	704

*Refer to Company Appendix Section—Current Assets—A: 489; F: 19, 111, 203, 330, 449, 536; I: 96; L: 68, 140, 229, 352, 430, 577; M: 36, 116, 214, 315, 422, 582; O: 20, 96; P: 3, 133, 207, 323, 466, 581. Noncurrent Assets—A: 495; B: 10, 225, 348, 403, 552, 585; C: 37, 149, 217, 316, 438, 534; D: 70, 419, 434; E: 396, 406; F: 99, 104, 228, 312, 414, 537; G: 52; H: 531; I: 268; J: 196, 291; K: 82; L: 65, 85, 265, 346, 424; M: 119, 190, 249, 384, 418, 512; N: 131; O: 167, 235, 367, 376, 558; P: 7, 111, 230, 311, 488, 551.
**In both the current and noncurrent asset sections.

CRUCIBLE STEEL COMPANY OF AMERICA

Property and Investments:	
Property—net	$118,297,000
Investments	1,840,000
Unamortized financing expenses	402,000
Total Property and Investments	$120,539,000

THE HARSHAW CHEMICAL COMPANY

Noncurrent Assets:	
Deferred Charges:	
Excess of cost of investment in subsidiaries over equity in net assets, less amortization	$ 848,358
Other deferred charges	643,935
Prepaid insurance and taxes	354,708
Total Deferred Charges	$1,847,001

THE KENDALL COMPANY

Noncurrent Assets:	
Deferred charges and other assets	$1,711,000

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 344 of the 600 survey companies disclosed intangible assets in their 1966 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.
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 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 frequently 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 1966 reports are illustrated below. Illustrations are considered to be presented in the notes when reference to the notes is necessary to find the information.

†Reissued in 1961 as part of *Accounting Research and Terminology Bulletins, Final Edition.*

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	1966 Total
A: Patents, patent rights and applications	—	77	1	31	7	5	121
B: Trademarks, brand names	—	45	—	14	4	2	65
C: Copyrights	—	4	—	1	—	—	5
D: Goodwill	—	73	—	14	—	—	87
E: Goodwill re subsidiary	—	52	2	37	6	8	105
F: Leasehold improvements	—	1	83	5	—	3	92
G: Leaseholds, leases, leased equipment	—	3	19	1	—	9	32
H: Exploration and development—mining, oil	—	1	2	1	—	3	7
I: Formulae, processes, designs	—	8	—	4	—	1	13
J: Research and experimental	—	3	—	1	—	—	4
K: Licenses, franchises, memberships	—	11	4	7	1	—	23
L: Rights—water, water-power, land	—	—	8	—	—	1	9
M: Rights—mining, timber, cutting, fishing, and "other rights"	—	4	12	—	—	6	22
N: Contracts	—	3	—	1	—	—	4
O: Name lists, catalogs, trade routes	—	3	—	—	—	—	3
P: Scripts, scenarios, story and film rights	6	1	—	—	—	—	7
Q: Described as "intangible assets"	—	23	2	9	—	—	34
R: Various other	—	3	1	2	—	1	7
Total	6	315	134	128	18	39	640

Type of Intangible Asset	Balance Sheet Valuation and Amortization — Amortization Value After Charges To: Income	Charge Not Shown	Total	Unamortized Value	Nominal Value	Not Determinable	1966 Total
Patents, patent rights and applications	31	27	58	6	36	21	121
Trademarks, brand names	8	7	15	10	25	15	65
Copyrights	1	—	1	1	2	1	5
Goodwill	7	4	11	18	35	23	87
Goodwill re subsidiary	14	18	32	54	—	19	105
Leasehold improvements	67	17	84	—	—	8	92
Leaseholds, leases, leased equipment	17	5	22	1	—	9	32
Exploration and development—mining, oil	2	—	2	—	—	5	7
Formulae, processes, designs	2	2	4	3	3	3	13
Research and experimental	1	2	3	—	1	—	4
Licenses, franchises, memberships	6	6	12	2	3	6	23
Rights—water, water-power, land	1	2	3	—	—	6	9
Rights—mining, timber, cutting, fishing, and "other rights"	3	3	6	2	—	14	22
Contracts	—	3	3	—	1	—	4
Name lists, catalogs, trade routes	—	—	—	2	—	1	3
Scripts, scenarios, story and film rights	—	—	—	4	—	3	7
Described as "intangible assets"	7	12	19	8	1	6	34
Various other	1	2	3	—	2	2	7
Total	168	110	278	111	109	142	640

Number of Companies presenting:	1966
Intangible Assets	344
No Intangible Assets	256
Total	600

*Refer to Company Appendix Section—A: 31, 176, 195, 380, 467; B: 84, 102, 156, 288, 348, 424; C: 137, 422; D: 26, 159, 189, 262, 376, 547; E: 81, 158, 244, 350, 384, 567; F: 25, 149, 229, 345, 458, 543; G: 38, 140, 235, 357, 387, 534; H: 553; I: 77, 114, 346, 422, 530; J: 407; K: 59, 177, 209, 340, 426, 479; L: 19, 132, 329, 434; M: 218, 425, 481, 551, 561, 589; N: 152; O: 369; P: 377, 583; Q: 32, 116, 254, 333, 400, 593; R: 284, 366.

Shown in Current Asset Section Under Inventories

TWENTIETH CENTURY-FOX FILM CORPORATION

Inventories:	
Feature film productions, at cost (Note 2):	
Released, less amortization	$ 35,755,776
Completed (not released)	25,991,860
In process	23,144,470
Stories and scenarios, at cost	8,676,148
Television series, at cost, less amortization (Note 2)	21,181,697
Other	4,862,965
	$119,612,916

Shown Separately in Noncurrent Asset Section

THE BARDEN CORPORATION

Intangibles—less amortization $729,537

THE BENDIX CORPORATION

Patents, Patent Rights, Contracts, Goodwill, Etc. (Note 3) $6,698,012

Note 3: Patents, Patent Rights, Contracts, Goodwill, Etc.—The Corporation's goodwill and patents account includes a nominal amount of $1 for patents. Goodwill of $6,698,011 represents the difference between the purchase price and the value ascribed to the net assets of going businesses purchased since 1956. The goodwill account is not being amortized.

HONEYWELL INC.

Trademarks and Goodwill $8,846,107

NATIONAL DISTILLERS AND CHEMICAL CORPORATION

Goodwill—at cost $13,346,000

SIMPLICITY PATTERN CO. INC.

Patents, Trademarks and Goodwill $313,827

STEWART-WARNER CORPORATION

Patents and Licenses $1

ZENITH RADIO CORPORATION

Broadcasting Stations, Patents and Trademarks, at nominal value $1

Shown Under Fixed Assets

AMERADA PETROLEUM CORPORATION

Properties, Plant and Equipment:	
Land, wells and equipment:	
Developed and undeveloped lands, at cost plus intangible drilling and development costs	$425,713,290
Crude oil and natural gas production equipment	194,019,935
	619,733,225
Other property, plant and equipment	39,849,272
	659,582,497
Less reserves for intangible drilling and development costs, depreciation, depletion, etc.	466,007,245
Net Property, Plant and Equipment	$193,575,252

THE ANACONDA COMPANY

Property, Plant and Equipment—Note E:	
Buildings, machinery and equipment	$1,329,634,000
Less—Accumulated depreciation	796,119,000
	533,515,000
Mines and mining claims, water rights and lands	281,082,000
Timberlands and phosphate and gravel deposits, less accumulated depletion of $5,485,000 (1965—$5,356,000)	1,809,000
	$ 816,406,000

GENERAL CIGAR CO., INC.

Property and Equipment, at cost:	
Buildings	$12,505,000
Machinery and equipment	18,906,000
Accumulated depreciation	(10,457,000)
	20,954,000
Land	1,289,000
Unamortized cost of cigar machine licenses	4,925,000
	$27,168,000

HOOKER CHEMICAL CORPORATION

Fixed Assets, at cost:	
Land	$ 6,687,513
Buildings	71,060,713
Machinery and equipment	238,129,471
Mineral rights	1,132,524
Construction in progress (estimated cost to complete major projects—$37,000,000)	16,966,724
	333,976,945
Less accumulated depreciation and amortization	138,360,017
	$195,616,928

OXFORD PAPER COMPANY

Plants and Properties (Note 2):	
Manufacturing plants	$129,729,298
Power plant, development and rights	9,620,934
Timberland, less depletion	3,300,168
Outside real estate	792,982
	143,443,382
Less accumulated depreciation	(63,300,312)
	80,143,070

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.

In December 1966, the Province of New Brunswick expropriated substantially all of the timberlands held in that province by a subsidiary of the company. Negotiations regarding adequate compensation to the subsidiary are still in progress. The company expects that the recovery will be substantially greater than the relatively nominal amount at which the timberlands are carried in the accounts of the subsidiary.

SHOE CORPORATION OF AMERICA

Property, Plant and Equipment—at cost:	
Land and buildings	$ 743,000
Leaseholds and improvements to leaseholds	6,224,000
Machinery and equipment	5,306,000
	12,273,000
Less, accumulated depreciation and amortization	6,776,000
Total Property, Plant and Equipment	$ 5,497,000

INTERNATIONAL PAPER COMPANY

Capital Assets:

Woodlands—net (Note 4)	$138,626,441

Note 4: ***Woodlands***—Woodlands at December 31, 1966 were as follows:

	Acres*	Amount†
United States:		
Owned in fee	6,361,564	$114,337,622
Held under lease or contract rights	354,379	10,717,374
Total—United States	6,715,943	125,054,996
Canada:		
Owned in fee	1,356,413	7,387,590
Held under Government license	14,609,768	6,183,855
Total—Canada	15,966,181	13,571,445
Total	22,682,124	$138,626,441

*As reported by the Companies.
†Stated at cost less depletion.

Shown Under Other Assets

ABEX CORPORATION

Other Assets:

Prepaid expenses and sundry assets	$4,039,353
Investments—at cost or less	4,058,425
Patents and other intangibles, less amortization	1,715,273
Total Other Assets	$9,813,051

CANADA DRY CORPORATION

Other Assets:

Deposits receivable from customers on returnable containers—estimated	$2,200,000
Deferred—reductions applicable to future income tax payments	2,133,209
Prepaid expenses, deferred charges, etc.	3,989,021
Goodwill, trademarks, etc.	1
Total Other Assets	$8,322,231

NEBRASKA CONSOLIDATED MILLS COMPANY

Other Assets:

Investments in and advances to unconsolidated foreign subsidiaries	$ 937,372
Memberships, deposits and miscellaneous noncurrent receivables	573,469
Cash surrender value of life insurance (Note 3)	246,085
Total Other Assets	$1,756,926

THE SINGER COMPANY

Financial Review

Other Assets:

Other assets at December 31, 1966 were as follows:

	(Amounts in Millions)
Prepaid expenses and deferred charges	$19.1
Mortgages and other	14.0
Intangibles, less amortization	9.6
Deposits	5.7
	$48.4

U. S. INDUSTRIES, INC.

Investments and Other Assets:

Investments in and accounts with unconsolidated subsidiaries—Note A	$2,769,431
Royalty contracts and patents—at cost less amortization	1,033,447
Miscellaneous receivables and accounts	940,371
	$4,743,249

RAYTHEON COMPANY

Other Assets:

Patents, processes, and other assets less accumulated amortization: 1966, $1,678,738; 1965, $1,214,996	$3,211,834
Deferred charges and long-term receivables	3,655,134

Shown Under Deferred Charges

ARMOUR AND COMPANY

	(In thousands)
Deferred charges (includes trademarks, trade names, etc., less amortization)	$12,885

CELANESE CORPORATION

	(In thousands)
Deferred Charges, Patents and Other Assets	$37,219

McDONNELL AIRCRAFT CORPORATION

Deferred Charges:

Unamortized cost in excess of book value of subsidiaries, Note A	$ 6,892,811
Incentive compensation	7,495,896
Other	1,512,497
	$15,901,204

Note A: *Principles of Consolidation*—The consolidated financial statements include the accounts of all subsidiaries, and in consolidation all intercompany items and transactions have been eliminated.

On 27 January 1966 the Company increased its ownership to 83.6% of the Common Stock of Conductron Corporation, in exchange for the net assets of its Electronic Equipment Division and all the Common Stock of Tridea Electronics Company (a wholly-owned subsidiary); accordingly, the consolidated financial statements include the accounts of Conductron since that date.

The subsidiaries contributed $2,041,972 to the consolidated earnings for the current year, before amortization (based on a five-year period) of $1,515,442 of the excess of the cost of the investments in these subsidiaries over the book values at dates of acquisition.

PENNSALT CHEMICALS CORPORATION

Supplementary Financial Information

Deferred Charges and Other Assets, Net:

Deferred pension costs	$ 3,108,000
Intangible assets from acquisitions, license agreements, patents, trademarks, etc.	5,487,000
Other deferred charges	1,738,000
	$10,333,000

Shown in Notes to Financial Statements or Letter to Stockholders

AMERICAN OPTICAL COMPANY

Note 1 (in part): *Principles of Consolidation*—The consolidated financial statements include the accounts of the Company, its two domestic subsidiaries and one Canadian subsidiary. Effective in 1966 the Company changed from the cost method to the cost plus equity in net earnings method of accounting for its investments in non-consolidated foreign subsidiaries. The 1965 statements have been restated to conform to this policy. The investment in non-consolidated foreign subsidiaries shown in the balance sheet consists of the following:

Investments, at cost (including goodwill of $43,770)	$6,145,217
Equity in unremitted earnings since dates of acquisition included in consolidated retained income	1,964,371
	$8,109,588

THE CARBORUNDUM COMPANY

Note 4: *Sundry Investments and Other Assets*—Sundry investments and other assets are comprised principally of non-current receivables, deposits, and trademarks, patents and processes.

CONTAINER CORPORATION OF AMERICA
Letter to Stockholders

Increased Timber Holdings Ensure Pulpwood Supplies: The company continued its timber purchase program in 1966, with the acquisition of 92,746 acres of timberland. Container Corporation currently owns or controls 584,209 acres of timberland through fee simple ownership, long term leases, and timber rights. The company also acquired an interest in the T. R. Miller Mill Company, Inc., which owns approximately 198,000 acres of heavily stocked timberlands near the Brewton, Alabama mill. The company's forestry program is designed to ensure a continuous supply of pulpwood for its domestic paperboard mills. The major portion of the pulpwood requirements of Container Corporation mills continues to be met through purchase from independent landowners, forest farmers, and chip producers.

STANDARD OIL COMPANY OF CALIFORNIA
Notes to Financial Statements

Properties, Plant and Equipment: Properties, plant and equipment are carried at cost. Exploration expenditures resulting in the acquisition or retention of properties are capitalized, while the remainder is charged to operating expenses. Costs of undeveloped leaseholds are amortized at rates which are based upon past experience. Costs of wells capable of commercial production are capitalized, and costs of unproductive wells are charged to operating expenses.

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 1966 with regard to the amortization of intangible assets is summarized in Table 23. There were 278 instances of intangible assets shown in the balance sheets at an amortized value. In 168 of these cases the amortization was charged to the income account; in the remaining 110 cases there was no indication in the report as to the account charged. In addition there were 142 items concerning which the amortization procedure was not disclosed.

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 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

[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.

[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.

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, 44 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 1966 balance sheets of the survey companies.

Thirteen 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.

The following examples, selected from the balance sheets of the 1966 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.

[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.

TABLE 24: ACCOUNTS PAYABLE

	Presentation			
Current Liability Description*	Separately	With Other Items	1966 Total	1960 Total
Re: Trade Creditors—				
A: Accounts payable	356	245	601	600
B: "Accrued expense" — not identified	163	322	485	450
C: Notes payable	1	4	5	25
D: Royalties payable	2	5	7	10
E: Trade acceptances, drafts payable, and miscellaneous	2	5	7	7
Total	524	581	1105	1092
Re: Trade Customers—				
F: Advance payments received from customers	21	7	28	26
G: Progress billings on non-government contracts	3	1	4	4
H: Deposits for various trade purposes	3	8	11	16
I: Deposits for merchandise containers	4	—	4	7
J: Credit balances	1	2	3	10
Total	32	18	50	63

Number of Companies showing	1966	1960	1955
Accounts payable trade creditors	600	600	600
Accounts payable trade customers	44	57	70

*Refer to Company Appendix Section—A: 84, 344, 439, 482, 547, 588; B: 1, 27, 150, 193, 363, 481; C: 337; D: 88, 235, 377; E: 55, 298, 582; F: 92, 115, 195, 246, 304, 474; G: 247, 343, 509; H: 83, 337, 395, 505; I: 67, 431; J: 560.

Examples

AIR PRODUCTS AND CHEMICALS, INC.

Current Liabilities:

Current portion of long-term debt and foreign bank obligations	$12,131,000
Accounts payable and customers' advances (Note 5)	31,710,000
Accrued liabilities	8,376,000
Accrued United States and foreign income taxes (Note 3)	5,298,000
Total Current Liabilities	$57,515,000

ALLEGHENY LUDLUM STEEL CORPORATION

Current Liabilities:

Current portion of long-term debt	$ 2,235,000
Accounts payable—trade	12,316,870
Accrued liabilities:	
Payrolls, royalties and other expenses	6,471,378
Vacation allowances	6,588,879
Taxes, other than Federal taxes on income	2,891,280
	15,951,537
Provision for Federal income taxes	8,982,088
Total Current Liabilities	$39,485,495

COLLINS RADIO COMPANY

Current Liabilities:

Notes payable:	
Banks — Revolving credit agreement (Note 1)	$23,500,000
Other	4,255,574
Accounts payable:	
Trade	21,040,065
Other	6,628,116
Accrued liabilities	17,099,096
Income taxes and price revision refunds	12,886,866
Total Current Liabilities	$85,409,717

COMMERCIAL SOLVENTS CORPORATION

Current Liabilities:

Accounts and notes payable	$ 5,639,558
Accrued Federal and Foreign income taxes	2,898,838
Other accrued liabilities	1,842,107
Current installments on long-term debt	2,485,000
Total Current Liabilities	$12,865,503

FANSTEEL METALLURGICAL CORPORATION

Current Liabilities:

Notes payable to banks	$ 9,390,000
Accounts payable	2,937,367
Accrued liabilities	1,883,160
Federal income taxes	684,411
Current instalments on long-term debt, less debentures held in treasury	1,090,566
	$15,985,504

MIDLAND-ROSS CORPORATION

Current Liabilities:

Accounts payable and accrued items	$25,328,388
Employees' compensation	5,970,260
Contract billings in excess of cost plus profit	4,673,242
Federal income taxes	8,238,332
Note payable due within one year—Note C	1,125,000
Total Current Liabilities	$45,335,222

MOBIL OIL CORPORATION

Current Liabilities:

Accounts and notes payable and accrued liabilities	$ 803,795,000
Income, excise, state gasoline, and other taxes payable	415,377,000
Long-term debt maturing within one year	32,533,000
Total Current Liabilities	$1,251,705,000

SONOTONE CORPORATION

Current Liabilities:

Current portion of long-term debt	$ 204,300
Accounts payable, taxes and other accrued expenses	1,718,775
Federal income taxes (Note 1)	1,000,583
Provision for service guarantees and sundry liabilities	282,770
Total Current Liabilities	$3,206,428

SYMINGTON WAYNE CORPORATION

Current Liabilities:

Notes payable to banks	$ 6,365,612
Payable to suppliers and others	8,855,476
Dividend payable	635,778
Estimated taxes on income	4,233,707
	$20,090,573

UNITED PARK CITY MINES COMPANY

Current Liabilities:

Accounts and wages payable	$184,133
Taxes accrued	40,991
Dividends unclaimed	19,174
Portion of long-term debt payable within one year	46,196
Advance rentals received	17,685
Total Current Liabilities	$308,179

LIABILITIES RE EMPLOYEES AND STOCKHOLDERS

There were 317 survey companies that disclosed the many types of liabilities to employees and stockholders as current liabilities in their 1966 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 1966 reports.

Sixty-four 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.

Examples—Liabilities re Employees and Stockholders

Examples from the 1966 annual reports which illustrate various liabilities with regard to employees and stockholders, together with their balance sheet presentation, are given below.

In Current Liability Section Only

BATES MANUFACTURING COMPANY, INCORPORATED

Current Liabilities:

Notes payable	$ 5,637,001
Long term debt due currently	1,051,436
Accounts payable	5,517,235
Dividends payable	150,124
Accrued expenses	1,991,014
Federal income taxes	208,228
Total Current Liabilities	$14,555,038

BATH IRON WORKS CORPORATION

Current Liabilities:

Notes payable to banks	$ 7,200,000
Accounts payable	3,109,364
Amounts due subcontractors, design agents and others	1,971,494
Payrolls and payroll taxes	560,373
Reserve for estimated losses on contracts in process (Note 1)	6,509,930
Total Current Liabilities	$19,351,161

H. C. BOHACK CO. INC.

Current Liabilities:

Notes payable to bank	$2,000,000
Current instalments on long-term debt and capitalized leases (note 2)	1,343,728
Accounts payable	8,024,342
Accrued expenses, including vacation pay $1,163,300 (note 1)	3,344,182
Dividends payable	12,794

CURTISS-WRIGHT CORPORATION

Current Liabilities:

Note payable to bank	$15,000,000
Payables, trade creditors	7,230,873
Accrued expenses (Note 5)	7,096,482
Advances on contracts, principally United States Government (Note 1)	7,172,214
Federal income taxes	10,199,481
Other liabilities	6,119,156
Total Current Liabilities	$52,818,206

Note 5: Under the Corporation's stockholder-approved Modified Incentive Compensation Plan, $770,000 additional compensation, payable over a 5-year period, has been provided for awards to employees in 1967 based on the Corporation's earnings for the year 1966. The 1966 provision and unpaid instalments of prior years' awards are included in accrued expenses in the consolidated balance sheet.

CYCLOPS CORPORATION

Current Liabilities:

Notes payable within one year	$ 2,500,000
Accounts payable	6,462,620
Accrued employment costs	7,398,886
Accrued income taxes	3,139,100
Other	4,107,563
	$23,608,169

GAR WOOD INDUSTRIES, INC.

Current Liabilities:

Notes payable to banks (Note A)	$ 8,000,000
Current maturities of long-term liabilities	676,012
Trade accounts payable	3,724,731
Dividends payable on Preferred Stock	34,208
Accrued payrolls, taxes, and other expenses	1,782,321
Total Current Liabilities	$14,217,272

LOCKHEED AIRCRAFT CORPORATION

Current Liabilities:

Notes payable—banks	$ 30,000,000
Accounts payable	133,835,000
Salaries and wages	65,331,000
Federal income tax	39,892,000
Other taxes	13,318,000
Customers' advances in excess of related costs	22,624,000
Retirement plan contribution (Note 4)	45,503,000
Other liabilities	26,521,000
Total Current Liabilities	$377,024,000

NEWPORT NEWS SHIPBUILDING AND DRY DOCK COMPANY

Current Liabilities:

Notes payable—Bank loans	$ 9,000,000
Accounts payable	10,194,429
Accrued wages, earned vacations and incentive compensation and provision for sick leave	14,448,052
Provisions for estimated Federal and state income and other taxes	5,839,117
Other provisions, accruals and liabilities	1,650,269
Total Current Liabilities	$41,131,867

TABLE 25: LIABILITIES RE EMPLOYEES AND STOCKHOLDERS

	Presentation			
Current Liability Description*	Separately	With Other Items	1966 Total	1960 Total
A: Salaries or wages payable	44	170	214	257
B: Dividends or declarations payable	117	1	118	130
C: Payroll taxes withheld	5	54	59	87
D: Commissions payable	—	29	29	25
E: Deposits — various employee purposes, including salesmen's guarantees	2	1	3	8
F: Additional or other compensation	3	14	17	10
G: Bonus plan payments	1	3	4	11
H: Employee benefit plan contributions	8	20	28	35
I: Employee profit-sharing plans	4	7	11	6
J: Employee savings or thrift plans	2	1	3	6
K: Vacation pay	2	8	10	21
L: Miscellaneous other	—	5	5	9
Total	188	313	501	605

Number of Companies showing:	1966	1960
Liabilities in current liability section only	278	341
Liabilities in noncurrent liability section only	30	13
Liabilities in both current and noncurrent liability sections	33	24
Liabilities in stockholders' equity	3	—
Liabilities in current liability and stockholders' equity†	6	—
No liabilities—employees, stockholders, etc.	250	222
Total	600	600

*Refer to Company Appendix Section—A: 51, 96, 205, 246, 348, 440; B: 92, 333, 446, 589; C: 61, 62, 75, 284, 315, 568; D: 6, 63, 211, 295, 468, 528; E: 159, 495; F: 88, 179, 208, 458, 577, 584; G: 129, 202, 268; H: 125, 180, 190, 274, 426, 471; I: 48, 285, 498, 540, 598, 600; J: 1, 207, 249; K: 11, 162, 198, 444, 557, 590; L: 567.

†Includes one company with liabilities in current and noncurrent liability sections and in stockholders' equity.

RAYBESTOS-MANHATTAN, INC.

Current Liabilities:

Accounts payable	$ 4,221,716
Salaries, wages and expenses accrued	2,540,994
Taxes accrued and withheld	885,491
Dividends payable, January 3, 1967 and 1966	945,900
Federal and Canadian taxes on income, less $1,228,475 United States Tax Anticipation Bills for 1965	1,979,869
Total Current Liabilities	$10,573,970

NOPCO CHEMICAL COMPANY

Current Liabilities:

Current portion of long-term debt	$ 75,000
Accounts payable	4,073,259
Accrued liabilities:	
Salaries, wages and other compensation	397,888
Other expenses and taxes	488,757
Federal and Canadian income taxes	725,805
Total Current Liabilities	$5,760,709

In Noncurrent Liability Section Only

AMERICAN MAIZE-PRODUCTS COMPANY

Noncurrent Liabilities:

Deferred compensation, less related tax effect	$616,416

CHERRY-BURRELL CORPORATION

Noncurrent Liabilities:

Pension provisions not currently payable	$172,925

INLAND STEEL COMPANY

Noncurrent Liabilities:

	(In thousands)
Deferred Employee Compensation and Benefits	$10,460

JOHNSON & JOHNSON

Noncurrent Liabilities:

Certificates of Extra Compensation	$7,768,254

OUTBOARD MARINE CORPORATION

Noncurrent Liabilities:

Provision for deferred incentive compensation	$547,758

SERVEL, INC.

Noncurrent Liabilities:

Deferred Liabilities (Note 4)	$977,372

Note 4: Deferred liabilities include deferred compensation, net of estimated future years' tax reductions, amounting to $425,773 at October 31, 1966 and $451,946 at October 31, 1965.

UNITED FRUIT COMPANY

	(In thousands)
Provision for severance and other social benefits (net after taxes)	$14,673

In Both Current and Noncurrent Liability Sections

ASSOCIATED DRY GOODS CORPORATION

Current Liabilities:

Accounts payable and accrued liabilities	$34,674,437
Dividends payable	2,793,970
Federal income taxes (Note D)	20,097,761
Long-term debt due within one year	2,659,833
Total Current Liabilities	$60,226,001

Noncurrent Liabilities:

Contingent Compensation, net of taxes	$ 2,460,764

DRESSER INDUSTRIES, INC.

Current Liabilities:

	(In thousands)
Notes payable	$ 3,863
Accounts payable, etc.	19,813
Advances from customers on contracts	5,516
Accrued compensation, taxes, interest, etc.	22,601
Estimated warranty costs	2,738
Federal, state, and foreign income taxes	13,383
Total Current Liabilities	$67,914

Noncurrent Liabilities:

Deferred Compensation, net of future tax effect—Note C	$ 1,632

NATIONAL GYPSUM COMPANY

Current Liabilities:

Accounts payable	$ 6,267,061
Accrued wages, taxes and expenses	8,352,471
Taxes on income, less U. S. Government securities: 1966, $4,299,313; 1965, $6,285,162	332,294
Current maturities of long-term debt	1,912,371
Total Current Liabilities	$16,864,197

Noncurrent Liabilities:

Deferred Items:

Income taxes and investment credit (Note B)	$13,542,077
Self insurance and compensation	285,967

REMINGTON ARMS COMPANY, INC.

Current Liabilities:

Accounts payable—trade	$2,579,844
Accounts payable—other	1,859,240
Federal taxes on income	8,251,814
Less—U. S. Government securities	8,251,814
Other accrued liabilities	5,376,227
Total Current Liabilities	$9,815,311
Provision for Awards to Employees Under Bonus Plans—exclusive of amount included in other accounts payable, $1,179,680 in 1966; $1,062,081 in 1965	2,119,858
Provision for Pensions, exclusive of pension trust fund—$57,010,565 in 1966; $48,309,229 in 1965	921,290

ST. REGIS PAPER COMPANY

Current Liabilities:

Accounts payable	$ 23,064,716
Current portion of long-term debt	6,186,229
Accrued accounts:	
Federal taxes on earnings	20,269,925
Other taxes, wages, insurance, interest, etc.	17,590,187
Total Current Liabilities	67,111,057
Long-Term Debt (Note 3)	191,710,939
Deferred Items (Note 5):	
Federal taxes on earnings	11,250,000
Other	2,819,227
Total Deferred Items	$ 14,069,227

Note 5: *Deferred Items*—Deferred Federal taxes on earnings result principally from the use, for tax purposes only, of an accelerated method of computing depreciation of property, plant, and equipment. The provision for taxes on earnings includes $7,567,000 in 1966 and $3,683,000 in 1965 for such deferred taxes.

Management incentive compensation provisions amounted to $896,368 in 1966 and $2,100,000 in 1965. Awards of $1,478,425 (including $603,632 from unawarded incentive funds of 1965) were allocated to key employees for 1966; of this amount, $828,796 was payable in cash and $649,629 in deferred shares (22,571) of St. Regis' common stock. At December 31, 1966, there were 40,390 deferred shares of St. Regis' common stock payable to key employees under the management incentive plan.

In Current Liability and Stockholders' Equity Sections

FOREMOST DAIRIES, INC.

Current Liabilities:	
Notes payable to banks	$22,402,000
Accounts payable	20,870,000
Salaries and wages	3,914,000
Interest	2,762,000
Taxes	2,323,000
Dividends	1,034,000
Other	5,064,000
Total Current Liabilities	$58,369,000
Stockholder Equity (Note 4):	
4½% preferred stock, $50 par value—authorized, 125,328 shares; outstanding shares: 1966, 110,731; 1965, 119,230	$ 5,537,000
Common stock, $2 par value—authorized, 15,000,000 shares; issued shares: 1966, 8,556,934; 1965, 8,541,895	17,114,000
Other capital	17,635,000
Retained earnings (Note 2)	59,472,000
Common shares reacquired (1966, 781,330; 1965, 852,966) at cost	(8,514,000)
Employee stock purchase plan instalments	2,011,000
Stockholder Equity—net	$93,255,000

In Current and Noncurrent Liability Sections and in Stockholders' Equity

RADIO CORPORATION OF AMERICA

Current Liabilities:	
Accounts payable and accruals	$372,351,000
Federal taxes on income	69,758,000
Dividends payable	12,168,000
Total Current Liabilities	454,277,000
Other Liabilities:	
Long term debt (Note 2)	263,438,000
Incentive plan (Note 3)	23,180,000
Deferred federal taxes on income, related to depreciation	37,760,000
Total Other Liabilities	324,378,000
Shareholders' Equity:	
Capital stock, no par, at stated value	
$3.50 Cumulative first preferred stock	
Authorized: 920,300 shares	
Outstanding: 1966, 183,639 shares; 1965, 190,039 shares	
Preference on liquidation ($100 per share) 1966, $18,363,900; 1965, $19,003,900	2,971,000
Common stock (Notes 4 and 6)	
Authorized: 80,000,000 shares	
Issued: 1966, 59,458,337 shares; 1965, 59,293,490 shares	39,639,000
2% Stock dividend paid January 30, 1967, 1,184,597 shares	790,000
Capital surplus (Note 5)	411,835,000
Reinvested earnings (Note 2)	237,702,000
Total Shareholders' Equity	$692,937,000

Note 3: *Incentive Plan*—At December 31, 1966, the unawarded balance of the Incentive Reserve was $1,367,000, and awards payable in RCA common stock combined with awards payable in cash after January 2, 1968, totaled $21,813,000. Payment of any deferred instalment is contingent under the earning-out provisions of the Plan. The maximum 1966 credit to the reserve under the Incentive Plan, which was most recently approved by the shareholders in 1964, was $11,916,000; the Incentive Committee directed that $11,900,000 be credited to the reserve. From this credit and from the unawarded balance of $3,404,000 at December 31, 1965, awards of $13,937,000 for 1966 were directed by the Incentive Committee.

In Stockholders' Equity Section

MERCK & CO., INC.

Stockholders' Equity:	
Cumulative preferred stock, without par value—authorized 150,000 shares:	
$3.50 series, redemption price $102 per share—issued 120,000 shares	$ 12,000,000
Common stock, par value $.05-5/9, authorized 39,000,000 shares; issued 1966—32,641,374 shares, 1965—32,530,361 shares	1,813,410
Other paid-in capital (principally on common stock)	57,570,402
Deferred compensation payable in common stock (1966—165,696 shares; 1965—151,299 shares)	7,012,848
Retained earnings	217,309,001
	295,705,661
Less treasury stock at cost:	
Cumulative preferred stock, 1966—44,808 shares; 1965—44,808 shares	3,987,274
Common stock, 1966—261,600 shares; 1965—151,300 shares	12,099,154
	16,086,428
Total Stockholders' Equity	$279,619,233

STANDARD OIL COMPANY OF CALIFORNIA

Stockholders' Equity:			
Capital Stock:			
Common stock			$504,984,000
Authorized 100,000,000 shares of $6.25 par value per share			
	1966	1965	
Shares issued December 31	76,949,888	75,246,649	
To be issued as stock dividend	3,847,494		
Total	80,797,382		
Capital Surplus			1,096,081,000
Earned Surplus			1,910,226,000
Total Stockholders' Equity			$3,511,291,000

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 36 survey companies which did not disclose a liability for federal income taxes in their 1966 balance sheets. Eleven of these companies indicated "loss from operations," and 17 companies referred to operating loss "carry-forward" or "carry-back." Seven companies gave no explanation for showing no income tax liability, while one company reported that differences between its current income tax provision and the amount deducted from a related property loss (charged to retained earnings), eliminated the liability for 1966.

TABLE 26: INCOME TAX LIABILITY

Balance Sheet—Current Liability Presentation and Classification	1966	1965	1960	1955
"Federal Income Tax"	169	180	232	273
Above combined with:				
Other taxes	3	2	5	9
Other income taxes	6	7	7	6
Miscellaneous other taxes	1	2	10	14
Total	179	191	254	302
"Federal and State Income Taxes"	42	43	51	56
Above combined with:				
Foreign taxes	19	23	10	15
Other taxes	5	5	5	5
Miscellaneous other taxes	2	1	2	6
Total	68	72	68	82
"Federal and Foreign Income Taxes"	62	61	45	84
Above combined with:				
Miscellaneous other taxes	1	2	5	10
Total	63	63	50	94
Classification set forth as:				
"Income taxes"	107	100	66	56
"Income and other taxes"	16	15	9	4
"Income tax, domestic and foreign"	2	1	1	1
"Income tax, renegotiation, etc."	2	1	—	3
Total	127	117	76	64
"Taxes"	40	43	37	35
"Federal, state, and other taxes"	5	4	3	3
"Federal and state taxes"	2	4	3	1
"Federal, state, municipal taxes"	4	5	6	5
"Domestic and foreign taxes"	2	2	1	1
Miscellaneous other taxes	2	2	58	5*
"U.S. taxes on income"	5	6	N/C	N/C
"U.S. and foreign taxes on income"	67	60	N/C	N/C
Total	127	126	108	50
Number of Companies presenting:				
Current liability for income tax or taxes	564	569	556	592
Not presenting such liability	36	31	44	8
Total	600	600	600	600

N/C—Not compiled.
*Only partly available.

The following examples, selected from the 1966 reports, are representative of the balance sheet presentations of the liability for income taxes.

ALLIS-CHALMERS MANUFACTURING COMPANY
Current Liabilities:
Federal income taxes $19,448,402

AMERICAN CYANAMID COMPANY
Current Liabilities:
Provision for Federal and foreign taxes on income $46,364,356

AMERICAN ZINC, LEAD AND SMELTING COMPANY
Current Liabilities:
(In thousands)
Estimated federal income taxes $965

ARVIN INDUSTRIES, INC.
Current Liabilities:
Provision for federal income taxes $2,746,471

CANNON MILLS COMPANY
Current Liabilities:
Federal and State income and other taxes payable $7,646,168

CANTEEN CORPORATION
Current Liabilities:
Accrued Accounts:
Federal and foreign income taxes (Note 3) $6,921,000
Other costs and expenses 7,841,000

CONSOLIDATED CIGAR CORPORATION
Current Liabilities:
Provision for Federal, State, and other taxes on income (Note 3) $6,431,449

ELECTROLUX CORPORATION
Current Liabilities:
United States and Canadian income taxes . $4,601,679

FMC CORPORATION
Current Liabilities:
Federal and foreign taxes on income $25,739,953

GENERAL FOODS CORPORATION
Current Liabilities:
(In thousands)
Accrued Income Taxes $69,512

KELLOGG COMPANY
Current Liabilities:
Estimated United States and Foreign Taxes on Income $19,066,627

QUAKER STATE OIL REFINING CORPORATION
Current Liabilities:
Income taxes $2,493,830

REVERE COPPER AND BRASS INCORPORATED
Current Liabilities:
Federal, state and local taxes $16,749,910

SIMPLICITY PATTERN CO. INC.
Current Liabilities:
Estimated income taxes $3,783,825

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 171 companies that used descriptive terms such as *estimated, provision, reserve,* or *accrued* in conjunction with other words to describe their tax liability. The remaining 393 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 347 in 1955 to 171 in 1966, with the use of the term *reserve* dropping from 22 in 1955 to 10 in 1966.

Examples

Illustrations of the balance sheet terminology for federal and other income or tax liability, as shown in the annual financial reports of the 600 companies, are set forth below.

Estimated—(29 Companies):
- Estimated federal and foreign income taxes (*259)
- Estimated federal income taxes (*46, 157, 195, 266, 313)
- Estimated income and other taxes (*290)
- Estimated income taxes (*115, 379, 500, 538)
- Estimated liability for federal and foreign income taxes (*285)
- Estimated taxes on income (*80, 213, 428, 474, 484, 536)
- Estimated United States and foreign income taxes (*467)
- Estimated United States and foreign taxes on income (*323)
- Federal and foreign taxes on income, estimated (*116)
- Federal and state income taxes, estimated (*392)
- Federal and state income taxes—estimated (*267)
- Federal and state taxes on income—estimated (*217)
- Federal income taxes, estimated (*471)
- Taxes on income—estimated (*434)
- U. S. federal and foreign income taxes—estimated (*309)

Provision—(26 Companies):
- Provision for federal and foreign taxes on income (*28, 288, 397)
- Provision for federal and other taxes on income (*221)
- Provision for federal and state income taxes (*381)
- Provision for federal and state taxes (*396)
- Provision for federal, foreign and state income taxes (*252)
- Provision for federal income taxes (*11, 65)
- Provision for federal, state, and other taxes on income (*156)
- Provision for federal taxes on earnings (*29)
- Provision for federal taxes on income (*284, 448)
- Provision for income taxes (*27, 173, 210, 235, 424)
- Provision(s) for taxes (*400, 447)
- Provision for United States and foreign income taxes (*101, 176, 343)
- Provisions for estimated federal and state income and other taxes (*410)

Reserve—(10 Companies):
- Reserve for federal and foreign taxes on income (*560)
- Reserve for federal and state income taxes (*287)
- Reserve for federal income taxes (*85, 99, 102, 299, 482)
- Reserve for federal, state and foreign income taxes (*7)
- Reserves for U.S. and foreign income taxes and renegotiation (*75)
- Reserves for U. S. federal and Canadian income taxes (*574)

Accrued—(106 Companies):
- Accrued domestic and foreign taxes (*377, 549)
- Accrued federal and foreign income taxes (*154, 510)
- Accrued federal and foreign taxes on income (*31, 519, 530)
- Accrued federal and state income taxes (*442, 528, 578)
- Accrued federal income tax(es) (*112, 162, 274, 357, 491, 557)
- Accrued federal, state, foreign and local taxes (*524)
- Accrued federal, state, and local taxes (*376, 498)
- Accrued federal, state and other taxes (*230)
- Accrued federal, state, local and foreign taxes (*499)
- Accrued federal taxes (*332)
- Accrued federal taxes on income (*90)
- Accrued income and other taxes (*87, 106, 513)
- Accrued income taxes (*118, 185, 248, 349, 589)
- Accrued income taxes, including deferred taxes (*380)
- Accrued income taxes—U. S. federal and state (*312)
- Accrued taxes (*89, 100, 249, 310, 402, 591)
- Accrued taxes, including income taxes (*165, 501)
- Accrued taxes, including taxes on income (*145, 355)
- Accrued taxes on income (*2, 169, 449, 461, 488, 503)
- Accrued taxes payable (*533)
- Accrued United States income taxes (*177)
- Accrued United States and foreign income taxes (*8, 146, 273)
- Accrued U. S. and foreign income taxes (*171)

TABLE 27: INCOME TAX LIABILITY

Primary Descriptive Term:	1966*	1965	1960	1955
Estimated, etc.	29	49	112	131
Provision, etc.	26	38	63	93
Reserve, etc.	10	12	19	22
Accrued, etc.	106	97	86	101
Total	171	196	280	347
None Used with—				
Federal or U. S. income taxes	298	290	234	214
Income taxes	87	71	27	19
Taxes	8	12	15	12
Total	564	569	556	592
No income tax liability reported	36	31	44	8
Total	600	600	600	600

1966* Descriptive Term Used with	Estimated	Provision	Reserve	Accrued	Used Alone	1966 Total
Federal income tax	7	6	5	19	142	179
Federal and state income taxes	4	6	2	5	51	68
Federal and foreign income taxes	3	3	2	8	47	63
Income taxes	12	5	—	23	87	127
Taxes	—	3	—	43	8	54
U. S. and other	3	3	1	8	58	73
Total	29	26	10	106	393	564

*Refer to Company Appendix Section.

Federal income taxes accrued (*489)
Tax accruals (*163)
Taxes accrued (*13, 247)
Taxes payable and accrued (*117, 270, 340)

Federal or U. S. Income Taxes—(298 Companies):
Federal and Canadian income tax(es) (*37, 135, 244, 316, 496, 537)
Federal and Canadian taxes on income (*460)
Federal and foreign income taxes (*35, 114, 263, 334, 566, 586)
Federal and foreign income taxes, including deferred taxes (*48)
Federal and foreign taxes on income (*9, 143, 231, 344, 485, 527)
Federal and other income taxes (*436, 526)
Federal and other taxes based on income (*113, 516)
Federal and other taxes on income (*26)
Federal and Pennsylvania income taxes (*10)
Federal and state income and franchise taxes (*104)
Federal and state income and other taxes payable (*120)
Federal and state income taxes (*20, 184, 232, 359, 470, 575)
Federal and state taxes on income (*14, 110, 124, 363, 473, 492)
Federal and state taxes on income (less U. S. Treasury obligations held for payment of taxes: $xxx (*200)
Federal, Canadian and other income taxes (*479)
Federal, Canadian, and state income taxes (*571)
Federal foreign and state income taxes (*277)
Federal, foreign and state taxes on income (*295, 468)
Federal income and other taxes (*159, 525, 569)
Federal income and other taxes, and renegotiation (*272)
Federal income taxes (*23, 180, 243, 389, 411, 595)
Federal income taxes (amounts are after deducting $xxx of U. S. Treasury Bills held for tax payments) (*545)
Federal income taxes (including deferred taxes applicable to installment obligations; $xxx) (*33)
Federal income taxes payable (*192, 333)
Federal, state and Canadian income taxes (*255, 472)
Federal, state and Canadian taxes on income (*325, 368)
Federal, state, and foreign income taxes (*153, 199, 208, 278, 476, 597)
Federal, state and other income taxes (*429)
Federal, state and local taxes on income (*186)
Federal taxes on earnings (*314)
Federal tax(es) on income (*15, 166, 253, 324, 464, 559)
Income taxes—U. S. and foreign (*6)
Liability for federal income taxes (*34)
Liability for U. S. & Canadian income taxes and renegotiation of Canadian government contracts (*509)
Taxes on income, payable to United States and Canada (*512)
Taxes on income—United States and other countries (*422)
United States and Canadian income taxes (*189, 211, 317, 351, 450, 556)
United States and Canadian taxes on income (*88, 209, 236, 297, 354)

*Refer to Company Appendix Section.

United States and foreign income taxes (*70, 193, 281, 421, 483, 508)
United States and foreign taxes based on income (*126)
United States and foreign taxes on income (*197, 227, 341, 416, 433, 515)
United States income taxes (*215)
U. S. federal and Canadian income taxes (*71)
U. S. federal and foreign income taxes (*136)
U. S. and Canadian income taxes (*254, 331)
U. S. and Canadian taxes on income (*105)
U. S. and foreign income taxes (*73, 94, 308, 420, 546)
U. S. and foreign taxes on income (*174, 238, 280)
U. S., foreign and state taxes on income (*286)
U. S. taxes on income (*375)
U. S. and non-U. S. income taxes (*127)

Income Taxes—(87 Companies):
Domestic and foreign taxes on income (*404, 443)
Income and other taxes (*172, 432)
Income, excise, state gasoline, and other taxes payable (*382)
Income, operating and consumer taxes (*494)
Income taxes (*66, 168, 242, 370, 495, 565)
Income taxes and other taxes payable (*596)
Income taxes and price revision refunds (*148)
Income taxes payable (*95, 441, 454, 518)
Income taxes, redeterminations, and renegotiation (*540)
Taxes (federal excise, income, property, etc.) (*292)
Taxes, including taxes on income (*19)
Taxes—income and other (*207)
Taxes on income (*58, 141, 257, 398, 453, 577)
Taxes on income, less United States Government Tax Anticipation Bills: $xxx (*469)
Taxes payable (including income taxes) (*517)

Taxes—(8 Companies):
Federal, state and local taxes (*466)
Federal, state and other taxes (*294)
Taxes (*151, 178, 234)
Taxes payable (*69, 539)
Taxes payable on sales, properties, operations, and earnings (*553)

U. S. GOVERNMENT SECURITIES USED TO OFFSET INCOME TAX LIABILITY

The Accounting Principles Board of the American Institute of Certified Public Accountants in *Opinion No. 10,* adopted in 1966, paragraph 7, made the following statement regarding the "Offsetting Securities against Taxes Payable":

7. Chapter 3B, entitled *Working Capital—Application of United States Government Securities Against Liabilities for Federal Taxes on Income* of Accounting Research Bulletin No. 43 is withdrawn in its entirety. The following Chapter 3B, entitled *Offsetting Securities Against Taxes Payable,* is substituted in its place:

TABLE 28: U. S. GOVERNMENT SECURITIES USED TO OFFSET FEDERAL INCOME TAX LIABILITY

Number of Companies with U. S. Government Securities presenting—	1966	1960	1955
All Government securities as an offset to the Federal income tax liability with such securities identified as:			
U. S. Government securities (or similar terms)	9	24	28
Treasury bills	2	3	4
Treasury tax anticipation notes, certificates, or bills	1	—	8
Miscellaneous other descriptions	1	4	18
Total	13	31	58
Certain Government securities as an offset to the Federal income tax liability with such securities identified as:			
U. S. Government securities (or similar terms)	9	47	78
Treasury tax anticipation notes, certificates, or bills	—	6	9
Miscellaneous other descriptions	—	8	24
Total	9	61	111
All Government securities as Current Assets with securities identified as:			
U. S. Government securities (or similar terms)	74	130	169
Treasury bills	7	17	13
U. S. Treasury obligations	1	N/C	N/C
Miscellaneous other descriptions	—	3	8
Total	82	150	190
Number of Companies with no U. S. Government Securities presenting:			
Federal income tax liability	460	322	233
No Federal income tax liability	36	36	8
Total	496	358	241
Total	600	600	600

N/C—Not compiled.

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 setoff exists. Accordingly, the offset of cash or other assets against the tax liability or other amounts owing to governmental bodies is not acceptable except in the circumstances described in paragraph 3 below.
2. Most securities now issued by governments are not by their terms designed specifically for the payment of taxes and, accordingly, should not be deducted from taxes payable on the balance sheet.
3. The only exception to this general principle occurs when it is clear that a purchase of securities (acceptable for the payment of taxes) is in substance an advance payment of taxes that will be payable in the relatively near future, so that in the special circumstances the purchase is tantamount to the prepayment of taxes. This occurs at times, for example, as an accommodation to a local government and in some instances when governments issue securities that are specifically designated as being acceptable for the payment of taxes of those governments.

Opinion No. 10 was adopted by the Accounting Principles Board of the American Institute of Certified Public Accountants in 1966 with the following injunction in paragraph 13 of the Opinion:

13. This Opinion shall be effective for fiscal periods beginning after December 31, 1966 and does not have retroactive effect except as indicated in paragraphs 3, 4, 5, and 6. However, earlier application is encouraged.

United States Government securities were disclosed in the balance sheets of 104 survey companies in 1966, as compared with 359 in 1955, either as current assets or as deductions from the federal income tax liability in the current liability section. Three companies 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. Since *Opinion No. 10* has curtailed drastically the criteria for deducting United States government securities from the federal income tax liability, no examples have been listed beneath Table 28. One example is given below of a company which offset tax anticipation bills from its income tax liability.

REYNOLDS METALS COMPANY

Current Assets:	
Cash, including certificates of deposit	$ 52,941,211
Marketable securities—at cost (approximate market)	26,035,920
Receivables:	
Customers, less allowances for losses	120,570,352
Unconsolidated subsidiaries and other associated and related companies	7,767,610
Other notes, accounts, and claims	10,438,608
	138,776,570
Prepaid expenses	12,113,552
Inventories of products, materials, and operating supplies—Note C	205,325,536
Current Liabilities:	
Accounts payable	$ 44,436,285
Accrued compensation and other expenses	31,981,322
Taxes on income, less United States Government Tax Anticipation Bills: 1966—$14,784,323; 1965—$1,969,065	28,100,650
Long-term debt maturing within one year—per schedule	17,091,996
Notes payable to banks by subsidiaries	5,528,364
Dividends payable	979,361
Payables to unconsolidated subsidiaries and other associated and related companies	226,486

SHORT-TERM BORROWING AND LONG-TERM INDEBTEDNESS

The various types of short-term borrowing and long-term indebtedness presented in the 1966 balance sheets of the 600 companies included in the survey are summarized in Table 29.

The annual reports of these companies disclose that 36 had neither short-term borrowing nor long-term indebtedness at the close of the accounting period. Of the remaining 564 companies, 32 presented short-term borrowing only; 210 disclosed only long-term indebtedness, and 322 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 107 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 (75 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 five companies reported that borrowings under credit agreements were repaid during the year.

Examples from the 1966 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

THE ARUNDEL CORPORATION
Current Liabilities:

Notes payable to bank	$1,300,000

THE GREAT WESTERN SUGAR COMPANY
Current Liabilities:

Notes payable	$6,940,000

HAT CORPORATION OF AMERICA
Current Liabilities:

Notes payable—banks	$500,000

JOHNS-MANVILLE CORPORATION
Current Liabilities:

Notes and accounts payable	$16,299,000

NORTH AMERICAN AVIATION, INC.
Current Liabilities:

Notes payable to banks—unsecured	$25,000,000

Loans Payable

CHICAGO PNEUMATIC TOOL COMPANY
Current Liabilities:

Bank loans	$6,000,000

KELLOGG COMPANY
Current Liabilities:

Foreign loans	$11,581,067

H. H. ROBERTSON COMPANY
Current Liabilities:

Loans Payable:	
Banks	$5,881,144
Other (Including $59,150 Current Maturities of Long-Term Debt)	568,206

TABLE 29: SHORT-TERM BORROWING AND LONG-TERM INDEBTEDNESS—1966

Balance Sheet Description*	Current Liability Short-term**	Noncurrent Liability Long-term
A: Notes payable	281	441
B: Loans payable	48	62
C: Bonds payable	2	31
E: Debentures	—	81
F: Sinking fund debentures	—	183
G: Equipment contracts	—	21
H: Purchase money obligations	—	19
I: Real estate obligations	—	35
J: Mortgages payable	2	93
K: Contracts payable	2	17
L: Other short-term and long-term liabilities	6	98
M: Owed by — subsidiaries	46	146
N: Owed to — unconsolidated subsidiaries or affiliates	4	7
Total	391	1234

Number of Companies presenting:	
Short-term borrowing only	32
Short-term borrowing and long-term indebtedness	322
Long-term indebtedness only	210
Neither short-term borrowing nor long-term indebtedness	36
Total	600

*Refer to Company Appendix Section—A: 44, 148, 224, 334, 496, 582; B: 91, 160, 221, 377, 455, 585; C: 61, 179, 217, 316, 532; E: 9, 121, 226, 344, 405, 501; F: 82, 100, 257, 340, 439, 592; G: 34, 189, 239, 336, 406, 542; H: 95, 302, 353, 456, 535, 570; I: 98, 129, 205, 365, 467, 504; J: 33, 130, 229, 358, 428, 586; K: 17, 182, 300, 311, 497, 529; L: 18, 115, 230, 372, 498, 530; M: 88, 139, 211, 309, 449, 532; N: 141, 181, 494, 514, 591.

**Excluding items set forth in the current liability section which represent the portion of long-term indebtedness payable within one year.

THE TIMKEN ROLLER BEARING COMPANY
Current Liabilities:

Bank loans (operations outside U.S.)	$1,600,100

Notes Payable Secured by Collateral

ELGIN NATIONAL WATCH COMANY
Current Liabilities:

Notes payable (Note 1)—	
9¾% notes to finance company	$ 52,669
6½% notes to banks and insurance company	3,974,385
6% note to bank	2,650,000
Accounts payable	1,394,275
Accrued expenses	3,298,487
Total Current Liabilities	$11,369,816

Note 1 (in part): *Notes Payable*—In 1964, the Company completed arrangements with a finance company and a bank to refinance approximately $10,250,000 of its indebtedness at an average interest cost of about 7¾%. During the years 1965 and 1966, payments against these loans reduced the balance due to $52,669 at February 28, 1966. Interest on the unpaid balance increased to 9¾% at February 28, 1966, due primarily to the termination of the bank's participation in this loan. Subsequent to February 28, 1966, the Company arranged with another bank to participate with the finance company in their loans, and under this new arrangement, the average interest rate will approximate 8½%. At February 28, 1966, the loans are secured by substantially all accounts receivable and contract rights. The financing agreement provides, among other things, that the Company: (a) 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, without prior approval of the lenders. The notes evidencing these loans, as well as the 6½% notes payable to banks and insurance company and the 6% note payable to bank, are payable on demand.

HEYWOOD-WAKEFIELD COMPANY
Current Liabilities:

Notes payable to banks	$3,666,122

Notes to Financial Statements

Assets Pledged as Security for Debt: In 1966, the company mortgaged land, buildings, machinery and equipment carried in the accounts at an aggregate cost of $6,150,000 to its principal stockholder as security for the latter's guarantee of $3,500,000 notes payable to banks. A subsidiary has pledged its inventories ($430,000) and receivables ($169,000) to secure its notes payable of $166,122.

In connection with the financing described above, all previously existing credit arrangements were terminated and the related debt paid off.

Owed by Subsidiaries

THE GILLETTE COMPANY
Current Liabilities:

	(In thousands)
Foreign bank loans	$17,945

Supplementary Information

Foreign Borrowing: Over the last fifteen years, the Company's operations have generated sufficient funds to finance the internal expansion of its business worldwide. However, the Company, through its foreign subsidiaries and branches, has had a policy for many years of borrowing locally in foreign countries in which it has substantial investments at risk. In addition to helping the U. S. balance of payments, such borrowings offer some protection against financial loss due to foreign currency devaluation or inconvertibility and provide the Company with additional flexibility with regard to financing expansion abroad.

LONG-TERM INDEBTEDNESS

Noncurrent Liabilities

ACF INDUSTRIES, INCORPORATED

Long-Term Debt, secured by railroad cars ($9,839,000 due within one year):—Note 1	
Direct obligations of ACF Industries, Incorporated (parent company)	$66,909,000
Obligations of car leasing subsidiaries:	
Secured by cars under net leases	14,982,000
Secured by other railroad cars	11,635,000
	$93,526,000

Note 1: *Long-Term Debt*—Long-term debt at 4% to 5¾% interest is summarized below:

Direct obligations of ACF Industries:		
Incorporated (parent company):		
Chattel mortgage notes due serially to 1974	$ 1,556,000	
Equipment trust certificates payable in annual instalments to 1981	65,353,000	$66,909,000
Obligations of car leasing subsidiaries without recourse to parent company):		
Equipment notes payable in instalments to 1976	14,970,000	
Promissory notes due serially to 1971	12,000	
Chattel mortgage notes due serially to 1973	11,635,000	26,617,000
		$93,526,000

Railroad cars of $74,701,000 (at cost less depreciation) and other assets of $360,000 were pledged as security under the various loan agreements for the obligations of ACF Industries, Incorporated summarized above of $66,909,000. Railroad cars of $41,935,000 (at cost less depreciation) and other assets of $941,000 were pledged as security under the various loan agreements for the non-recourse obligations of car leasing subsidiaries summarized above of $26,617,000.

On April 20, 1966, the Company pledged certain railroad cars (included in the $74,701,000 shown above) to secure long-term borrowings in the aggregate amount of $24,000,000 (included in the $65,353,000 above). Of the loan proceeds, $8,100,000 was received subsequent to April 30, 1966 and has been included in receivables at that date.

Long-term debt includes $9,839,000 maturing within one year. This amount is not reflected as a current liability because payment will be made from rentals to be received, during the coming year, from lessees under railroad car rental contracts extending beyond one year.

GRANITE CITY STEEL COMPANY

Long-Term Debt (Note 2):	
4⅞% Secured Notes, due $2,000,000 in 1968 through 1981, $3,000,000 in 1982 through 1987	$ 46,000,000
5.30% Secured Notes, due annually 1971 through 1990	40,000,000
5% First Mortgage Bonds of subsidiary, due semiannually to 1976	1,635,000
5½% Debentures, due annually to 1973	4,000,000
6% Notes of subsidiary, due quarterly to 1985	2,925,771
Notes, due semiannually to 1976	1,693,921
Liability under construction contract, payable by 1970 through delivery of by-product tar	1,359,316
4⅝% Convertible Subordinated Debentures, due annually 1981 through 1994	30,000,000

Note 2: *Long-Term Debt*—Pursuant to an agreement to sell to institutional investors, $55,000,000 principal amount of 5.30% Secured Notes due 1990, the company issued $40,000,000 of such notes during the year ended December 31, 1966; the remaining $15,000,000 were issued on January 5, 1967. These notes, together with the company's 4⅞% Secured Notes, are secured by a mortgage of the company's principal plants. The company also has a bank credit agreement under which it may borrow, prior to December 31, 1967, up to $10,000,000 on 90-day revolving credit notes at the prime rate of interest or on five-year term loans at ½% above the prime rate, limited to a 5½% interest rate with respect to term loans.

BIGELOW-SANFORD, INC.
Noncurrent Liabilities:

Long-Term Note Payable (Exclusive of Current Maturity) (Note 2)	$15,250,000

Note 2: The long-term note payable of $15,250,000 at 4.55% interest matures in annual installments of $750,000 on December 1, 1968 to 1970 and $1,000,000 each on December 1, 1971 to 1977, with the balance of $6,000,000 due December 1, 1978.

The note agreement contains certain restrictions with respect to the payment of cash dividends and purchase or redemption of common stock. Retained earnings at December 31, 1966, free of such restrictions were approximately $7,189,000.

BLAW-KNOX COMPANY
Long-Term Debt:

Promissory notes—3½% payable $750,000 annually with balance payable January 15, 1975	$9,000,000
Payable within one year	(750,000)
	$8,250,000

DAYCO CORPORATION
Long-Term Debt:

Note payable (secured), due monthly from December 1, 1966 to 1975	$ 112,934
Note payable (secured), due monthly from December 1, 1966 to 1985	430,508
Note payable, due annually from December 1, 1970 to 1985	15,000,000
5½% convertible subordinated debentures, due August 1, 1980, sinking fund requirements beginning in 1970	7,500,000
	$23,043,442

HERSHEY CHOCOLATE CORPORATION
Noncurrent Liabilities:

Long Term Loans	$9,663,952

INTERLAKE STEEL CORPORATION
Long-Term Debt, less current maturities:

4⅞% debentures, due annually, $1,250,000 1967 to 1972, $1,500,000 1973 to 1976 and $2,500,000 in 1977 (Note 3)	$14,581,000
4⅞% insurance company loan, due annually $700,000 1967 to 1973 and $900,000 in 1974	5,100,000
5% debentures, due annually $375,000 1967 to 1977	3,750,000
	$23,431,000

Note 3: *4⅞% Debentures Held in Treasury*—At December 31, 1966, 4⅞% debentures with a face value of $1,419,000 were held in treasury by the Company. Of these, $1,250,000 may be used to meet the 1967 sinking fund requirement and have been applied as a reduction of current maturities of long-term debt. The balance may be used to meet future requirements and has been applied as a reduction of long-term debt.

JOSLYN MFG. AND SUPPLY CO.

Long-Term Bank Loan, 5¾%, due 1968 (convertible to term note payable $500,000 annually beginning in 1969)	$1,500,000

WEYERHAEUSER COMPANY
Long-Term Debt:

Sinking fund debentures, 5.20%, due May 1, 1991 (Note 2)	$150,000,000
Term loan, 4½%, maturing in equal installments from 1968 to 1970 (Note 2)	30,000,000
Other long-term debt	23,002,853
Total Long-Term Debt	$203,002,853

Note 2: The indenture relating to the sinking fund debentures provides for mandatory sinking fund payments annually from 1972 through 1990, each sufficient to redeem $7,500,000 principal amount. Under the agreement relating to the term loan, $300,303,506 of consolidated earned surplus at December 31, 1966, was restricted as to payment of dividends and purchase or redemption of capital stock.

BOTH SHORT-TERM BORROWING AND LONG-TERM INDEBTEDNESS

ADAMS-MILLIS CORPORATION
Current Liabilities:

Notes payable to bank	$ 300,000
Accounts payable and accrued expenses	1,543,020
Federal and state taxes on income	452,968
Current portion of long-term debt	200,000
Total Current Liabilities	$2,495,988
Long-Term Debt—less current maturities—Note C	1,600,000

Note C: *Long-Term Debt*—The long-term debt is payable in quarterly installments of $50,000. The agreement relating to the debt includes, among other things, certain provisions as to the maintenance of net working capital and net worth. At December 31, 1966, the part of Earnings Retained not affected by these restrictions was $2,663,483.

GENERAL FOODS CORPORATION
Current Liabilities:

	(In thousands)
Notes payable	$ 21,315
Accounts payable	66,066
Accrued liabilities	61,784
Accrued income taxes	69,512
Current Liabilities	$218,677
Long-Term Notes	31,271
3⅜% Debentures	23,108

Notes to Financial Statements

Long-Term Notes:

Debt of Foreign Subsidiaries	$19,271,000
5¾% Notes	12,000,000
	$31,271,000

Debt of foreign subsidiaries includes $19,040,000 of 6-6½% term notes by a subsidiary under loan agreements aggregating $23,800,000, repayable at an annual rate of 15% from 1968 to 1972; the balance payable in 1973.

The 5¾% Notes are due December 1, 1980. The note agreement provides for a prepayment of $1,200,000 to $2,400,000 without premium on each December 1 of the years 1971 through 1979. The balance of the notes may be prepaid between December 1, 1971 to November 30, 1979 at a price decreasing from 104% to 100.5%.

3⅜% Debentures: The 3⅜% debentures are due July 1, 1976. The indenture provides for retirement through purchase or sinking fund redemption of $1,500,000 to $3,000,000 on each July 1 of the years 1966 to 1975. The sinking fund price is 100% of face value. Debentures may be called any time at prices decreasing from 101.625% of face value currently to 100% in 1975. Debentures in the principal amount of $3,642,000 held in the corporate treasury have been applied against "Notes Payable" and "3⅜% Debentures" in amounts of $1,500,000 and $2,142,000 respectively at April 2, 1966.

GRANITEVILLE COMPANY
Current Liabilities:

Notes payable—bank (unsecured)	$ 6,000,000
Accounts payable—trade	2,551,643
Accrued items	3,758,673
Current maturity of long-term debt	500,000
Federal and state income taxes—estimated (Notes 3 and 5)	1,839,709
Total Current Liabilities	14,650,025
Deferred income taxes (Note 3)	2,164,355
Long-term debt (Note 4)	
5.4% Note payable	12,500,000

Note 4: *Long-Term Debt*—The $500,000 unpaid balance of the 4¾% bank note is due February 1, 1967. The $12,500,000, 5.4% term note is repayable in annual installments of $750,000 beginning February 1, 1968, with a balance of $4,250,000 due February 1, 1979. These loans are unsecured.

Among covenants contained in the 5.4% term note, the Company: must maintain net working capital of not less than $20,000,000; is restricted in the payment of dividends (approximately $10,419,000 was free of restriction at December 31, 1966); and may not place an encumbrance of any kind on its assets without the consent of the lender.

U. S. INDUSTRIES, INC.

Current Liabilities:

Notes payable to domestic banks	$ 3,375,000
Accounts payable	13,073,845
Accrued expenses	2,423,072
Other liabilities	2,919,029
Dividends payable	82,937
Income taxes—Note C	1,790,196
Indebtedness of foreign subsidiaries—Note B	1,116,273
Convertible Subordinated Debentures	360,000
Portion of long-term debt due within one year	1,897,970
Total Current Liabilities	$27,038,322

Noncurrent Liabilities:

Long-Term Debt—Note B	$ 7,731,814
Convertible Subordinated Debentures—Note D	
4½%, due November 1, 1970, convertible into Common Stock at $13.9355 per share	$ 693,500
5½%, due December 1, 1971, convertible into Common Stock at $16.3928 per share	$ 3,232,000

Note B: *Long-Term Debt*—

U.S. Industries, Inc. and Domestic Subsidiaries:	
5% notes and contracts relating to acquisition of a business and royalty rights, payable $267,580 in 1967, $283,580 in 1968, $257,480 in 1969, $232,480 in 1970 and $82,402 thereafter	$1,123,522
5% Subordinated Debentures maturing serially in five groups of equal face amount each year from 1973 through 1977	933,500
Mortgage notes and other debt payable through 1975 ($309,990 in 1967)	1,738,648
Foreign Subsidiaries:	
Notes and other debt payable through 1981 ($1,320,400 in 1967). Inventories (1966—$3,000,000; 1965—$11,000,000) and receivables (1966—$2,200,000; 1965—$2,200,000) of foreign subsidiaries are pledged and land and buildings are mortgaged to secure current and long-term indebtedness of foreign subsidiaries	5,834,114
	$9,629,784
Less portion of long-term debt due within one year	1,897,970
	$7,731,814

Note D: *Convertible Subordinated Debentures and Dividend Restrictions*—The Company is required to make sinking fund deposits with a trustee sufficient to retire by redemption annually the following principal amounts of Debentures: issue due November 1, 1970, $210,000; issue due December 1, 1971, $360,000. The sinking fund deposits may be made at the option of the Company either in cash or reacquired Debentures or in lieu thereof may be satisfied by prior conversion. As to the issue due November 1, 1970, prior conversions will meet all sinking fund requirements for subsequent years.

The indentures covering the Convertible Subordinated Debentures as well as the Preferred Stock provisions and lease agreements place certain limitations upon payment of dividends and the distribution of assets to holders of Special Preference and Common Stock. These limitations did not operate to restrict such distribution of the balance of retained earnings at December 31, 1966.

INDEBTEDNESS SECURED BY COLLATERAL

AIR PRODUCTS AND CHEMICALS, INC.

Noncurrent Liabilities:

Long-Term Debt (Note 1)		$99,542,000
Supplementary Financial Information		
Long-Term Debt (excluding amounts due within one year)		
Secured, or to be Secured, by Revenues from Customers under Long-Term Agreements		
Domestic:		
Secured Notes, average interest rate 5⅜%, generally payable quarterly over ten to thirteen years	$44,874,000	
5½% Promissory Notes, payable quarterly from 1968 through 1983	25,000,000	
Bank loan, at 5⅝%, revolving credit, convertible into term loan at Company's option on December 31, 1967, payable in ten semiannual installments commencing June 30, 1968	10,000,000	
5½% Notes, payable to banks in 1968	500,000	
	80,374,000	
Foreign:		
Mortgage Debentures of British subsidiary, average interest rate 7¼%, payable $535,000 in 1968, $856,000 in 1969, and the balance in average annual amounts of $970,000 through 1979	11,096,000	
Construction loans of West German and Belgian subsidiaries	1,021,000	
Total Secured	92,491,000	
Unsecured		
Domestic:		
4¾% Convertible Subordinated Note, payable in 1968	2,500,000	
Foreign:		
Bank notes of British subsidiary, average interest rate 5½%, payable in 1968 and 1969	2,450,000	
6% loan from minority stockholder of Belgian subsidiary, payable in 1976	2,000,000	
Miscellaneous	101,000	
Total Unsecured	7,051,000	
	$99,542,000	

Note 1: *Long-Term Debt*—Under the terms of the Indenture covering the Secured Notes and the Trust Deed covering the Mortgage Debentures, substantially all the generating facilities installed primarily on or adjacent to the premises of various customers under long-term sale-of-product or lease agreements, together with all revenues therefrom, are pledged as security. Revenues from the facilities pledged under the Indenture are also assigned as security for the 5½% Promissory Notes, subject to the prior assignment to the Trustee under, and subordinated to the prior lien of, the Indenture.

The Indenture, the Promissory Notes, and the Convertible Subordinated Note provide that consolidated retained earnings of $24,600,000 at September 30, 1966, and 25% of consolidated net income of the Company and domestic subsidiaries and all undistributed net income of the foreign subsidiaries accumulated subsequent thereto is restricted as to the payment of cash dividends by the Company, the purchase by the Company of its stock in excess of the net proceeds from the sale of such stock sold after September 30, 1963, and additional investments in foreign subsidiaries, etc. These instruments provide that plant and equipment may not be mortgaged except for equipment pledged under the Indenture and provide for a minimum domestic consolidated working capital of $20,000,000 (after excluding the current portion of domestic long-term debt from current liabilities). This minimum working capital was exceeded by $12,200,000 at September 30, 1966.

The Indenture and the Trust Deed set forth the terms and conditions under which additional Secured Notes and Mortgage Debentures may be issued and all instruments contain certain restrictions as to the amount of other borrowings.

As of November 15, 1966, the Company entered into agreements covering the issuance of additional Secured Notes on July 6, 1967, in amounts up to $26,350,000 which will be payable in fifty-two quarterly installments commencing March 1, 1968, and will bear interest at 5⅜% per year. These notes, when issued, will be secured by certain facilities under sale-of-product and lease agreements. The issuance of the Secured Notes (Series K) is subject to the completion of certain facilities now being constructed.

As of November 18, 1966, the Company entered into an agreement with certain banks under which it may borrow construction funds at prime interest rates to build the facilities to be pledged under the additional Secured Notes mentioned above. The bank loan is limited to $26,000,000 and will be repaid from the proceeds of the Secured Notes.

The domestic bank loan of $10,000,000, which is the maximum amount of a revolving credit, is convertible into a term loan at the Company's option on December 31, 1967, and is repayable in ten semiannual installments commencing June 30, 1968. The Company intends to repay this loan in full from proceeds of the construction loans mentioned above and therefore has classified this loan as "Secured." Further borrowings under this loan are anticipated prior to December 31, 1967.

The wholly owned British subsidiary has a commitment, at its option, covering the issuance of additional Mortgage Debentures with an interest rate of 7¾% in the amount of $1,260,000 on equipment being constructed under a long-term sale-of-product agreement. Repayment would be over a ten-year period beginning five years after date of issue.

The wholly owned West German subsidiary and 60%-owned Belgian subsidiary have entered into long-term debt agreements under which they may borrow, after satisfying certain conditions, up to an aggregate of approximately $11,000,000 to finance their construction programs. Generating facilities will be constructed and installed adjacent to customers' premises under long-term sale-of-product agreements. These facilities, together with all revenues under the agreements, are pledged as security for the loans which bear interest at an average rate of 7⅛%. The loans are repayable over the period 1968 to 1985. Interim construction financing in connection with these facilities has also been arranged, limited to the amount under the long-term agreements.

The Convertible Subordinated Note is convertible into shares of the Company's Common Stock at $13.65 per share. At September 30, 1966, 183,150 shares were reserved therefor.

The maturities of debt outstanding at September 30, 1966 are: 1967—$10,851,000 (including bank loan of West German subsidiary); 1968—$14,589,000 (including Convertible Subordinated Note); 1969—$12,038,000; 1970—$10,680,000; 1971—$10,008,000.

EVANS PRODUCTS COMPANY

Long-Term Debt:

Unsecured	$48,623,000
Secured by railcars under lease	30,499,000
Other secured	5,692,000
Total Long-Term Debt	$84,814,000

Notes to Financial Statements

	Classified As	
	Long-Term	Current
Long-Term Debt:		
Unsecured:		
Term loan	$35,000,000	
Interim loans	10,000,000	
Bank loan 5¼%	3,000,000	
Sundry obligations	623,000	$ 336,000
	48,623,000	336,000
Secured by railcars under lease	30,499,000	820,000
Other secured	5,692,000	801,000
	$84,814,000	$1,957,000

In 1966, the Company entered into an agreement to issue promissory notes aggregating $50,000,000. The proceeds of the first note of $45,000,000 to be issued in March, 1967 will be used in part to satisfy the $35,000,000 term loan. A second note of $5,000,000 will be issued not sooner than January 1, 1968. The issuable notes will bear interest of 5.95% and are payable in annual installments commencing May 1, 1970 of $1,750,000 to 1974, thereafter $2,750,000 to 1980, thereafter $3,500,000 to 1986 and $3,750,000 in 1987.

The balance of the proceeds of the $45,000,000 promissory note to be issued in March, 1967 will be used to repay interim short-term loans of $10,000,000, and notes payable in that amount have been classified as long-term debt.

The 5¼% bank loan is subject to the terms of an agreement with four banks whereby the Company has available $3,000,000 of unsecured credit until April 15, 1969.

The debt secured by railcars under lease comprises notes which bear interest at rates ranging from 5⅛% to 6½% per year and mature serially to 1981. They are secured by chattel mortgages, trust indentures, or other security instruments on railcars leased to others with a net book value of $39,760,000 of which $22,643,000 is carried as Property, Equipment and Timber, $6,977,000 as Contracts Receivable and $10,140,000 as Other Assets. All or part of the rentals received on pledged cars are required to be applied to the payment of principal and interest. The secured notes include $4,262,000 payable during the coming year which is not classified as a current liability since payment will be made out of certain rentals to be collected during that period.

Other secured debt comprises collateral trust notes issued under trust indentures and mortgage loans relating to retail store and plant properties. Collateral trust notes of $2,695,000, which bear interest at 6% to 8% and mature variously to 1975, are secured by certain home financing contracts receivable deposited with the trustee aggregating $3,691,000. Mortgage loans of $3,798,000, bearing interest at 5¼% to 6% and maturing variously to 1980, are secured by properties with a net book value of $6,860,000.

BOTANY INDUSTRIES, INC.

Current Liabilities:

Notes and loans payable to banks—Note 1	$10,769,000
Accounts payable, accrued and sundry liabilities	18,432,000
Reserve for Federal income taxes—Note 2	3,788,000
Long-term debt payable within one year	2,158,000
Total Current Liabilities	$35,147,000
Long-Term Debt—Note 3	12,595,000

Note 1: Notes and Loans Payable to Banks—

Demand loans payable, less receivables of $8,016,000* assigned without recourse under loan and security agreements for the factoring of accounts receivable	$ 4,989,000
Notes payable	3,075,000
Amounts payable under revolving loan agreements (collateralized by retail customers receivables of $4,708,000)	2,705,000
	$10,769,000

*In addition, $7,693,000 of intercompany accounts (eliminated in consolidation) and $1,519,000 of other receivables were assigned under the agreements; of the latter amount, collection of $619,000 is guaranteed to the Company.

Note 3: Long-Term Debt—

	Portion Payable Within One Year	Portion Payable After One Year	Total	Net Book Amount of Assets Pledged as Collateral
Notes payable — insurance companies and banks (payable in varying amounts approximating $1,000,000 per year)	$1,000,000	$ 5,460,000	$ 6,460,000	$1,900,000[1]
Note payable to stockholder		1,000,000	1,000,000	
Mortgages payable	284,000	4,598,000	4,882,000	6,990,000[1,2]
Other long-term debt	874,000	1,537,000	2,411,000	
	$2,158,000	$12,595,000	$14,753,000	

[1]Investments and other assets [2]Property, plant and equipment

The note payable to stockholder is subordinated to notes payable—insurance companies and banks and is subject to the payment restrictions referred to in the last paragraph of this note. The note holder has agreed that request for payment will require at least one year's prior notice; as at September 30, 1966, such notice had not been received.

Included under mortgages payable is an amount approximating $2,500,000, representing the aggregate balance due under mortgage and security agreements issued in connection with the exercise of an option to purchase plants and equipment. Such property had previously been leased from a stockholder.

Included in other long-term debt are notes aggregating $1,444,000 issued as partial consideration for the acquisition, during the year, of certain net assets of Levinsohn Bros. & Co., Inc.

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, payments on subordinated debt and the payment of dividends (other than stock dividends) to stockholders; as at July 31, 1966, approximately $790,000 of surplus was not so restricted.

HOFFMAN ELECTRONICS CORPORATION

Long-Term Debt Secured by Real Estate:	
6% note, payable in annual principal installments of $275,000, less current maturity	$2,125,000

Note B: *Long-Term Debt*—The 4⅝% and 6% notes include restrictions covering the total amount of corporate borrowing, the purchase, redemption or retirement of the company's stock and the payment of dividends other than stock dividends. Because of these restrictions, the retained earnings at December 31, 1966 are not available for the payment of cash dividends.

U. S. PLYWOOD-CHAMPION PAPERS INC.

Long-Term Debt, excluding current installments	$207,748,054

Note 5: *Long-Term Debt*—Long-term debt of the Company and its consolidated subsidiaries consists of the following:

4¾% Notes payable in semi-annual installments of $2,500,000	$ 32,500,000
4⅝% Debentures redeemable in installments, 1971 through 1990	25,000,000
4.95% Notes due in installments through August 1, 1988	24,200,000
5¼% Sinking fund debentures due April 1, 1985	21,570,000
4½% Convertible subordinate debentures redeemable in installments, 1970 through 1984 (Notes 2 & 3)	20,032,400
3.40% Sinking fund debentures due January 1, 1980	15,625,000
3¾% Debentures redeemable in installments through 1981	15,200,000
4¾% Secured bank loan payable in installments through December 20, 1973[1]	15,000,000
6⅛% First mortgage and collateral trust bonds Series B due September 30, 1984[2]	14,467,688
4¼% Sinking fund debentures due June 1, 1981	11,100,000
Other	13,052,966
	$207,748,054

[1]Secured by the assets purchased with the proceeds of the note.
[2]Secured by the assets of Weldwood of Canada Limited.

The indentures under which the long-term debt was issued provide, among other things, for certain restrictions on the payment of cash dividends. Under the most restrictive indenture, the amount of consolidated retained earnings not restricted as to payment of cash dividends at December 31, 1966 was approximately $64,145,000. However, the provisions of the preference stock issued in connection with the merger are more restrictive as to cash dividends on common stock. See Note 2 for the amount not restricted.

UNITED WHELAN CORPORATION

Long-Term Debt, due after one year (Note 6):	
Notes and other obligations	$ 8,747,138
5½% convertible subordinated debentures	3,600,000
	$12,347,138

Note 6: *Long-Term Debt Due After One Year*—

Five-year notes to banks (a)	$ 4,600,000
Exchanged in 1966 for five-year notes:	
6½% notes to insurance companies due $200,000 anually starting 1970 (b)	2,000,000
Amounts due for acquisitions, payable in varying amounts to 1985	854,240
Rents under leases on non-productive facilities and payments to former employees under employment contracts, due in varying amounts to 1975	354,001
5% to 6% mortgage loans due monthly to 1979	216,755
Other, primarily equipment notes	722,142
	8,747,138
5½% convertible subordinated debentures, due 1980 (c)	3,600,000
	$12,347,138

(a) The five-year bank promissory notes are payable $287,500 quarterly, starting March 15, 1967, plus interest at 2% in excess of the prime commercial loan rate, and provide, among other matters, that the Corporation shall:

(1) Maintain consolidated working capital of $7,500,000.

(2) Maintain capital funds (defined as tangible net worth, plus subordinated debt, less the Whelan stock purchase plan receivables) of $9,500,000. In addition to the 5½% subordinated convertible debentures, the Corporation has $993,000 of other subordinated long-term debt. Also, total liabilities excluding subordinated indebtedness are not to exceed such capital funds by more than 250%.

(3) Not acquire property or equipment (as defined) in any one year in excess of $1,200,000.

(4) Not pay cash dividends or acquire equity investments after December 31, 1966 which, combined, would exceed twenty-five per cent of its net income after December 31, 1966 plus $120,000.

(5) Pay to the banks as payment of the notes as they mature, the net proceeds from (i) the Volume notes receivable, (ii) the Whelan Employees Stock Purchase Plan, and (iii) the sale of more than four stores in any year. In addition Whelan must apply ratably in reduction of the total, the proceeds from the sale if made, of the Corporation's property at 89 Seventh Avenue, New York, N. Y. The Corporation's ability to borrow, make loans, acquire businesses, sell property, etc., is restricted.

Amounts of $1,657,000 due from Volume Merchandise, Inc. and subsidiaries, and land and buildings with a book value of $630,391, are pledged under these loans. In addition, the banks may request additional collateral including (without limitation) security agreements, pledges and/or assignments with respect to property and assets of the Corporation as may be designated by the banks.

(b) The agreements for the insurance companies' loans, among other things, require that the Corporation maintain (i) a ratio of current assets to current liabilities of 1.65 to 1.00 to March 31, 1967, 1.80 to 1.00 from April 1, 1967 to March 31, 1968 and 2.00 to 1.00 after April 1, 1968, and (ii) various other restrictions which are the same or less restrictive than those described in (a) above.

(c) The 5½% convertible subordinated debentures are redeemable in whole or in part at the Corporation's option at 103 to September 30, 1967 and at reduced amounts thereafter. At December 31, 1966, the conversion ratio (which is subject to antidilution adjustment) was 20.72 shares of common stock for each $1,000 debenture. The indenture provides that on October 1, 1967 and annually thereafter to 1979, the Corporation will retire $225,000 principal amount of the debentures. As of December 31, 1966, the Corporation and a subsidiary owned $190,000 face amount of the debentures which have been eliminated from the financial statements.

REVOLVING CREDIT AGREEMENT

THE BOEING COMPANY

Long-Term Debt, less current portion	$466,533,000

Notes to Financial Statements

Long-Term Debt and Restrictions on Retained Earnings:

Revolving Credit notes	$180,600,000
5½% Convertible Subordinated Debentures	129,959,000
6⅜% notes payable	68,500,000
5% notes payable	47,250,000
5% Sinking Fund Debentures	26,501,000
Other notes	19,155,000
Less current maturities	(5,432,000)
	$466,533,000

The Company has entered into a Revolving Credit Agreement with a group of banks for an aggregate of $200,000,000 with the outstanding balance at December 31, 1969 repayable over the three-year period ending December 31, 1972. These loans bear interest at the prime commercial bank rate until December 31, 1969 (currently 5¾%), and thereafter at ¼% above such rate. Borrowings under the agreement may be prepaid at any time without penalty.

The 5½% Convertible Subordinated Debentures, due in 1991, are convertible into capital stock at $63.50 per share. Of the Company's unissued capital stock, 2,046,953 shares are reserved for conversion of the debentures. Required annual sinking fund payments commencing in 1977 are 5.75% of the principal amount of debentures outstanding at September 1, 1976.

In September 1966, the Company obtained commitments from a group of institutional lenders to purchase at various dates to May 1968 an aggregate of $175,000,000 principal amount of 6⅜% notes due 1986. Required annual sinking fund payments commencing in 1971 are $10,750,000.

The 5% notes, maturing in 1983, are payable to an insurance company in annual installments of $2,750,000.

Sinking fund requirements under the 5% Sinking Fund Debentures, due in 1978, are $2,700,000 annually. Debentures aggregating $2,699,000 have been canceled but may be applied against future sinking fund requirements.

The other notes relate to certain purchase and lease agreements with airline customers, bear interest at 6 to 7% and are payable to a group of banks in installments over various periods through 1977.

The indentures under which the long-term obligations were issued place various restrictions on the use of retained earnings for the payment of cash dividends or acquisition of the Company's capital stock or subordinated indebtedness. Under the most restrictive of these provisions, retained earnings totaling $63,209,000 at December 31, 1966 were not so restricted.

CONTROL DATA CORPORATION

Current Liabilities:	
Notes payable to banks, including $55,000,000 under revolving credit agreement (Note 6)	$55,810,006
Long-Term Debt, Less Current Maturities (Note 5):	
5% sinking fund debentures, due May 1, 1985	$40,000,000
3¾% convertible subordinated debentures, due February 1, 1989	35,000,000
Miscellaneous	662,130
Total Long-Term Debt	$75,662,130

Note 5: *Long-Term Debt*—The 3¾% convertible subordinated debentures are convertible into shares of common stock at $86.67 per share, subject to adjustment under antidilution provisions, and 403,830 shares of authorized and unissued common stock are reserved for issuance on such conversions. On or before each January 31, beginning in 1974, the Company is required to make sinking fund payments aggregating $1,500,000 of principal amounts each year, plus redemption premium and accrued interest.

The 5% sinking fund debentures are required to be redeemed in the principal amount of $2,000,000 per year on May 1 in each of the years 1970 through 1984, plus redemption premium and accrued interest.

Note 6: *Dividend Restriction*—The terms of long-term debt agreements, as well as the terms of a revolving credit agreement entered into during the year, include, in addition to other covenants, restrictions on the payment of cash dividends on common stock. Under the most restrictive of these agreements, the entire amount of the retained earnings at June 30, 1966, is so restricted.

GENERAL SIGNAL CORPORATION

Long-Term Debt, Less Current Maturity:	
Mortgages payable to bank, due in installments to 1969 (interest at varying rates)	$ 125,000
Notes payable to banks (Note 3)	7,000,000
Total Long-Term Debt	$7,125,000

Note 3: *Long-Term Debt*—During 1966 the company entered into a long-term revolving loan agreement with a group of banks which permits borrowing of $12,000,000 on or prior to November 29, 1968, of which $7,000,000 was borrowed at December 31, 1966. The borrowings bear interest at the prime rate until November 30, 1967, and thereafter at rates which shall not exceed ¼% in excess of the prime rate. Commencing on February 28, 1969, the loans are repayable quarterly at 5% of the outstanding balance on November 30, 1968 and mature on November 30, 1971. The agreement provides for various restrictions, among which are maintenance of a stipulated amount of consolidated working capital and a restriction on investments, other than the acquisition of majority interests in other companies.

V-LOAN

STANDARD KOLLSMAN INDUSTRIES, INC.

Current Liabilities:	
Bank loans (Note 3)	$16,427,331
Notes payable	350,000
Long-Term Debt:	
6% notes payable in annual installments through 1971, less installments due within one year	$ 800,000
Other, less installments due within one year	223,176
	$1,023,176

Note 3: *Bank Loans and Dividend Restriction*—Bank loans in the amount of $16,427,331 at December 31, 1966, include $6,000,000 under a revolving credit agreement expiring May 31, 1967 and a Regulation V loan for $9,000,000 which provides for the assignment to lenders of amounts to become due under all major U.S. Government prime contracts. Cash, accounts receivable and inventories of $54,915, $3,802,302 and $1,005,390, respectively, are security for $9,927,331 of the bank loans. Under the most restrictive covenant of the loan agreements, $11,158,452 of retained earnings at December 31, 1966, is not available for the payment of cash dividends.

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 fiancial 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 1966 indicate that 180 companies disclosed 219 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 the total number of items. The various items which ac-

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

TABLE 30: DEFERRED INCOME—DEFERRED CREDITS

Balance Sheet Presentation*	1966	1965	1960	1955
With Related Asset:				
A: Unearned finance charge	14	13	10	8
B: Unearned interest and/or discounts	5	5	4	1
C: Advances or payments on uncompleted contracts	50	46	4	—
Profit on sales or installment contracts	3	3	—	—
In Current Liability Section:				
D: Advances or billings on uncompleted contracts	12	7	3	1
E: Rent on leased equipment, films, or meters, etc.	5	4	1	1
F: Customer service prepayment	8	7	5	7
G: Unearned deposits or royalties	4	4	1	—
H: Production payments	7	7	N/C	N/C
I: Other	4	1	4	4
Above Stockholders' Equity Section:				
J: Customer service prepayment	3	3	2	—
K: Magazine subscription income	4	4	5	5
L: Profit on sales or installment contracts	8	10	8	9
M: Profit on fixed assets sold	3	3	9	4
N: Rentals on leased equipment, films, or meters, or rent	4	7	6	7
O: Deferred or unearned royalties, deposits, or contract prepayments	5	7	4	3
P: Unrealized profit on sale of leasehold or sales and leaseback of assets	6	7	N/C	N/C
Q: "Deferred credits"	23	23	20	20
R: "Deferred income"	14	15	10	12
S: Equity in net assets of subsidiary over cost	16	15	10	—
T: Production payments	12	7	—	—
U: Varous other	9	9	11	13
Total	219	207	117	95

Number of Companies presenting Deferred Income items in:	1966	1965	1960	1955
Current asset section	54	52	16	8
Current asset section and *above* stockholders' equity section	7	7	2	1
Current asset section and current liability section	8	4	N/C	N/C
Noncurrent asset section	2	2	1	—
Noncurrent asset section and *above* stockholders' equity section	1	1	N/C	N/C
Current liability section	26	22	13	12
Noncurrent liability section	2	—	—	—
Current liability section and *above* stockholders' equity section	1	1	N/C	N/C
Above stockholders' equity section	79	82	69	63
	180	171	101	84
Not presenting deferred income items	420	429	499	516
Total	600	600	600	600

*Refer to Company Appendix Section—A: 192, 226, 262, 316, 452, 505; B: 33, 188, 310; C: 7, 131, 221, 353, 415, 515; D: 88, 153, 311, 401, 440; E: 6, 364, 598; F: 94, 369, 395, 483; G: 583; H: 230, 335, 477; I: 35; J: 560; K: 376, 543; L: 336, 476, 553; M: 342; N: 141, 195; O: 29, 396, 534; P: 99, 542, 565; Q: 113, 234, 255, 382, 443, 525; R: 8, 117, 253, 362, 503, 572; S: 61, 174, 215, 406, 504; T: 13, 139, 273, 497, 532; U: 165, 344, 441, 461, 558, 560.
N/C—Not compiled.

count for such increase 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.

With Related Current Assets

ELECTROLUX CORPORATION

Current Assets:

Cash	$ 6,354,946
Marketable securities, at amortized cost which approximates market	9,643,306
Instalment accounts receivable, less unearned finance charges and reserves: 1966 $2,863,184, 1965 $2,885,549	31,483,194

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

HARRIS-INTERTYPE CORPORATION

Current Assets:

Cash	$ 4,830,562
United States Treasury securities	17,601,560
Trade accounts and notes receivable:	
Accounts receivable	35,542,155
Installment notes (principally secured by title-retaining contracts on equipment sold) including approximately $16,200,000 in 1966 and $11,100,000 in 1965 due after one year	28,328,630
	$63,870,785
Less deferred interest income ($2,899,970 in 1966 and $1,826,875 in 1965) and allowances for collection losses	3,820,836
	$60,049,949

RITTER PFAUDLER CORPORATION

Current Assets:

Cash	$ 5,942,000
Marketable securities at cost (market value 1966 $2,129,000)	1,605,000
Accounts, notes and installment receivables net of deferred income and allowance for doubtful accounts	39,199,000

Notes to Financial Statements

Accounts, Notes and Installment Receivables: Included in this caption are—

Accounts receivable	$30,483,000
Notes receivable and installment contracts	11,524,000
Equity in installment contracts sold	850,000
	42,857,000
Less—	
Deferred income on installment contracts and other receivables	2,819,000
Allowance for doubtful accounts	839,000
Total	$39,199,000

Amounts due after one year included in receivables totaled $7,902,000 and $7,110,000 at December 31, 1966 and 1965, respectively.

SPERRY RAND CORPORATION

Current Assets:

Cash	$ 44,376,489
Accounts and notes receivable:	
United States Government contracts, direct and indirect	51,126,817
Commercial, less reserve for doubtful accounts: 1966, $6,558,594; 1965, $6,427,967	152,499,964
Inventories:	
Contracts and work in progress, finished products and parts, raw materials and supplies, at the lower of cost or market, less progress payments: 1966, $31,478,732; 1965, $29,740,309	376,278,990

THE WURLITZER COMPANY

Current Assets:

Cash	$ 4,439,215
Trade receivables:	
Notes and accounts	12,988,307
Installment accounts (estimated installments due after one year—1966, $9,500,000; 1965, $8,300,000)	17,690,134
Total receivables	30,678,441
Less:	
Reserves for doubtful accounts	945,644
Unearned discount and carrying charges on installment accounts	2,064,603
Total	3,010,247
Trade Receivables—Net	$27,668,194

In Noncurrent Asset Section

FRUEHAUF CORPORATION

Investments and Other Assets:

Investments in and amounts due from affiliated companies not consolidated (Notes A and D)	$ 73,108,305
Equipment leased to customers—at lower of cost or appraised value, less accumulated depreciation of $10,967,188 at December 31, 1966	24,912,156
Transport Investment Division loans—secured, less deferred finance charges of $2,676,558 at December 31, 1966 (excluding $1,527,732 included in current assets)	8,580,844
Miscellaneous accounts and investments	7,328,689
	$113,929,994

STANDARD OIL COMPANY (INDIANA)

Investments and Sundry Assets:

Listed securities—at cost (comprising at December 31, 1966, 1,439,905 shares of Standard Oil Company (New Jersey) and other securities, the total having a quoted market value of $93,150,000)	$ 14,865,000
Investments held for operating purposes—at cost	82,003,000
Long-term receivables and sundry assets (including at December 31, 1966, installment notes receivable of $93,474,000 from sale, in 1960, of certain gas and oil properties less deferred income of $84,629,000)	71,130,000
	$167,998,000

In Current Liability Section

ALPHA PORTLAND CEMENT COMPANY

Current Liabilities:

Accounts payable	$2,335,771
Wages payable	135,323
Accrued taxes:	
Federal income	298,198
Other	235,513
Production payment proceeds, net of income taxes (Note B)	1,089,631

DICTAPHONE CORPORATION

Current Liabilities:

Notes payable	$ 510,000
Accounts payable and accrued liabilities	5,658,736
United States and foreign income taxes	1,576,082
Deferred income on maintenance contracts less related taxes paid, $1,474,962 in 1966 and $1,463,484 in 1965	2,384,216
Total Current Liabilities	$10,129,034

LINK-BELT COMPANY

Current Liabilities:

Accounts payable and accrued liabilities	$19,239,715
Progress billings on uncompleted contracts	1,985,578
Common stock dividends payable	573,634
Provision for United States and foreign income taxes	5,485,733
Provision for general taxes	1,835,780
Total Current Liabilities	$29,120,440

TWENTIETH CENTURY-FOX FILM CORPORATION
Current Liabilities:

Notes payable to banks	$ 6,059,759
Current maturities of long-term debt (Note 5)	3,150,000
Current maturities of contractural obligations, of which portions are net of taxes of $160,000 in 1966 and $180,000 in 1965	5,023,787
Participants' shares payable	12,835,887
Accounts payable and accruals	23,422,049
Accrued domestic and foreign taxes (Note 4)	10,004,904
Advance film rentals	6,268,518

UNITED PARK CITY MINES COMPANY
Current Liabilities:

Accounts and wages payable	$184,133
Taxes accrued	40,991
Dividends unclaimed	19,174
Portion of long-term debt payable within one year	46,196
Advance rentals received	17,685
Total Current Liabilities	$308,179

Above Stockholders' Equity Section

AMP INCORPORATED AND PAMCOR, INC.

Investment Tax Credit and Deferred Income . $1,285,937

BEMIS COMPANY, INC.

Unearned income on installment contracts $183,796

BURROUGHS CORPORATION

Deferred Rental Income from Assigned Leases, Net of Federal Income Taxes $1,243,808

THE CURTIS PUBLISHING COMPANY

Unearned subscription revenues less related commission expenses $31,057,000

THE HOBART MANUFACTURING COMPANY
Deferred Credits:

Excess of equity acquired over cost of investment in subsidiaries (less amortization)	$ 261,049
Customers' service contracts, etc.	1,402,249
Total Deferred Credits	$1,663,298

R. H. MACY & CO., INC.
Deferred Credits:

Deferred investment credit ($2,973,545 and $2,161,319) and unamortized capital gains on sales and leasebacks (Note 2) . $6,374,473

Note 2: In December, 1965, Val-Fair Shopping Center, a wholly owned subsidiary, acquired a shopping center in San Jose, California, previously owned by a corporation in which Macy's held a 50% equity interest. In April, 1966, the subsidiary sold the property for $14,000,000 and leased it back. The net gain on these transactions of approximately $2,190,000 is being amortized over 35 years. The leases are for an initial term of 35 years at total annual rentals of approximately $903,000, with six 10-year renewal options at annual rentals of $245,000. Also provided is an option to repurchase the land at the expiration of the initial term for approximately $3,800,000.

Based on rulings of the Commissioner of Internal Revenue in respect of similar transactions, the gain on the sale of the improvements will not be recognized for Federal income tax purposes and Val-Fair Shopping Center will continue for tax purposes to deduct depreciation on said improvements and a portion of the leaseback rent as the equivalent of interest.

FAIRCHILD HILLER CORPORATION

Deferred Income (Note 4) $236,126

Note 4: Certain property no longer needed by the Corporation in its operation was sold in 1963 to real estate developers, and mortgage notes were accepted in part payment. The mortgage notes provide for partial releases of security as payments are made. The Corporation holds uncollected mortgage notes totalling $340,000 as of December 31, 1966, that are due and payable on or before June 11, 1967. Gain on disposition of the property is reflected in earnings as mortgage notes are collected. During 1966 such gain, in the amount of $451,166, is included in Other Income. The unrealized portion is reflected as Deferred Income.

Other

ELTRA CORPORATION
Other Receivables, Investments and Advances (Note 2):

Receivables on equipment leasing contracts, less unearned income of $3,215,017 in 1966 and $2,341,207 in 1965 (Note 3) $18,607,895

Above Stockholders' Equity

Deferred Credit (Note 1) $7,481,906

Note 1: *Principles of Consolidation*—The financial statements include the accounts of the Corporation and all subsidiaries except those in domestic special-situation equipment leasing and certain foreign companies (see Note 2).

During 1957-1960 the Corporation acquired approximately 35% interest in the Electric Auto-Lite Company by a series of cash acquisitions which for accounting purposes have been treated as purchases. The remaining Autolite common stock interest was 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 remaining interest so combined has been accounted for as a pooling of interests.

More recently the Corporation purchased for cash all or most of the outstanding capital shares of Stanley G. Flagg & Co., Inc. in April, 1965, North American Refractories Company during the first half, fiscal 1966, and Burrus Mills Incorporated during the second quarter, fiscal 1966. Operations of these companies are included in the Statement of Consolidated Income from dates of acquisitions.

With respect to the foregoing purchased interests, the excess of equity in net assets as taken into consolidation over cost of investments is carried as a deferred credit being transferred to income ratably over an average period of fifteen years.

The local currency financial statements of foreign subsidiaries consolidated were translated into U.S. dollars generally at rates of exchange prevailing at the end of the fiscal periods except for property, plant and equipment on which rates effective in the years of additions were taken into consideration.

McCALL CORPORATION

Total Current Liabilities	$29,243,000
Long-term debt due after one year	36,964,000
Deferred subscription revenue and related deferred federal income taxes	27,563,000
Other deferred federal income taxes	2,955,000
Deferred credit arising from sale and leaseback of equipment	343,000
Total Liabilities	$97,068,000

STANDARD OIL COMPANY (NEW JERSEY)

Total Current Liabilities	$2,762,491,000
Long-term debt	1,036,603,000
Deferred credits	249,140,000
Annuity, insurance, and other reserves	428,944,000
Equity of minority shareholders in affiliated companies	393,865,000
Total Liabilities	$4,871,043,000

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 1966 survey reports. Only 150 of the 557 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 1966 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

CARNATION COMPANY
Consolidated Balance Sheet

Minority Interests in Capital Stock and Retained Earnings of Consolidated Subsidiaries (Note 1)	$2,698,874
Consolidated Statement of Income	
Costs and Expenses, including provisions for depreciation of $9,501,394 in 1966 and $8,656,294 in 1965:	
Cost of sales	$621,267,921
Selling, general and administrative expenses	134,454,603
Interest on long-term debt and bank borrowings	4,548,733
Minority interests in earnings of subsidiaries	1,477,963

UNIVERSAL LEAF TOBACCO CO., INC.
Consolidated Balance Sheets

Minority Interest in Capital Stock and Retained Earnings of Consolidated Subsidiaries	$ 3,613,234
Consolidated Statements of Income and Retained Earnings	
Gross Profit	$14,644,661
Add:	
Write-off of Unamortized Investment Tax Credit (Note 3)	157,824
Dividends Received:	
From Affiliated Companies—Not Consolidated (Note 2)	603,872
From Other Investments	141,510
Gain on Sale of Investments	112,976
	$15,660,843
Less:	
Loss on Disposition of Plant Assets	$ 47,908
Depreciation of Plant Assets	1,999,718
Minority Interest in Net Income	470,204
Provision for Canadian and U. S. Federal Income Taxes (Note 4)	5,877,323
	8,395,153
Net Income	$ 7,265,690

CITIES SERVICE COMPANY
Consolidated Balance Sheet

Minority Interests in Subsidiaries	$7,036,494
Consolidated Income	
Costs and Expenses:	
Costs and operating expenses	$ 860,655,336
Selling, general and administrative expenses	131,570,182
Taxes, other than Federal and foreign income taxes	39,363,442
Depreciation, depletion, dry holes and lease cancellations	108,860,127
Interest expense	17,014,137
Federal and foreign income taxes	49,164,799
Income applicable to minority interests	808,622

EATON YALE & TOWNE INC.
Statement of Financial Position

Reserves for Restricted Currency Income and Interests of Minority Shareholders—Note A	$ 8,105,046
Statement of Income and Earnings Retained in the Business	
Costs and Expenses (including provisions for depreciation and amortization of $18,052,791 in 1966 and $15,075,303 in 1965):	
Cost of products sold	$604,327,557
Selling, administrative, research and development expenses	89,127,603
Interest expense	5,403,357
Provision for restricted currency income, exchange losses and interests of minority shareholders	3,180,630

CHAS. PFIZER & CO., INC.
Statement of Consolidated Financial Position

Deduct:	
Bank loans, maturing to 1985	$ 54,723,779
Deferred taxes on income—Note 1	12,000,000
Deferred compensation payable	2,820,357
Reserve applicable to foreign operations—Note 1	6,000,000
Minority interests	7,807,077
	$ 83,351,213
Statement of Consolidated Earnings and Retained Earnings	
Earnings before provision for taxes on income and minority interests	$115,051,917
United States and foreign taxes on income	52,200,000
Earnings before minority interests	62,851,917
Minority interests	1,229,867
Net Earnings for the Year	$ 61,622,050

PITTSBURGH PLATE GLASS COMPANY
Consolidated Balance Sheet

Minority Interest:	
Minority interest in consolidated subsidiaries	$23,629,000
Consolidated Earnings and Earnings Retained for Use in the Business	
Net Earnings Before Taxes on Income and Minority Interest	$93,746,000
Less—Domestic and Foreign Taxes on Income	42,500,000
Net Earnings Before Minority Interest	51,246,000
Less—Minority Interest in Earnings of Consolidated Subsidiaries	1,759,000
Net Earnings (Per Share: 1966, $4.87; 1965, $5.48)	$49,487,000

TABLE 31: MINORITY INTERESTS

Balance Sheet Presentation*	1966	1965	1960	1955
Above Stockholders' Equity section and shown as:				
A: Minority stockholders' interest	135	128	94	60
B: Minority interest in capital stock and surplus	3	2	6	11
C: Minority interest in capital stock	3	3	7	5
Within Stockholders' Equity section and shown as:				
D: Minority stockholders' interest	2	2	3	3
Other Sources Showing Minority Interest:				
E: In notes to financial statements	2	—	—	—
Total	145	135	110	79
Income Statement Presentation*				
In separate last section:				
F: After current tax estimate	43	40	30	30
G: *Listed among operating items*	45	41	35	20
H: *In notes to financial statements*	3	—	—	—
Other	—	2	4	5
Total	91	83	69	55
Consolidated Financial Statements with Minority Interest set forth in:				
Balance sheet only	57	55	46	27
Balance sheet and income statement	84	80	64	52
Income statement only	4	3	3	3
Balance sheet, and footnotes for income	2	—	—	—
Accompanying footnotes only	3	2	2	1
	150	140	115	83
Not referred to in report	407	415	401	376
	557	555	516	459
Nonconsolidated Financial Statements with:				
Subsidiary companies	11	12	20	42
No subsidiary companies	32	33	64	99
Total	600	600	600	600

*Refer to Company Appendix Section—A: 66, 161, 236, 306, 457, 584; B: 254; C: 98; D: 277; E: 467; F: 25, 157, 233, 307, 418, 510; G: 92, 116, 252, 334, 422, 553; H: 439.

Within Stockholders' Equity Section

CROWN ZELLERBACH CORPORATION

Stockholders' Equity:

Minority Interest in Canadian subsidiaries	$ 8,040,000
Crown Zellerbach Corporation Stockholders:	
Cumulative preferred stock (Note 5):	
No par value $100 liquidation and stated value.	
Authorized 485,806 shares, issuable in series:	
Initial series $4.20 stock, at December 31, 1966 issued and outstanding 238,909 shares	23,891,000
Common stock (Note 6):	
$5 par value. Authorized 30,000,000 shares, at December 31, 1966 issued and outstanding 15,302,603 shares	76,513,000
Other capital (details on page 21)	96,456,000
Income retained in the business (details on page 21)	304,936,000
Total Equity—Crown Zellerbach Corporation	501,796,000
Total Stockholders' Equity including minority	509,836,000
	$873,924,000

In Notes to Financial Statements

GENERAL MOTORS CORPORATION

Other Liabilities: Other liabilities at December 31, 1966 consisted of the following: undelivered instalments of bonus awards and of contingent credits applicable to terminated stock options, $171,109,840; accrued taxes on undistributed earnings of subsidiaries, $67,787,408; deferred investment credit, $130,467,000; other noncurrent liabilities, $194,803,950; and minority interest in the preference stock of Vauxhall Motors Limited, $418,851.

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 revealed that in 1966 a change was apparent in approximately 71 per cent of the reserves but the offsetting charge or credit to the reserve was not disclosed. About 7 per cent showed no dollar change; approximately 21 per cent of the changes were made through the income account; only in 1 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 1966 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 for 1965, and the number of companies was 19 in 1966, or 3 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 (15 reserves in 1966), or within the stockholders' equity section of the balance sheet (4 reserves in 1966). References are 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 contingency reserve could not be determined. In those instances where there were changes in the reserves during 1966, 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 1966 annual reports are provided below.

Reserves Eliminated

AMERADA PETROLEUM CORPORATION
Above Stockholders' Equity

	December 31, 1966	December 31, 1965
Reserves:		
Insurance	$689,432	$ 691,333
Contingencies (Note 2)	—	6,238,606
Total Reserves	$689,432	$6,929,939

Financial Review

The Reserve for Contingencies shown on the 1965 Balance Sheet was eliminated in 1966 by transfers of $1,800,000 to reserve for investment in and advances to Esperanza Petroleum Corporation, $2,500,000 to reserve for income taxes for prior years, and the remainder to extraordinary income.

Reserves Maintained

THE AMERICAN DISTILLING COMPANY
Above Stockholders' Equity
Reserve for Contingencies—Note 4 .... $114,730

Note 4 (in part): (c) In the opinion of General Counsel for the Company, the balance of $114,730 in the reserve for contingencies at September 30, 1966, was sufficient to cover all contingent liabilities, guarantees and claims, and the aggregate amount of any such liabilities (not presently determinable), will not be materially important in relation to the total resources of the Company, therefore, no charge has been made against current earnings because of them.

THE BENDIX CORPORATION
Above Stockholders' Equity

Reserves:	
Sundry operating reserves	$2,798,428
For contingencies (Note 8)	2,745,000
Total Reserves	$5,543,428

Note 8: *Contingent Liabilities*—At September 30, 1966 the Corporation was contingently liable in the amount of approximately $3,550,000 as guarantor of loans made to nonconsolidated foreign subsidiaries and associated companies.

There are various suits pending against the Corporation, some of which are for substantial amounts. It is the opinion of officials of the Corporation, on the basis of information furnished by counsel, that reserves and insurance carried are adequate to take care of all such known liabilities.

PHILLIPS PETROLEUM COMPANY
Above Stockholders' Equity
Reserve for Contingencies $29,881,000

EMPLOYEE BENEFIT RESERVES

There were 125 employee benefit reserves shown by 102 of the 600 survey companies in their 1966 annual reports. Table 33 discloses in comparative form the various types of employee benefit reserves found in the survey reports for the years 1966, 1965, 1960, and

TABLE 32: CONTINGENCY RESERVES

Balance Sheet Presentation*	1966	1965	1960	1950
Among: *Current Liabilities*	—	—	—	2
A: Above: *Stockholders' Equity*	15	19	35	107
B: Within: *Stockholders' Equity*	4	9	12	46
Total	19	28	47	155
Terminology Used				
Reserve	14	20	37	125
Allowance	2	2	N/C	N/C
Appropriated	2	5	N/C	N/C
Various other terms	1	1	10	30
Total	19	28	47	155
Number of Companies with:				
Contingency reserves	19	28	47	155
No contingency reserves	581	572	553	445
Total	600	600	600	600

*Refer to Company Appendix Section—A: 102, 312, 459, 549, 553, 590; B: 172, 209, 231, 426.
N/C—Not compiled.

1950. In most instances, these reserves were presented above the stockholders' equity section of the balance sheet (121 reserves in 1966); 2 items were classified as current liabilities, and 2 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 and in some reports the related charges were found in the income statement. References to those survey companies which indicated reserves for employee benefits in their 1966 reports are 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

FEDERATED DEPARTMENT STORES, INC.
Above Stockholders' Equity
Provision for contingent compensation, net of taxes $18,416,393

GIMBEL BROTHERS, INC.

Other Liabilities:	
Long-term debt (See Note 3):	
Sinking fund debentures	$43,450,000
Notes payable	450,000
Mortgages payable of subsidiaries	16,546,898
Other debt of a subsidiary	3,000,000
	63,446,898
Pension and deferred contingent compensation (See Note 6)	3,997,542
	$67,444,440

TABLE 33: EMPLOYEE BENEFIT RESERVES

Balance Sheet Presentation*	1966	1965	1960	1950
Among: *Current Liabilities* for—				
A: Various plans including incentive and deferred compensation, profit sharing, and other benefits	2	5	10	5
Above: *Stockholders' Equity* for—				
B: Deferred or contingent compensation plan	33	37	22	6
C: Incentive compensation plan	14	15	10	2
D: Bonus plan	4	6	6	6
E: Retired employee benefits	4	4	11	3
F: Welfare or benefit plans	14	16	5	11
G: Severance pay	7	5	3	—
H: Supplemental unemployment benefits	2	2	2	—
Pension or Retirement Plans:				
I: Pension plan costs	37	34	33	34
J: Past service costs	2	5	1	14
Various other	2	2	4	7
K: Annuity costs	2	2	1	5
Various other including profit sharing, etc.	—	—	3	2
Within: *Stockholders Equity* for—				
L: Various plans including deferred compensation, employment contracts, etc.	2	3	5	2
Total	125	136	116	97
Terminology Used				
Reserve	64	70	68	75
Deferred	27	27	—	—
Provision	14	16	13	13
Accrued	3	3	—	—
Various other terms	17	20	35	9
Total	125	136	116	97
Number of Companies with:				
Employee benefit reserves	102	114	104	82
No employee benefit reserves	498	486	496	518
Total	600	600	600	600

*Refer to Company Appendix Section—A: 88; B: 68, 160, 207, 366, 399, 529; C: 86, 122, 418, 456, 469, 540; D: 250, 464; E: 4; F: 178, 247, 348, 382, 516, 538; G: 52, 306, 518; H: 10; I: 13, 188, 276, 304, 403, 563; J: 223; K: 513; L: 375.

INLAND STEEL COMPANY
Above Stockholders' Equity

(In thousands)

Deferred Employee Compensation and Benefits $10,460

LIGGETT & MYERS TOBACCO COMPANY
Above Stockholders' Equity

Deferred Compensation (net of estimated future income tax reductions) $403,764

CHAS. PFIZER & CO., INC.
Above Stockholders' Equity

Deferred compensation payable $2,820,357

POOR & COMPANY
Above Stockholders' Equity
Deferred Credits:

Deferred income taxes on accelerated depreciation	$ 21,419
Deferred compensation and noncurrent portion of employment contracts	107,917
	$129,336

WEST POINT-PEPPERELL, INC.
Above Stockholders' Equity

Deferred compensation $584,499

Incentive Compensation Plans

AMERICAN CYANAMID COMPANY
Above Stockholders' Equity

Incentive Compensation Contingently Payable —net (Note 4) $2,407,327

Note 4: The accounts for 1966 include provision for incentive compensation to officers and other employees. A portion of such amount is not payable currently in cash but is contingently payable in Common Stock of the company after employment ceases; pending allotment of the amount available for 1966 the portion so contingently payable in Common Stock is not determinable. The amount contingently payable in respect of allotments for prior years, less estimated tax benefits, is $2,407,327.

CHRYSLER CORPORATION
Other Liabilities:

Deferred incentive compensation	$ 11,818,130
Other employee benefit plans	23,773,677
Deferred taxes on income and investment tax credit	50,133,676
Unrealized profits on sales to unconsolidated subsidiaries	15,588,808
Other non-current liabilities	25,953,205
Total Other Liabilities	$127,267,496

McDONNELL AIRCRAFT CORPORATION
Above Stockholders' Equity

Incentive Compensative Reserve, Note D $7,495,896

Note D: *Incentive Compensation Plans*—The Incentive Compensation Plans provide for awards to officers and key employees of cash and shares of Common Stock, payable in five equal installments, and for options to purchase shares of Common Stock. The yearly addition to the Reserve, $3,538,278 for 1966, is based upon a percentage of net earnings, as defined in the Plans, and individual awards are made annually by the Incentive Compensation Committees.

At 30 June 1966, the Reserve for the Company's Plan consisted of unpaid cash awards of $225,459, unpaid share awards of 28,630 shares at an award value of $526,622, contingent share awards for 119,115 shares at an award value of $1,870,031 (which will be issued only if the related stock options are not exercised), and $4,543,139 for awards to be granted. In addition, the Reserve includes $330,645 applicable to subsidiaries' Plans.

Under the Company's Plan, 860,758 shares of authorized and unissued Common Stock are presently reserved for share awards and options. Changes during the year in the number of shares issuable under options were as follows:

Outstanding, 1 July 1965	565,922
Awarded for fiscal year 1965	135,760
Exercised	(226,030)
Terminated	(680)
Outstanding, 30 June 1966	474,972
Aggregate option price, 30 June 1966	$7,471,884

OUTBOARD MARINE CORPORATION
Above Stockholders' Equity

Provision for deferred incentive compensation . $547,758

RICHARDSON-MERRELL INC.
Above Stockholders' Equity

Reserve for Management Incentive Compensation Plan $416,806

ST. REGIS PAPER COMPANY

Deferred Items (Note 5):

Federal taxes on earnings	$11,250,000
Other	2,819,227
Total Deferred Items	$14,069,227

Note 5: *Deferred Items*—Deferred Federal taxes on earnings result principally from the use, for tax purposes only, of an accelerated method of computing depreciation of property, plant, and equipment. The provision for taxes on earnings includes $7,567,000 in 1966 and $3,683,000 in 1965 for such deferred taxes.

Management incentive compensation provisions amounted to $896,368 in 1966 and $2,100,000 in 1965. Awards of $1,478,425 (including $603,632 from unawarded incentive funds of 1965) were allocated to key employees for 1966; of this amount, $828,796 was payable in cash and $649,629 in deferred shares (22,571) of St. Regis' common stock. At December 31, 1966, there were 40,390 deferred shares of St. Regis' common stock payable to key employees under the management incentive plan.

Bonus Plans

E. I. du PONT de NEMOURS & COMPANY

Above Stockholders' Equity

Bonus Payable Beyond One Year (Note 6)	$77,328,421
"B" Bonus Fund—Unawarded Balance	1,864,986

Note 6: *Bonus Payable Beyond One Year consists of*—

Bonus installments payable:	
In cash	$36,202,934
In common stock of the company (224,249 shares in 1966 and 136,248 shares in 1965)	41,125,487
	$77,328,421

Schedule supporting Balance Sheet

Amount Credited to "B" Bonus Fund: Computation of Maximum Amount which may be credited to "B" Bonus Fund for 1966, in accordance with provisions of Bonus Plan "B"; and Amount Available for Distribution—

Net Income for the year (page 32)	$ 389,118,033
Add—Provision for "B" Bonus Fund—deducted in computing net income	48,850,000
	437,968,033

Deduct—6% of "bonus net capital employed":

	December 31, 1966	December 31, 1965
Stockholders' Equity	$2,317,350,820	$2,191,158,727
Add—Provision for "B" Bonus Fund—deducted in computing net income	48,850,000	—
	$2,366,200,820	$2,191,158,727

"Bonus net capital employed"—average of above	2,278,679,774
6% of "bonus net capital employed"	136,720,786
"Bonus net income"	301,247,247
Maximum amount which may be credited to "B" Bonus Fund—20% of "bonus net income"	$ 60,249,449*
Amount credited to "B" Bonus Fund	$ 48,850,000
Add—Unawarded portion in Fund carried forward from previous year (including forfeited awards)	3,948,786
Total amount in Fund available for bonus awards	52,798,786
Deduct—Awards (11,254) for the year	50,933,800
Unawarded portion in "B" Bonus Fund	$ 1,864,986

*Price Waterhouse & Co., independent public accountants, have certified that in their opinion $60,249,449 is the maximum amount which may be credited to the "B" Bonus Fund for 1966 ($48,850,000 actually credited to the Fund), and that 114,759 is the maximum number of dividend units which may be awarded for 1966 (37,245 dividend units actually awarded), in accordance with the terms of Plans "B" and "C."

ROHM AND HAAS COMPANY

Above Stockholders' Equity

Unawarded Bonus Fund, net of income taxes	$1,164,768

Pensions, Retirement Benefits, and Annuities

AMERICAN BILTRITE RUBBER CO., INC.

Deferred Liabilities:

Federal income taxes (Note C)	$ 628,058
Pensions (Unfunded plans) and compensation (Note D)	503,883
	$1,131,941

Note D: *Pension Plans*—The Company and certain of its subsidiaries have several pension plans covering substantially all of their employees. The total pension expense for the year was $729,000 of which $545,000 was provided for funded plans and $95,000, net of related federal income taxes, was provided for unfunded plans. The Company's policy is to provide for normal costs and interest on the unfunded past service costs for both the funded and unfunded plans. At December 31, 1966, the estimated aggregate unfunded past service costs amounted to approximately $7,500,000.

BEATRICE FOODS CO.

Above Stockholders' Equity

Pension and self-insurance reserves	$2,363,000

BIGELOW-SANFORD, INC.

Above Stockholders' Equity

Accrued Pension Benefits (Exclusive of Amounts Payable Within One Year)	$665,000

BUCYRUS-ERIE COMPANY

Deferred Liabilities:

Pension costs and other compensation—Note D	$3,238,315
Taxes on income—Note E	1,133,000
	$4,371,315

Note D: *Pension and Retirement Plans*—At December 31, 1966, unprovided past-service benefits under the Company's pension plans amounted to $2,580,000 based, as a minimum, on the period of present agreements, one of which expires February 28, 1968. Of the 1966 provision of $1,371,189 for all pension and retirement plans, the Company is funding currently $1,038,705 and the payment of the balance of $332,484 has been deferred.

A. E. STALEY MANUFACTURING COMPANY

Above Stockholders' Equity

Reserve for Pensions—Note D	$2,302,091

Note D: *Pension Plans*—Under the Company's non-contributory pension plans for all employees, single-premium annuities are purchased for employees at time of retirement. Pension costs charged to income (which cover the current cost of the plans plus interest on the net past service cost estimated by actuaries to be $18,700,000) were $1,883,000 and $1,800,000 for the years ended September 30, 1966 and 1965, respectively.

STANDARD OIL COMPANY (NEW JERSEY)

Above Shareholders' Equity

Annuity, insurance, and other reserves	$428,944,000

Notes to Financial Statements

Annuity, Insurance, and Other Reserves: At December 31, 1966, annuity, insurance, and other reserves comprised the following:

Annuities	$279,461,000
Employee service and separation allowances	61,137,000
Marine and fire insurance	50,698,000
Other	37,648,000
Total	$428,944,000

The company and its consolidated affiliates have a number of annuity plans covering substantially all employees, including those in foreign countries. The actuarially computed liabilities with respect to these various plans were, in general, fully covered at December 31, 1966, either through funds deposited with trustees and insurance companies or by book reserves. A total of $73,739,000 was charged to consolidated income in respect to these annuity plans in the year 1966.

THE TORRINGTON COMPANY

Reserve for:

Investments in Foreign Subsidiaries	$1,150,000
Unfunded Retirement Benefits	395,247
Investment Tax Credit	1,779,554

FALSTAFF BREWING CORPORATION
Above Stockholders' Equity

Reserve for unfunded past service costs (net of taxes) under certain pension plans (Note 7)	$856,212

Note 7: Unfunded Past Service Costs—A reserve was established in 1965 for unfunded past service costs (net of income taxes) assumed under the pension plans of a subsidiary acquired in that year. The balance in the reserve account at December 31, 1966 was $856,212. The amount that would be necessary to fund remaining past service costs under all pension plans of the companies is estimated to be $400,000.

PHILADELPHIA AND READING CORPORATION
Non-Current Liabilities and Reserves:

Notes payable (less current portion) (Note 3)	$ 96,037,000
Deferred federal income taxes (Note 4)	12,194,000
Reserves for relining furnaces and bargaining unit pensions, etc.	10,150,000
Other	2,208,000
Total Non-Current Liabilities and Reserves	$120,589,000

SCOVILL MANUFACTURING COMPANY
Above Stockholders' Equity

Reserve for Unfunded Retirement Benefits (Note D)	$2,195,000

Note D: The Company has several noncontributory pension plans for bargaining unit employees and a contributory pension plan for salaried employees. Total pension expense for 1966 was $3,360,000, which includes amortization of prior service costs over periods of 30 to 40 years. It is the policy of the Company to fund pension costs accrued in respect of these plans.

The reserve for unfunded retirement benefits was provided in prior years for pension payments to employees not participating in the funded plans.

THE SHERWIN-WILLIAMS COMPANY
Reserves:

For deferred United States income taxes	$4,578,100
For pensions and other items	1,623,466
	$6,201,566

UNIROYAL, INC.
Above Stockholders' Equity

Reserves	$15,609,000

Notes to Financial Statements

Reserves: Reserves at December 31, 1966 consist of Retirement Allowances, $7,442,000, Insurance, $4,626,000, and Foreign Activities, $3,541,000.

Other Employee Benefit Reserves

GENERAL REFRACTORIES COMPANY
Reserves:

Pensions and separation pay	$ 8,095,078
Deferred income taxes	2,717,311
Other	337,764
	$11,150,153

HYGRADE FOOD PRODUCTS CORPORATION
Other Liabilities and Reserves:

Term loans payable—Note 1	$ 8,544,000
Property and other purchase obligations, due periodically to 1974, less current installments	392,308
Reserve for pensions—Note 2	1,600,833
Reserve for separation pay—Note 4	2,842,742
Deferred Federal income taxes—Note 3	2,474,375
Self-insurance—workmen's compensation	100,000
	$15,954,258

LUKENS STEEL COMPANY
Above Stockholders' Equity

Reserves (Note 4)	$7,908,000

Note 4: *Reserves*—Reserves are provided for:

Deferred income taxes	$5,349,000
Supplemental unemployment benefits	1,660,000
Other	899,000
	$7,908,000

ST. JOSEPH LEAD COMPANY
Reserves:

Injury claims and workmen's liability insurance	$ 607,012
Employees life insurance and retirement	237,690
Fire insurance (see contra)	370,544
Total Reserves	$1,215,246

UNITED FRUIT COMPANY
Above Stockholders' Equity

	(In thousands)
Provision for Severance and Other Social Benefits (net after taxes)	$14,673

F. W. WOOLWORTH CO.
Reserves:

Self-insurance to cover fire and flood losses on contents of stores in the U.S.	$4,490,969
U.S. employees' sick benefits	300,000
German company employees' pensions (Note F)	3,933,007
	$8,723,976

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 1966 (together with comparative statistics for prior years). Sixty-four companies disclosed 71 such reserves. In most instances they were placed above the stockholders' equity section of the balance sheet (49 reserves in 1966). Some companies 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.

References are 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 1966 reports follow.

TABLE 34: FOREIGN ACTIVITY RESERVES

Balance Sheet Presentation*	1966	1965	1960	1950
With: *Related Assets* for—				
A: Foreign investment	17	17	9	—
B: Foreign losses	4	5	4	—
Above: *Stockholders' Equity* for—				
C: Foreign exchange	11	13	7	11
D: Foreign investments	7	7	3	5
E: Foreign losses	7	5	3	3
F: Foreign operations**	19	18	9	3
G: Unremitted foreign profits**	3	4	3	2
H: Foreign statutory requirements	2	1	3	5
Within *Stockholders' Equity*	1	1	7	12
Total	71	71	48	41
Terminology Used				
Reserve	58	59	38	39
Provision	5	4	N/C	N/C
Allowance	6	6	N/C	N/C
Various other terms	2	2	10	2
Total	71	71	48	41
Number of Companies with:				
Foreign activity reserves	64	65	42	33
No foreign activity reserves	536	535	558	567
Total	600	600	600	600

*Refer to Company Appendix Section—A: 66, 124, 347, 470, 557, 577; B: 234; C: 138, 208, 285, 402, 451; D: 488, 502; E: 479; F: 49, 250, 433, 443, 472, 524; G: 145; H: 560.
**One reserve included among current liabilities.
N/C—Not compiled.

Reserves for Foreign Losses and Foreign Exchange

ABBOTT LABORATORIES
Above Stockholders' Equity
Reserve Applicable to International Operations $2,800,000
Notes to Financial Statements

International Operations: The accounts of all subsidiaries located outside the United States are included in the consolidated balance sheet and are set forth in the following summary:

Latin America	$19,468,000
Europe and Africa	19,456,000
Pacific and Far East	8,184,000
Canada	5,559,000
Total	$52,667,000

The above total represents capital stock, earnings employed in the business and advances from parent company. 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 $70,079,000 in 1966 and $61,482,000 in 1965. 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.

H. F. HEINZ COMPANY
Above Stockholders' Equity
Reserve for possible foreign exchange losses . . $645,209

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

AMERICAN HOME PRODUCTS CORPORATION
Reserves:

Contingent liabilities, including possible additional taxes of prior years	$15,973,656
Foreign losses and exchange adjustments	5,300,000

CHEMETRON CORPORATION
Deferred Credits:

Federal income taxes (Note 5)	$11,026,000
Investment credit and other (Note 5)	2,903,965
Reserve for self-insurance, foreign exchange, etc.	1,474,703
Total Deferred Credits	$15,404,668

THE B. F. GOODRICH COMPANY
Reserves:
For purchase contracts, foreign losses, sales adjustments and other purposes . $15,859,880

PHILIP MORRIS INCORPORATED
Above Stockholders' Equity
Reserve applicable to international operations $1,269,347
Financial Review

Over a period of years we have been gradually accruing reserves for possible currency or other foreign losses and it will be noted that we are including on our year-end balance sheet a new item: "Reserve applicable to international operations" in the amount of $1,269,000. We believe a reserve of this size and type is a sound one in view of the growing importance of our international operations.

Reserves for Foreign Investment

THE DOW CHEMICAL COMPANY
Above Stockholders' Equity

Reserve for Loss on Foreign Investments	$5,000,000

FANSTEEL METALLURGICAL CORPORATION
Other Assets:

Investments in and advances to nonconsolidated foreign subsidiaries and affiliates, at cost less reserve (Note 1)	$2,637,499
Patents, trademarks, etc.	58,586
Deferred charges	215,231
	$2,911,316

THE FIRESTONE TIRE & RUBBER COMPANY
Above Stockholders' Equity
Reserves:

Foreign Investments	$ 1,500,000
Deferred Income Taxes	16,300,000
Risks Not Covered by Insurance Policies	1,200,000
	$19,000,000

THE GOODYEAR TIRE & RUBBER COMPANY
Above Stockholders' Equity
Reserves for:

Sundry liabilities, foreign operations, etc.	$26,273,007
Foreign investments—general reserve	11,988,517
Deferred income taxes	24,547,614
	$62,809,138

Reserves for Operations

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION
Above Stockholders' Equity

Reserve for foreign operations	$14,906,000

BURROUGHS CORPORATION
Above Stockholders' Equity

Reserve for foreign operations	$5,250,000
Income Statement	
Costs and Expenses:	
Provision for foreign operations	$1,500,000

CLUETT, PEABODY & CO., INC.
Above Stockholders' Equity

Reserve for foreign operations	$507,180

FORD MOTOR COMPANY
Other Liabilities and Reserves:

Accrued liabilities, noncurrent	$217,026,073
Supplemental compensation awards, deferred installments	35,619,910
Supplemental compensation reserve, unawarded balance	53,748,209
Deferred income taxes and investment credit	73,991,262
Reserve for foreign operations	51,500,000
Total Other Liabilities and Reserves	$431,885,454

MINNESOTA MINING AND MANUFACTURING COMPANY
Above Stockholders' Equity

Reserve applicable to International Operations	$10,000,000

Reserve for Unremitted Foreign Profits

TWENTIETH CENTURY-FOX FILM CORPORATION
Current Liabilities:

Notes payable to banks	$ 6,059,759
Current maturities of long-term debt (Note 5)	3,150,000
Current maturities of contractural obligations, of which portions are net of taxes of $160,000 in 1966 and $180,000 in 1965	5,023,787
Participants' shares payable	12,835,887
Accounts payable and accruals	23,422,049
Accrued domestic and foreign taxes (Note 4)	10,004,904
Advance film rentals	6,268,518
Provision for unremittable foreign income (Note 1-b)	1,532,600
Total Current Liabilities	$68,297,504

Reserves for Foreign Statutory Requirements

CARNATION COMPANY
Above Stockholders' Equity

Provision for Statutory Severance Pay in Foreign Countries	$979,000

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-two such reserves were disclosed in the balance sheets of 18 of the 600 survey companies in the 1966 reports. Ten of the reserves were shown in the balance sheets among current liabilities, directly or in the notes, and 12 were shown above the stockholders' equity section.

TABLE 35: GUARANTEE OR WARRANTY RESERVES

Balance Sheet Presentation	1966	1965	1960	1950
Among *Current Liabilities* for—				
Product guarantee	4	5	4	3
Product warranty	3	3	6	3
"Guarantee," or service guarantee or warranty	2	3	5	4
Contract completion	1	2	2	3
Above *Stockholders' Equity* for—				
Product guarantee	5	4	5	12
Product warranty	2	2	—	3
"Guarantee," "Warranty," or service guarantee or warranty	4	4	3	7
Miscellaneous	1	1	1	8
Total	22	24	26	43
Terminology Used				
Reserve	10	10	15	29
Provision	3	4	2	6
Various other terms	9	10	9	8
Total	22	24	26	43
Number of Companies with:				
Guarantee or warranty reserves	18	20	23	41
No guarantee or warranty reserves disclosed or separately shown	582	580	577	559
Total	600	600	600	600

One company 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. Examples of such reserves are given below.

Reserves for Product Guarantee or Warranty

CARRIER CORPORATION
Current Liabilities
Product guarantees, etc. $9,656,504

DRESSER INDUSTRIES, INC.
Current Liabilities
Estimated warranty costs $2,738,000

JOHNS-MANVILLE CORPORATION
Above Stockholders' Equity
Reserves for Self-Insurance and Product Guarantees $4,812,000

STUDEBAKER CORPORATION
Current Liabilities
Reserve for product warranty $1,787,600

WESTINGHOUSE ELECTRIC CORPORATION
Current Liabilities
Product guarantees $10,007,610

Reserves for Service Guarantee or Warranty

CONTROL DATA CORPORATION
Above Stockholders' Equity
Reserve for product and service warranties ... $110,026

HUPP CORPORATION
Above Stockholders' Equity
Reserves:

Federal income taxes—Note A	$2,304,657
Service warranty, pensions, and deferred compensation	1,129,000
	$3,433,657

MOTOROLA, INC.
Current Liabilities
Product and service warranties $4,057,609

SONOTONE CORPORATION
Current Liabilities
Provision for service guaranties and sundry liabilities $282,770

Other Guarantee or Warranty Reserves

THE GRAND UNION COMPANY
Current Liabilities
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1966 $4,540,443; 1965 $4,632,606) . $1,520,000

THE RUBEROID CO.
Above Stockholders' Equity
Reserve for bonded roofs $1,030,000

INSURANCE RESERVES

There were 59 insurance reserves shown by 49 of the 600 survey companies in their 1966 annual reports. Table 36 discloses the various types of insurance reserves together with their balance sheet presentation.

Of the 59 reserves disclosed, 58 were presented above the stockholders' equity section. The remaining reserve was shown among the current liabilities.

Examples illustrating the presentation in the financial statements of insurance reserves follow.

Self-Insurance Reserves

AMERICAN OPTICAL COMPANY
Above Stockholders' Equity
Deferred Taxes and Reserves:

Deferred taxes	$1,487,000
Reserve for self-insurance	500,000
Total Deferred Taxes and Reserves	$1,987,000

CHEMETRON CORPORATION
Above Stockholders' Equity
Deferred Credits:

Federal income taxes (Note 5)	$11,026,000
Investment credit and other (Note 5)	2,903,965
Reserve for self-insurance, foreign exchange, etc.	1,474,703
	$15,404,668

THE FLINTKOTE COMPANY

Liabilities:	
Accounts payable and accrued expenses	$20,553,983
Notes payable	555,000
Current instalments on long-term debt	1,169,563
Accrued federal, state and other taxes	14,533,259
Reserves for product guarantees and self-insurance	1,536,370
Production payment net of taxes (Note 2)	2,568,700
Total Current Liabilities	$40,916,875

GENERAL CABLE CORPORATION

Investments:	
U.S. Government and municipal securities deposited under state labor and insurance laws—at cost	$ 266,818
Associated foreign companies—principally at cost	4,959,175
Miscellaneous—at cost	156,826
	$5,382,819
Above Stockholders' Equity	
Reserve for Self Insurance	$ 822,852

JOHNS-MANVILLE CORPORATION

Above Stockholders' Equity	
Reserves for Self-Insurance and Product Guarantees	$4,812,000

LONE STAR CEMENT CORPORATION

Noncurrent Assets	
Special Funds and Other Investments:	
Self-insurance funds—cash and investments	$3,718,710
Other investments	5,365,010
	$9,083,720
Above Stockholders' Equity	
Reserves:	
Self-insurance	$3,757,006
Contingent management compensation	391,388
Other	383,059
	$4,531,453

UNION OIL COMPANY OF CALIFORNIA

Above Stockholders' Equity	
Allowance for self-insured risks, contingencies, etc.	$12,483,000

Workmen's Compensation Reserves

ALAN WOOD STEEL COMPANY

Above Stockholders' Equity	
Reserves:	
Rebuilding and repairs	$ 614,128
Workmen's compensation, supplemental unemployment benefits, etc.	1,650,990

THE BORDEN COMPANY

Other Assets (at cost):	
Securities on deposit (Pursuant to Workmen's Compensation Laws, etc.)	$ 1,569,288
Above Stockholders' Equity	
Reserves:	
Deferred federal taxes on income	$28,565,672
Insurance, etc.	7,108,618
Total Reserves	$35,674,290

CANNON MILLS COMPANY

Above Stockholders' Equity	
Reserve (for workmen's compensation claims and expenses)	$516,330

TABLE 36: INSURANCE RESERVES

Balance Sheet Presentation*	1966	1965	1960	1950
Among *Current Liabilities*	1	2	3	4
Above *Stockholders' Equity* for—				
A: Self-insurance**	25	25	22	29
B: Workmen's compensation self-insurance	7	7	12	34
Workmen's compensation**	4	5	15	18
C: General insurance**	11	13	18	32
Fire loss**	4	3	8	8
Accident insurance	2	2	2	5
Marine insurance	3	3	—	2
Miscellaneous	2	2	1	11
Within *Stockholders' Equity*	—	—	4	8
Total	59	62	85	151
Terminology Used				
Reserve	55	57	80	136
Provision	1	1	2	7
Various other terms	3	4	3	8
Total	59	62	85	151
Number of Companies with:				
Insurance reserves	49	53	73	128
No insurance reserves	551	547	527	472
Total	600	600	600	600

*Refer to Company Appendix Section—A: 15, 177, 204, 399, 451, 594; B: 52, 205, 302; C: 21, 166, 286, 312, 414, 502.
**Includes companies with cash or securities segregated therefor.

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
Other receivables	175,296
Total Investments and Other Assets	$337,106
Above Stockholders' Equity	
Reserves (Workmen's compensation insurance, etc.)	$ 75,000

ST. JOSEPH LEAD COMPANY

Other Assets:	
Securities on deposit with Governmental agencies	$ 963,048
Cash and marketable securities—Fire Insurance Fund (see contra)	370,544
Total Other Assets	$1,333,592
Above Stockholders' Equity	
Reserves:	
Injury claims and workmen's liability insurance	$ 607,012
Employees life insurance and retirement	237,690
Fire insurance (see contra)	370,544
Total Reserves	$1,215,246

UTAH-IDAHO SUGAR COMPANY

Above Stockholders' Equity	
Reserves—principally workmen's compensation insurance	$1,431,705

Fire Insurance Reserves

STANDARD OIL COMPANY (NEW JERSEY)
Above Shareholders' Equity

Annuity, insurance and other reserves	$428,944,000

Notes to Financial Statements

Annuity, Insurance, and Other Reserves: At December 31, 1966, annuity, insurance, and other reserves comprised the following:

Annuities	$279,461,000
Employee service and separation allowances	61,137,000
Marine and fire insurance	50,698,000
Other	37,648,000
Total	$428,944,000

UNITED STATES STEEL CORPORATION
Above Stockholders' Equity

Reserves for insurance, contingencies and accident and hospital expenses and deferred investment credit	$141,939,635

Notes to Financial Statements

Reserves for Insurance, Contingencies and Accident and Hospital Expenses: U. S. Steel is, for the most part, a self-insurer of its assets against fire, windstorm, marine and related losses. The insurance reserve of $50 million is held available for absorbing possible losses of this character, and is considered adequate for this purpose.

The reserves for contingencies and accident and hospital expenses of $50 million, provided mainly in previous years by charges to operations, are held for exceptional unanticipated losses other than those covered by the insurance reserve.

Other Insurance Reserves

THE AMERICAN SHIP BUILDING COMPANY
Investments and Other Assets:

U. S. Treasury Bonds, pledged with U. S. Department of Labor in connection with workmen's compensation guarantees, at cost (quoted market—1966—$243,250; 1965—$253,588)	$275,003
Miscellaneous receivables and investments	354,245
Total Investments and Other Assets	$629,248

Above Stockholders' Equity
Reserves:

For workmen's compensation and public liability self-insurance	$165,880
For insurance on floating equipment and cargo loss	61,550
Total Reserves	$227,430

NATIONAL DAIRY PRODUCTS CORPORATION
Above Stockholders' Equity
Other:

Deferred taxes on income	$ 9,075,882
Reserves for insurance, etc.	4,359,491
Minority interest in subsidiary	1,146,839
	$14,582,212

PROPERTY RESERVES

The reserves encompassed under this heading are apart from the normal property revaluation allowances, such as for depreciation, depletion, or obsolescence; these accumulations and annual charges are discussed in Section 3.

Table 37 discloses in a comparative summary for the years 1966, 1965, 1960, and 1950 the various types of property reserves shown in the annual reports of the 600 survey companies, and their balance sheet presentation. Thirty-eight survey companies presented 42 reserves in their 1966 reports. The reserves were presented most frequently above the stockholders' equity section of the balance sheet (22 reserves in 1966). Eighteen were presented with the related assets.

TABLE 37: PROPERTY RESERVES

Balance Sheet Presentation*	1966	1965	1960	1950
With *Related Fixed Assets* for—				
A: Revaluation of property	3	4	6	7
B: Loss on property	11	10	16	3
Miscellaneous	4	4	2	11
Among *Current Liabilities*	1	2	2	1
Above *Stockholders' Equity* for—				
C: Loss on property	5	5	—	—
D: Furnace rebuilding, relining	8	7	7	13
E: Repairs, painting, maintenance	7	8	8	13
Miscellaneous	2	4	10	30
Within *Stockholders' Equity*	1	2	8	19
Total	42	46	59	97
Terminology Used				
Reserve	28	35	37	65
Provision	7	4	5	8
Allowance	2	3	N/C	N/C
Various other terms	5	4	17	24
Total	42	46	59	97
Number of Companies with:				
Property reserves	38	42	53	81
No property reserves	562	558	547	519
Total	600	600	600	600

*Refer to Company Appendix Section—A: 302; B: 125, 155, 241, 297, 406, 529; C: 17, 428; D: 10, 338, 420, 435; E: 140, 166, 198, 443.
N/C—Not compiled.

In instances where there were increases or decreases in these reserves during 1966 the offsetting debits or credits were disclosed in only a few of the reports. In two cases the disclosed entries were shown in the income account.

The following examples illustrate the use of property reserves.

Examples—Property Reserves
Revaluation of Property, and Loss on Disposal of Property

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION
Noncurrent Assets

Property, plant and equipment, at cost less accumulated depreciation and provision for losses on disposal (1966, $219,860,000; 1965, $192,638,000)	$141,345,000

ALLIED KID COMPANY
Noncurrent Assets

Property, Plant and Equipment—on the basis of cost:	
Land	$ 263,615
Buildings, machinery and equipment	5,785,834
	6,049,449
Less allowances for depreciation and revaluation	3,667,200
	$2,382,249

THE BENDIX CORPORATION
Noncurrent Assets

Real estate not used in the business—at depreciated cost (less reserve, $75,000)	$720,130

THE FLINTKOTE COMPANY
Noncurrent Assets

Property, plant and equipment (Note 1)	$169,214,950

Note 1: Property, plant and equipment are stated at cost, less—

Allowance for depreciation and depletion	$144,473,184
Allowance for estimated losses on disposal of certain plants	600,571

At December 31, 1966, properties carried at a depreciated cost of approximately $7,700,000 were pledged under long-term debt agreements.

GENERAL REFRACTORIES COMPANY
Noncurrent Assets

Property, Plant and Equipment, at cost:	
Land	$ 2,865,772
Mineral lands	3,838,090
Plant and equipment	138,271,899
	144,975,761
Less accumulated depreciation and depletion and allowance for loss on abandonment and disposal	79,892,366
	$ 65,083,395

UNITED WHELAN CORPORATION
Above Stockholders' Equity

Reserve for Losses on Leased and Disposed of Facilities (Notes 2 and 7)	$1,383,414

Note 2 (in part): In the early part of January, 1967, the Corporation sold the inventories of the Charles discount store and all but four Whelan drugstores to Volume Merchandise, Inc. The sales price was $3,676,000 comprised of $250,000 in cash, accounts and notes receivable of $1,626,000 and assumption of $1,800,000 of accounts payable. Notes of $950,000 are payable over 28 months beginning November, 1968 and accounts receivable of $676,000 are payable monthly to August 1, 1967. In addition, subsidiaries and affiliates of Volume Merchandise, Inc. have obligated themselves, without guarantee by Volume Merchandise, Inc., to make payments aggregating $1,338,000 for the fixtures of the above stores (including leasehold improvements) over a ten-year period from January, 1967. Effect has been given to these transactions in the accompanying statements.

The aggregate consideration is $300,000 in excess of the carrying value of the assets disposed of. The Corporation remains liable under the leases for the stores it formerly operated, but Volume Merchandise, Inc. has the option of assuming any of the leases at any time and must assume and guarantee a lease when an option to renew is exercised. Volume Merchandise, Inc., its subsidiaries or affiliates (hereafter referred to as Volume), have the option to stop rent and fixture payments for any store. If Volume does not pay the rent for any store or does not make a payment for the fixtures, the Corporation has the right to cancel the transaction for the fixtures. In that event, Volume must remove the inventory and convey the premises (for which they had not assumed leases) to Whelan.

The amount of the consideration over carrying value of assets disposed of has not been taken into income, pending such time as the management of the Corporation determines that there would be no loss (presently determined to be not in excess of the amount deferred) if the transaction were to be canceled. Such amount has been included in the Reserve for losses on leased and disposed of facilities.

Note 7: During the year, $105,197 of losses (net of sub-rentals) applicable to leases on locations where operations had been discontinued in prior years, were charged to this reserve. In 1966, $300,000 was provided for stores disposed of, as explained in Note 2.

Furnace Rebuilding and Repairs

AMERICAN SAINT GOBAIN CORPORATION
Above Stockholders' Equity

Reserves (Net of Estimated Future Income Taxes: 1966 $2,348,877) (Note 6)	
Furnace repairs	$1,822,525
Pensions (Note 2)	526,353
Total Reserves	$2,348,878

Note 6: ***Future Income Tax Benefits***—For financial statement purposes, the Company recognizes as a current expense during the production cycle of a furnace the estimated repair costs which will be incurred during the period of furnace shut down. For income tax purposes, these repairs are a deductible expense in the year incurred. With respect to pensions, the Company does not completely fund its pension expense each year. For income tax purposes, the unfunded amount becomes a deductible expense in the year of payment.

Prior to 1963, it had been the practice of the Company, to recognize, on a current basis, the future income tax benefit resulting from these items. During the years 1963 through 1965, the net operating losses available for income tax purposes exceeded the income of the Company. Accordingly, the Company made no provision for future income tax benefits during these years. In 1966, the Company's income exceeded the operating loss carryover for income tax purposes and, as of January 1, 1966, the Company recognized through an adjustment of $895,612 the full future income tax benefit applicable to the reserves for furnace repairs and pensions.

CORNING GLASS WORKS
Noncurrent Liabilities

Provision for Furnace Repairs	$5,358,292

ERIE FORGE & STEEL CORPORATION
Current Liabilities:

Trade accounts payable	$ 842,953.07
Salaries, wages, commissions, and amounts withheld therefrom	834,239.68
Taxes and interest	287,573.59
Employees pension trust	209,306.15
Reserve for relining and repairing furnaces	45,416.55
Federal and state taxes on income—estimated	139,933.45
Current portion of long-term liabilities	737,100.00
Total Current Liabilities	$3,096,522.49

Other Property Reserves

AMERADA PETROLEUM CORPORATION
Noncurrent Assets

Properties, Plant and Equipment:		
Lands, wells and equipment:		
Developed and undeveloped lands, at cost plus intangible drilling and development costs	$425,713,290	
Crude oil and natural gas production equipment	194,019,935	
	619,733,225	
Other property, plant and equipment	39,849,272	
	659,582,497	
Less reserves for intangible drilling and development costs, depreciation, depletion, etc.	466,007,245	
Net Property, Plant and Equipment	$193,575,252	

AMERICAN BAKERIES COMPANY
Noncurrent Assets

Property, Plant and Equipment, at cost:	
Land	$ 3,570,212
Buildings and improvements	29,603,374
Machinery and equipment	57,437,115
Delivery equipment	23,582,257
Construction in progress	461,153
	114,654,111
Less—Accumulated depreciation and amortization and provision for plant closings	63,830,865
	$ 50,823,246

ARMOUR AND COMPANY
Above Stockholders' Equity

	(In thousands)
Reserves and Deferred Credits (Notes 4 and 6):	
Anticipated costs related to replacement or relocation of facilities (net after Federal income taxes)	$24,000
Deferred Federal income taxes	26,533
Credit arising from merger	10,221
	$60,754

Note 6: *Extraordinary Special Charge*—Subsequent to the end of the 1966 fiscal year, the Company undertook a modernization program that will encompass the replacement or relocation of some of its food and fertilizer facilities. The special charge in the consolidated statement of earnings and earnings employed in the business for 1966 gives accounting recognition to losses on disposition of facilities and separation pay anticipated in connection with this program. The provision for anticipated charges is reflected as a reserve in the consolidated statement of financial position.

GRANITE CITY STEEL COMPANY
Noncurrent Assets

Plant Assets:	
Land, buildings, machinery and equipment, at cost	$239,026,521
Less — Accumulated depreciation and obsolescence (Note 1)	102,777,850
	136,248,671
Construction in progress	90,658,483
	$226,907,154

Note 1: *Extraordinary Obsolescence*—In connection with the current plant improvement program, a provision against income is being made for the retirement of certain properties upon the completion of the new facilities. This extraordinary provision, after approximate income tax effect of 50%, amounted to $1,500,000 in 1965 and 1966, and is expected to be $1,500,000 in 1967 and $500,000 in 1968.

W. T. GRANT COMPANY
Above Stockholders' Equity

Reserves:	
For uninsured risks	$1,500,000
For repainting stores	2,046,460
For deferred contingent compensation	1,238,377
Total Reserves	$4,784,837

REVERE COPPER AND BRASS INCORPORATED
Above Stockholders' Equity

Reserve for Plant Relocation Costs (Note E) . $944,462

Note E: *Reserve for Plant Relocation Costs*—In 1964, the Company sold a plant under threat of condemnation; the excess of proceeds over net book value of the property sold was recorded as a reserve for expected plant relocation and startup costs. During 1966, this reserve was reduced by an aggregate of $432,280, including applicable federal income tax of $344,000.

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

TAX RESERVES

The 1966 annual reports of the 600 survey companies disclosed 565 tax reserves in the balance sheets of 412 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 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 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 (528 reserves in 1966). 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:

Offsetting entry made to income account	205
No dollar change from previous year	8
Change in the tax reserve account apparent, but the entry not disclosed	351
Other accounts	1
Total number of tax reserves	565

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

AMERICAN HOME PRODUCTS CORPORATION
Above Stockholders' Equity

Reserves:	
Contingent liabilities, including possible additional taxes of prior years	$15,973,656
Foreign losses and exchange adjustments	5,300,000

NATIONAL STEEL CORPORATION
Above Stockholders' Equity

Reserves:	
General operating purposes, including pensions	$18,444,684
Prior years' income taxes	5,853,688
Rebuilding and repairs	13,753,715
Total Reserves	$38,052,087

Deferred Taxes on Installment Sales

THE BOEING COMPANY
Above Stockholders' Equity

Deferred Taxes on Income $23,997,000

Notes to Financial Statements

Federal Income Taxes: Income taxes have been settled with the Internal Revenue Service for all years through 1963, except for certain pending refund claims which have not been recorded in the accounts. Adequate provision for income taxes is believed to have been made for the years 1964 through 1966. The deferred Federal income tax liability stated in the balance sheet represents the noncurrent portion of taxes payable on earnings from installment sales of commercial aircraft. Refundable taxes on income principally represents carryback to prior years of investment tax credit in excess of the amount allowable against 1966 income taxes.

GOLDBLATT BROS., INC.
Current Liabilities:

Federal income taxes—	
Current	$1,341,592
Deferred (applicable to installment and revolving accounts receivable) (Note 5)	3,743,500

Note 5: The January 30, 1965 balance sheet has been restated to include in current liabilities deferred Federal income taxes attributable to use of the installment method for Federal income tax purposes. These deferred Federal income taxes were shown in prior years as a deduction from corresponding accounts receivable.

R. H. MACY & CO., INC.
Current Liabilities:

Accounts payable and accrued liabilities	$66,335,317
Federal income taxes (Note 1*)—	
Current	4,866,946
Deferred	17,279,000
Long-term debt due within one year	3,800,276
Total Current Liabilities	$92,281,539

Note 1: Audits by the Internal Revenue Service of the tax returns for all fiscal years through August 3, 1963, have been completed and the taxes to that date have been settled. The years 1964 and 1965 are now under audit.

Deferred Federal income taxes result from the use, for tax purposes, of accelerated depreciation methods and of the installment method of accounting for deferred payment sales. The portion thereof resulting from the latter is included with the current liabilities. Such amount has been reduced by the tax effect ($7,156,000 at July 30, 1966, and $7,182,000 at July 31, 1965) of the excess of Fifo (first-in, first-out) valuation of inventories used for Federal income tax purposes over the Lifo (last-in, first-out) valuation shown in the statement of financial condition.

TABLE 38: TAX RESERVES

	Balance Sheet Presentation*	1966	1965	1960	1950
	With *Related Assets* for—				
A:	Deferred taxes resulting from difference between depreciation methods for tax purposes and methods used for financial reporting purposes	1	2	1	—
	Miscellaneous	1	2	5	2
	Among *Current Liabilities* for—				
B:	Prior years' taxes	3	3	5	3
C:	Deferred taxes on installment sales	27	9	2	1
D:	Miscellaneous	4	2	6	4
	Above *Stockholders' Equity* for—				
	Prior years' taxes	2	3	4	20
E:	Tax contingencies	2	5	7	13
F:	Taxes, or future taxes	9	12	4	5
G:	Foreign taxes	16	10	6	—
	Deferred taxes:				
H:	On installment sales	4	21	9	2
I:	On mine development costs	6	5	4	—
J:	Re amortization of emergency facilities under Certificates of Necessity	5	7	19	1
K:	On undistributed earnings of consolidated foreign subsidiaries	14	12	6	—
L:	Investment tax credit	70	65	—	—
M:	Depreciation methods using 1962 "Guidelines" and/or methods permitted by 1954 Revenue Code	54			
N:	Resulting from depreciation methods for tax purposes being different from methods used for financial reporting purposes	182	372	128	—
O:	Other stated purposes	23			
P:	Purpose not stated	142			
	Within *Stockholders' Equity*	—	—	2	1
	Total	565	530	208	52
	Terminology Used				
	Reserve	58	62	75	37
	Provision	4	8	6	5
	Deferred	465	437	—	—
	Various other terms	38	23	127	10
	Total	565	530	208	52
	Number of Companies with:				
	Tax reserves	412	392	185	50
	No tax reserves	188	208	415	550
	Total	600	600	600	600

*Refer to Company Appendix Section—A: 244; B: 7; C: 48, 109, 144, 236, 489, 597; D: 380; E: 199; F: 6, 19, 308, 577; G: 13, 122, 146, 259, 295, 558; H: 377; I: 46, 165, 445; J: 190, 416; K: 178, 184, 199, 488; L: 171, 233, 387, 402, 417, 436; M: 79, 104, 163, 261, 477, 584; N: 38, 110, 306, 454, 479, 520; O: 70, 360, 376, 415, 532, 549; P: 3, 116, 217, 351, 422, 582.

MONTGOMERY WARD & CO., INCORPORATED

Current Liabilities:

Notes payable to banks	$ 64,000,000
Accounts payable and other liabilities	109,183,388
Accrued expenses	51,663,996
Federal taxes on income, including $14,900,000 in 1966 and $3,900,000 in 1965 of deferred taxes on customer installment accounts	17,774,732
Total Current Liabilities	$242,622,116

J. C. PENNEY COMPANY

Current Liabilities:

Federal income taxes	
Current	$34,886,391
Deferred, applicable to installment sales (Note 2)	44,000,000

Note 2: Deferred income taxes applicable to installment sales are now required by the Securities and Exchange Commission to be classified as a current liability. This item was classified as a noncurrent liability in prior years' financial statements.

Foreign Income Taxes

THE BARDEN CORPORATION

Noncurrent Liabilities

Reserve for Foreign Income Taxes—Not Current—Note A $198,940

Note A: The accompanying financial statements are subject to final determination of U. S., state, local and foreign taxes. However, U. S. income tax returns of the Company have been examined by the Internal Revenue Service through the year ended October 31, 1964, and income tax returns of The Barden Corporation (U.K.) Limited have been examined by the United Kingdom Inland Revenue Authorities through the year ended September 30, 1964. The reserve for foreign income taxes—not current consists of:

	1966	1965
Income taxes payable January 1, 1968 and January 1, 1967, respectively	$136,500	$148,050
Taxation deferred by capital allowances	62,440	45,640
	$198,940	$193,690

HARSCO CORPORATION

Noncurrent Liabilities

Foreign taxes on income payable after one year $4,213,319

H. J. HEINZ COMPANY

Current Liabilities:

Notes payable and loans on open credit (including portion of long-term debt due within one year)	$ 45,256,543
Accounts payable and accrued expenses	59,634,234
Estimated liability for Federal and foreign income taxes	11,461,261
Total Current Liabilities	$116,352,038
Long-Term Debt and Other Liabilities:	
Long-term debt (Note 2)	$ 70,534,414
Liabilities under management profit-sharing plan, less portion payable within one year	14,212,846
Future Federal and foreign taxes on income	10,828,005
Sundry	886,767
	$ 96,462,032

Deferred Taxes on Mine Development Costs

AMERICAN SMELTING AND REFINING COMPANY

Above Stockholders' Equity

Deferred Credits (Note 4) $18,059,735

Note 4: *Deferred Credits*—This includes $17,222,000 (1965—$15,131,000) representing the deferred tax benefit resulting from allowable deductions taken in the income tax returns in excess of depreciation and mine development charged against earnings in the accounts. Such deferred benefit will be transferred to earnings in later years when the related depreciation and mine development will not be deductible for income tax purposes.

THE FLINTKOTE COMPANY

Above Stockholders' Equity

Deferred taxes on income (Note 4) $18,574,083

Note 4: 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.

Deferred Taxes re Amortization of Emergency Facilities under Certificates of Necessity

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION

Above Stockholders' Equity

Deferred Federal taxes on income (Note 3) .. $860,000

Note 3: Federal Taxes on Income—The Federal income tax returns of the company for the three years ended December 31, 1963 are presently under examination. The provision for Federal taxes on income has been reduced by investment tax credits of $331,000 in 1966 and $145,000 in 1965.

The deferred Federal taxes on income relate to accelerated amortization for income tax purposes on certain facilities under certificates of necessity.

MONSANTO COMPANY

Above Stockholders' Equity

Other Liabilities and Deferred Credits:

	(In thousands)
Deferred income taxes	$53,261
Miscellaneous	7,177
	$60,438

Financial Review

In certain prior years, provisions were made for income taxes payable in future years resulting from the excess of depreciation and amortization of facilities constructed under Certificates of Necessity for income tax purposes over depreciation for accounting purposes. For the years 1966 and 1965, $2,001,000 and $2,353,000 of such taxes became payable and were charged against the reserve provided in prior years.

Deferred Taxes re Undistributed Earnings of Consolidated Foreign Subsidiaries

ABBOTT LABORATORIES

Above Stockholders' Equity

Reserve Applicable to International Operations $2,800,000

Notes to Financial Statements

International Operations (in part): 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.

ELI LILLY AND COMPANY

Above Stockholders' Equity

Taxes Deferred—which may result upon remittance of earnings from outside the United States $4,500,000

Deferred Taxes re Depreciation Methods

ADAMS-MILLIS CORPORATION
Above Stockholders' Equity
Deferred Income Taxes—Note E $420,000

Note E: Depreciation and Income Taxes—Provision for depreciation charged to earnings amounted to $956,934 in 1966 and $742,850 in 1965.

In filing its income tax returns for 1964, the Company elected to use the "guideline" principle for computing depreciation, resulting in a greater allowance than that provided for financial statement purposes. In connection with the examination by the Internal Revenue Service referred to in Note B, the use of the "guideline" principle was extended to the years 1962 and 1963, resulting in a credit of $307,238. Since this credit is included in deferred income taxes which become payable in later years, it did not affect previously reported earnings. Its effect has been included in the statement of financial position as of December 31, 1965, as restated.

The investment tax credit, which was applied as a reduction of provision for taxes on income, amounted to $76,969 in 1966 and $126,332 in 1965.

BROCKWAY GLASS COMPANY, INC.
Above Stockholders' Equity
Reserve for future income taxes (Note 3) .. $4,165,618

Note 3: 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, guideline's depreciation. In its financial statements, depreciation is computed by the straight line method over estimated useful lives.

The reserve has been increased by $355,218 representing the deferred income tax on the net excess of tax depreciation over depreciation used in the financial statements.

CHAMPION SPARK PLUG COMPANY
Above Stockholders' Equity
Deferred Federal Income Taxes (Note 2) .. $1,174,150

Note 2: Deferred Federal income taxes ($1,174,150) result from the use of accelerated methods in the computation of depreciation for income tax reporting purposes. Such depreciation is greater than the amount computed for book purposes and accordingly the income tax benefits have been deferred in the company's accounts. These deferred taxes will be payable in the years in which the depreciation charged to operations exceeds the amount deductible for Federal income tax purposes.

The current year's investment credit approximating $101,000 has been reflected in the accompanying statement of consolidated earnings as a reduction in the provision for Federal and foreign taxes on income.

McCALL CORPORATION
Noncurrent Liabilities

Deferred subscription revenue and related deferred federal income taxes	$27,563,000
Other deferred federal income taxes	2,955,000

Notes to Financial Statements

Deferred Federal Income Taxes and Investment Credit: The Company provided deferred federal income taxes in the amount of $1,084,000 in 1966 based on the net differences in federal income tax returns and the financial statements, resulting principally from (1) the use of the double-rate declining balance method of depreciation and Guideline procedures for tax purposes as compared to the straight-line depreciation method for financial statement purposes, (2) the deduction for tax purposes of depreciation and interest in lieu of equipment rentals under sale and leaseback arrangements and (3) the deduction for tax purposes of commissions retained by agents. Accumulated deferred federal income taxes applicable to the agents' commissions, amounting to $11,230,000 at December 31, 1966 have been added to the deferred subscription revenue account.

The investment credit expected to be claimed in the 1966 tax return, together with adjustments to amounts reported in prior years, is approximately $658,000. This amount has been applied as a reduction of the current provision for federal income taxes. Unused investment credit carryovers aggregate $859,000 at December 31, 1966.

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
Above Stockholders' Equity
Deferred Income Taxes $3,866,000
Notes to Financial Statements

Federal Income Taxes: For Federal income tax purposes only, an accelerated method is used to depreciate major groups of equipment and the guideline life permitted by the U. S. Treasury Department is used. The resulting reductions in current Federal income taxes have no effect on net income, however, since amounts equivalent to such reductons are provided for deferred Federal income taxes.

The investment credit applicable to property acquired is being amortized over the estimated useful lives of the assets.

RADIO CORPORATION OF AMERICA
Other Liabilities:
Deferred Federal Taxes on Income, related to depreciation $37,760,000
Financial Review

Depreciation of plant and equipment acquired prior to 1954, and standard manufacturing facilities acquired in 1954 and subsequent years, has been computed on a straight line basis over estimated useful lives that are revised as facility requirements change. Depreciation on more specialized facilities acquired since 1953 has been computed on an accelerated basis which results in depreciation provisions in early years of estimated useful life greater than those computed on a straight line basis, declining to smaller provisions in subsequent years.

Maximum depreciation allowable for tax purposes under current Internal Revenue Service guidelines has been deducted in determining federal income tax payable for 1966; provision has been made for deferred federal income tax liability in this connection.

Other Tax Reserves

McGRAW-HILL, INC.

Current Liabilities:	
Notes payable—Banks	$ 4,200,000
Dividends payable	442,557
Accounts payable	16,975,808
Accrued taxes—Currently payable	18,220,086
—Deferred (Notes 2 and 5)	5,652,240
Accrued employees' compensation	8,680,511
Accrued royalties	8,260,715
Other accrued liabilities	2,837,787
Unearned service contracts	10,699,336
	75,969,040
Deferred Liabilities:	
Notes payable (Note 6)	20,218,652
Employee deferred compensation and benefits	2,095,389
Deferred Federal income taxes (Note 5)	1,510,368
	$23,824,409

Note 2 (in part): *Accounting Adjustments*—The Company made the following accounting adjustments in its financial statements:

A. The deferred Federal income taxes attributable to unexpired subscriptions (Note 5) and certain other deferred liabilities have been reclassified as current liabilities.

B. Amounts previously appropriated for pensions and for unexpired subscriptions—net of the related Federal income taxes—have been returned to retained income.

Note 5: Deferred Federal Income Taxes—It has been the consistent policy of the Company to reflect subscription income and the cost of securing subscriptions in the statement of income at the time the subscriptions are secured and the cost incurred. Federal income tax provisions in the income statement are based upon the income reported therein. Subscription income is reported for Federal income taxes on a deferred basis over the life of the subscriptions and Federal income taxes applicable thereto are carried on the balance sheet in "Accrued Taxes—Deferred."

The Company has used accelerated depreciation methods for income tax purposes, but has continued to use straight line depreciation for financial statements. The taxes applicable to the increased depreciation taken for Federal income tax purposes are carried on the balance sheet in "Deferred Federal Income Taxes."

BATES MANUFACTURING COMPANY, INCORPORATED
Above Stockholders' Equity
Deferred Federal Income Taxes (Note 6) .. $2,324,000

Note 6: Deferred Federal Income Taxes—In 1962 the Company commenced using "Guideline" procedures, permitted by the Internal Revenue Service, in computing depreciation for Federal income taxes. Deferred taxes of $1,114,000 have been provided on the excess of tax depreciation over that used for financial reporting. A deferred tax of $1,210,000 has also been provided for the excess of the sales price of the first polyester plant over its cost.

The 1966 and 1965 provision for Federal income taxes is largely deferred due to accelerated depreciation and start-up expense, writedowns, and losses incurred in the polyester division.

MAXSON ELECTRONICS CORPORATION
Above Stockholders' Equity
Deferred federal income tax (Note 4) $1,179,000

Note 4: Deferred federal income tax has been provided for general and administrative expenses included in inventories and deferred relocation and development expenses, all of which have been deducted currently for federal income tax purposes, and for the cumulative excess depreciation for tax purposes over that provided in the financial statements.

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.

The majority of companies reporting on the investment credit, 222, indicated in their annual reports the use of the flow-through method of accounting in one form or another. Fifty-three of the remaining companies adopted or continued to use the productive-life method, six companies used a period of years not related to productive-life while one other company made use of other variations. There were 246 companies which did not reveal if they availed themselves of the

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

ACCOUNTING FOR THE INVESTMENT CREDIT—1966

	Method Adopted*	Number of Companies
A:	Productive-life	53
B:	Amortized over a period of years not related to productive life	6
C:	Full flow-through for current year (entire credit reducing current Federal income tax provision, or taken into income)	182
D:	Flow-through for current and past years, but has unused investment credit carry-over at year-end	22
	Flow-through for current year; balance of credits deferred in other years	
	E: taken into current income	4
	F: amortized over productive life of assets involved	14
	Other variations	1
G:	Referred to investment credit in report, but accounting method not disclosed	40
	Total	322
H:	Referred to investment credit in prior year, but not in current year	32
I:	Referred to investment credit, but procedure *not used*	2
	Investment credit not referred to	244
	Total	600
	Tax Credit Included*	
	J: in income	19
	K: in income (as reduction of Federal income taxes)	183
	L: in income, except for unused carry-over	22
	M: with reserve for depreciation	7
	N: as deferred investment credit	40
	O: with deferred income taxes	12
	P: with other liabilities	2
	with no information in what accounts	37
	Total	322
	Investment credit referred to in prior year but not in current year	32
	Investment credit not referred to, or not used	246
	Total	600

*Refer to Company Appendix Section—A: 51, 127, 260, 379, 476, 539; B: 8, 50, 230, 248, 256; C: 41, 100, 219, 367, 490, 535; D: 40, 111, 237, 365, 444, 562; E: 45, 321, 504; F: 149, 162, 287, 342, 566; G: 21, 118, 208, 314, 464, 567; H: 3, 107, 252, 300, 424, 512; I: 46; J: 11, 101, 177, 307, 354, 461; K: 26, 117, 218, 384, 412, 522; L: 40, 111, 337, 444; M: 123, 256, 379; N: 50, 134, 230, 327, 436, 556; O: 10, 138, 233, 373, 394; P: 250.

investment credit. In addition, 72 companies either did not disclose the method or referred to its use only in a prior year. Many of these 72 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 above tabulation. It is supplemented by a listing of some 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 1966 reports of the 600 survey companies.

Productive-Life Method

AMP INCORPORATED AND PAMCOR, INC.
Above Stockholders' Equity
Investment Tax Credit and Deferred Income . $1,285,937
Financial Review

U.S. Income Taxes—Neither the Investment Tax Credit nor its recent suspension through 1967 have a significant effect on AMP's net income in any one year because the credits are apportioned over the life of the equipment for which they were granted.

The changes in certain accelerated depreciation methods for tax purposes will not affect net income, which will continue to reflect the straight-line method of depreciation, but will eliminate the opportunity to defer the payment of a portion of our 1967 income taxes.

CARRIER CORPORATION
Above Stockholders' Equity
Deferred Federal and State Taxes on Income $11,913,000
Financial Data

Reductions in taxes resulting from the investment credit provisions of the Internal Revenue Code are being taken into income over the estimated lives of the related assets. The amount of the credits which was reflected in earnings for 1966 was $193,000.

Had the Corporation changed to the "flow through" method of accounting for its 1966 investment credit, the amount taken into income would have been $696,000.

COLLINS RADIO COMPANY
Above Stockholders' Equity
Deferred Income Taxes (Note 2) $5,203,860

Note 2: Deferred Income Taxes—Deferred income taxes includes the investment credit allowed by the Internal Revenue Code, which is being amortized over the lives of the related assets. At July 29, 1966 the unamortized portion of the investment credit amounted to $1,800,000.

CONSOLIDATED FOODS CORPORATION
Above Stockholders' Equity
Deferred Federal Income Taxes and Investment Tax Credit $5,554,685
Financial Review

The Company continues to spread the investment tax credits, for income reporting purposes, over the life of the assets involved. In fiscal 1966, total investment tax credit amounted to $1,054,770, with only $272,291 actually reflected in net income.

XEROX CORPORATION
Noncurrent Liabilities
Deferred Income Taxes (Note 4) $21,288,239

Note 4: Deferred Income Taxes—The deferred income taxes are due to differences between accounting and tax treatments, principally for research and engineering expenses, patent amortization and the investment credit. In 1965 and prior years the allowance for doubtful receivables and certain other items which were not currently deductible for Federal income taxes were stated net of future tax benefits. In 1966 the Company changed its method and provided for these items on a gross basis and recorded the applicable prepaid taxes. In 1966 the Company also reclassified prepaid subscriptions and rentals to current liabilities. The 1965 consolidated balance sheet has been restated to conform to 1966.

The Company and its subsidiaries defer the investment credit received and credit it to income over the period during which it is earned. The charges and credits relating to the investment credit are netted and included with the provision for Federal and Canadian income taxes in the consolidated statement of income. The Company and subsidiaries received $4,133,000 of investment credit in 1966, compared with $2,154,000 in 1965. The amortization of investment credit increased net income by $2,213,000 and $1,384,000 in 1966 and 1965, respectively.

E. I. du PONT de NEMOURS & COMPANY
Above Stockholders' Equity
Deferred Income — Investment Tax Credit (Note 4) $64,117,283

Note 4: *Taxes*—Federal tax returns for all years prior to 1962 have been audited by the Internal Revenue Service and proposed adjustments involving additional tax have been settled.

The Investment Tax Credit, the principal benefits of which were recently suspended for the period October 10, 1966 through December 31, 1967, is treated as Deferred Income and amortized over the expected life of the related facilities through reduction of Federal tax expense. The Credit applicable to plants and properties additions for 1966 and 1965 aggregated $21,193,851 and $14,216,527, respectively. Reduction of Federal tax expense resulting from amortization of the Credit amounted to $5,800,109 in 1966 and $4,500,083 in 1965.

Full Flow-Through for Current Year

ARCHER DANIELS MIDLAND COMPANY
Income Statement
Taxes on income (Note 8) $2,932,319
Notes to Financial Statements

Note 8: *Investment Credit*—Investment credit of $722,000 has been included in the statement of earnings as a reduction of income tax expense.

THE ARUNDEL CORPORATION
Income Statement
Federal Income Taxes—Note B $542,700
Above Stockholders' Equity
Deferred Federal Income Taxes—Note B $369,227

Note B: *Federal Income Taxes*—Federal income taxes as shown in the Statement of Earnings include deferred taxes of $285,269 for 1966 and $109,992 for 1965 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 $116,169 for 1966 and $217,566 for 1965, has been treated as a reduction of Federal income taxes.

GENERAL SIGNAL CORPORATION
Review of Operations

Capital expenditures for 1966 were at a record high of $2,685,014. The investment tax credit allowed on these expenditures was accounted for on a flow-through method. Depreciation and amortization totaled $1,387,679 in 1966 compared with $1,113,525 for 1965.

LEHIGH PORTLAND CEMENT COMPANY
Notes to Financial Statements

Note 4: *Federal Income Tax*—The provision for Federal income taxes for the current year reflects the full allowance of $250,000 for the investment tax credit, applicable, prior to the suspension of the credit in October, to certain depreciable assets acquired during the year and the deduction for percentage depletion allowable which is recognized by the company at the time of shipment of the mined material.

Review of Operations

Federal Income Taxes: The Federal income tax provision for 1966 is $450,000 on $3,858,000 of income before tax compared with $2,650,000 on $8,440,000 pre-tax income in 1965.

Taxes payable are based on book income after considering certain adjustments. The most significant of these is a percentage depletion allowance on mined raw materials, principally limestone. Taxes thus determined are further reduced by the application of the investment tax credit allowed on the purchase of certain items of machinery and equipment. We have elected the so-called "flow-through" method of reflecting this credit in our accounts, which means that current year's earnings receive the benefit of the credit available on purchases made in that year, as opposed to deferring the credit over the life of the assets acquired.

The 1966 tax provision reflects reductions of $600,000 because of depletion allowances on 1965 production payments which were deferred until the mineral deposits were mined in 1966. This is in addition to the other depletion allowances on properties not involved in production payments. These benefits were not affected by ready mixed concrete division losses. The investment tax credit for 1966 was $250,000.

Because much smaller production payments were sold in 1966 and because the investment credit has been suspended until the end of this year, income taxes will take up a greater proportion of the Company's 1967 income.

RADIO CORPORATION OF AMERICA
Income Statement
Federal Taxes on Income, less Investment Credit $117,000,000
Financial Summary

Investment tax credit of $6,464,000 earned on 1966 fixed asset acquisitions was applied to reduce the federal income tax provision.

UNION CARBIDE CORPORATION
Income Statement
Provision for United States and Foreign Income Taxes (Note 4) $140,085,000

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 $18,116,000 in 1966 and $13,531,000 in 1965. These amounts have been credited to earnings in 1966 and 1965, respectively, as a reduction of income taxes.

Full Flow-Through for Current Year; Various Treatments of Prior Years' Deferred Credits

ACME MARKETS, INC.
Income Statement
Federal and State income taxes, including deferred amounts (Note 2) .... $ 8,235,000
Above Stockholders' Equity (Balance Sheet)
Deferred income taxes and investment credit (Note 2) 10,950,000

Note 2: *Deferred Income Taxes and Investment Credit*—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 ($1,122,000 in 1966 and $1,786,400 in 1965) which will be payable when depreciation for financial statement purposes exceeds depreciation deductible for income tax purposes.

Federal income taxes have been reduced by $900,000 and $629,000 for the years ended in 1966 and 1965, respectively, by reason of the investment credit provisions of the Revenue Act. Credits for 1964 and prior, which were deferred, are being amortized over the estimated lives of the related assets.

ATLAS CHEMICAL INDUSTRIES, INC.
Income Statement
Provision for income taxes, including deferred income taxes of $594,000 (1965—$665,000) (Notes 2 & 3) $2,475,000
Above Stockholders' Equity (Balance Sheet)
Deferred Investment Credit (Note 5) 446,000

Note 5: *Investment Credit*—Beginning with the year 1964, the income tax benefit under the investment credit provisions of the Revenue Act has been taken directly into income 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 related facilities. The amount of the investment credit included in earnings is $750,000 for 1966 and $369,000 for 1965.

KELLOGG COMPANY
Notes to Financial Statements

Investment Tax Credit: The investment credit under the 1962 Revenue Act for years before 1965 is being reflected in net income over the productive life of the machinery and equipment. The full amount of the 1966 and 1965 credit is included in each year's net income as a reduction of income taxes.

STANDARD PRESSED STEEL CO.
Above Stockholders' Equity
Investment credit and grants (Note 3) $355,028

Note 3: *Investment Credit and Grants*—Since January 1, 1964 the United States investment credit has been taken into income as a reduction of the provision for income taxes. Credits for 1963 and prior, which were deferred, are being amortized over the estimated lives of the related assets.

United Kingdom investment grants are deferred and will be amortized over the lives of the assets to which they relate.

UNIVERSAL LEAF TOBACCO CO., INC.
Statement of Income and Retained Earnings

Gross Profit	$14,644,661
Add:	
Write-off of Unamortized Investment Tax Credit (Note 3)	157,824

Note 3: During the year the companies changed their method of accounting for Investment Tax Credit from an amortization basis to a direct charge off basis. There is included in income this year the following (to the nearest thousand):

Write-off of June 30, 1965 balance of Unamortized Investment Tax Credit	$158,000
Investment Tax Credit applicable to the current year (as a reduction of the Provision for Federal Income Tax)	31,000
	$189,000
The amount which would have been included under the old method is approximately	21,000
Resulting in an increase in Consolidated Net Income of	$168,000

Investment Tax Credit Reported But Accounting Method Not Disclosed

COLLINS & AIKMAN CORPORATION
Above Stockholders' Equity

Deferred federal income taxes and investment credit	$1,223,983

WESTINGHOUSE AIR BRAKE COMPANY
Financial Review

The 1966 provision for income taxes was 37.8% of income before taxes, as compared with 35.1% in 1965. The 1966 provision consists of $720,000 for state income taxes and $9,510,000 for Federal income taxes. The provision for Federal income taxes is explained in the following table:

Category of Income	Rate	Amount of Income	Tax Provision
Ordinary income	48.0%	$19,964,261	$ 9,640,403
Western Hemisphere Trade Corporation income	34.0%	1,449,845	492,947
Dividend income	7.2%	2,888,838	207,996
Equity in net income of subsidiaries not consolidated	*	2,729,840	
Total		27,032,784	10,341,346
Deduct:			
Credit resulting from deduction of state income tax accrued			(345,600)
Investment credit			(485,746)
Federal income tax provision			$ 9,510,000

*This income is recorded net of income tax.

TABLE 39: MISCELLANEOUS OTHER RESERVES

	Balance Sheet Presentation*	1966	1965	1960	1950
	With: *Related Assets* for—				
A:	Loss on investments	25	26	28	—
B:	Discounts	37	33	30	N/A
C:	Returns and/or allowances	19	16	18	N/A
D:	Other	8	8	8	1
	Among *Current Liabilities* for—				
	Sales returns or allowances	3	3	2	2
	Discontinued operations	2	1	3	—
	Sugar-beet crop payments	3	3	2	1
E:	Other	4	4	14	5
	Above *Stockholders' Equity* for—				
	Sales returns or allowances	2	3	3	1
F:	Discontinued operations	7	9	3	—
	Litigation pending	2	1	1	1
	Estimated claims payable	2	1	1	1
G:	"Operating" purposes	6	7	10	13
H:	"General" and "Sundry" purposes	20	22	32	28
I:	Other	19	25	2	7
J:	Within *Stockholders' Equity*	4	3	10	11
	Total	163	165	167	71
	Terminology Used				
	Reserve	83	88	98	57
	Provision	12	15	14	3
	Allowance	44	43	N/C	N/C
	Various other terms	24	19	55	11
	Total	163	165	167	71
	Number of Companies with:				
	Miscellaneous reserves	134	138	138	66
	No miscellaneous reserves	466	462	462	534
	Total	600	600	600	600

*Refer to Company Appendix Section—A: 21, 107, 252, 330, 400, 570; B: 62, 120, 255, 302, 404, 512; C: 13, 166, 217, 300, 305, 549; D: 186, 301, 539; E: 414; F: 444, 529, 535; G: 88, 465; H: 19, 146, 250, 280, 408, 514; I: 163, 249, 347, 457, 533; J: 172, 472.
N/A—Not Available.
N/C—Not Compiled.

MISCELLANEOUS OTHER RESERVES

The assorted types of miscellaneous other reserves found in the reports of the survey companies for the years 1966, 1965, 1960, and 1950 and their balance sheet presentation are shown in Table 39. There were 163 such reserves shown by 134 companies in their 1966 annual reports.

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

AMERICAN OPTICAL COMPANY
Noncurrent Assets

Investments and Advances:	
Foreign subsidiaries:	
Investments (Note 1)	$ 8,109,588
Advances	940,000
Other, less allowance for losses	1,011,406
Total Investments and Advances	$10,060,994

ALLIS-CHALMERS MANUFACTURING COMPANY

Noncurrent Liabilities and Reserves

Reserve for losses and expenses in discontinuing certain products and facilities	$7,372,617

Notes to Financial Statements

Note 4 (in part): *Reserves*—Charges totaling $1,761,318, 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. Substantially all of the 1966 charges were incurred in connection with the disposition of the Terre Haute plant and post-shipment costs. Certain contingencies remain outstanding, and the amount to be restored to earnings retained, if any, cannot be presently determined.

FOREMOST DAIRIES, INC.

Noncurrent Assets

Investments and Advances (Note 1):	
McKesson & Robbins, Incorporated ...	$127,410,000
Strong Cobb Arner Inc.	16,799,000
Other	18,038,000
Total Investments and Advances	$162,247,000

Note 1 (in part): *Principles of Consolidation and Investments*—Other investments and advances consisted of the following:

	1966	1965
Domestic investments and advances, at cost less allowance for losses: 1966, $475,000; 1965, $1,000,000	$ 9,152,000	$ 8,837,000
Foreign companies, at cost less allowance for losses: 1966, $1,425,000; 1965, $1,225,000	8,886,000	6,347,000
Total	$18,038,000	$15,184,000

Foremost's option to purchase all of the outstanding common stock and common stock warrants of Drew Chemical Corporation expired in 1966. Foremost's domestic investments and advances include the cost $3,794,000, of preferred stock of Drew; no dividends have been received. Unaudited financial statements of Drew reflect equity of approximately $2,730,000 at December 31, 1966 applicable to the preferred stock of Drew held by Foremost. In the opinion of management no provision for loss is required as full recovery of the investment is anticipated.

At December 31, 1966 Foremost's investment in and advances to foreign subsidiary companies not included in the accompanying consolidated financial statements exceeded its equity in those companies, based partly on unaudited information, by approximately $1,500,000. In the opinion of management adequate provision has been made for losses on investments in and advances to foreign companies. See note 5 for information with respect to guarantees of indebtedness of foreign companies.

GENERAL ELECTRIC COMPANY

Notes to Financial Statements

Investments and Advances (in part): Reserve for investments amounted to $8.4 million at the close of 1966.

MOBIL OIL CORPORATION

Noncurrent Assets

Investments and Long-Term Receivables (at cost less reserves)	$464,299,000

Financial Review

Investments and Long-Term Receivables: Mobil's equity in the net assets of non-consolidated companies (owned 50% or less) is substantially greater than its investments (less reserves). Dividends received from such companies during 1966 amounted to $82 million, or $4 million less than the corporation's equity in the net income of these companies. Reserves applicable to investments and long-term receivables amounted to $108 million at the end of 1966.

Sales Returns, Allowances, and Discounts

BURLINGTON INDUSTRIES, INC.

Current Assets:

Customers' accounts receivable after deduction of $6,459,484 for doubtful accounts, discounts, returns and allowances	$219,264,023

CORNING GLASS WORKS

Current Assets:

Cash and certificates of deposit	$24,693,487
U. S. and Canadian Government obligations at cost which approximates market value	60,158,027
Receivables	53,042,151
Less—Provision for doubtful accounts and allowances	(2,888,456)

DEERE & COMPANY

Current Assets:

Cash (1966 includes certificates of deposit, $12,951,625)	$ 30,004,689
Receivable from John Deere Credit Company	4,456,220
Trade receivables:	
Accounts and notes—Dealers, farmers, and others, less unearned interest of $8,790,805 in 1966 and $6,332,731 in 1965	542,287,616
Less reserves for returns and allowances and doubtful receivables ...	23,584,416
Trade receivables—net	518,703,200
Inventories	325,083,858
Total Current Assets	$878,247,967

DUFFY-MOTT COMPANY, INC.

Current Assets:

Cash	$2,355,343
Accounts receivable (less reserves for returns and allowances) (Note 2)	2,792,022

Note 2: *Reserve for Returns and Allowances*—$47,451 and $13,225 at August 31, 1965 and August 31, 1966 respectively.

HAMILTON WATCH COMPANY

Current:

Cash	$3,910,914
Marketable securities, at cost (quoted market $1,722,609)	1,710,606
Notes and accounts receivable:	
Trade (including U. S. Government $1,061,507 and $137,908, respectively), less allowances for discounts and doubtful receivables ($409,201 and $439,574, respectively)	8,650,339
Other	267,098

Discontinued Operations

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION

Above Stockholders' Equity

Reserve for expenses resulting from revaluation of certain product lines and facilities .	$7,677,000

Notes to Financial Statements

Note 5: The charge to earned surplus of $17,900,000 (net of related taxes) has been applied, $6,594,000, as a reduction of working capital, $12,025,000, as a reduction of property, plant and equipment, $2,344,000 as a reduction of other assets and $7,677,000 as a reserve for expenses; the aggregate of the foregoing items of $28,640,000 has been offset by $8,620,000 of future income tax benefits and $2,120,000 of reduction in deferred income taxes payable.

Letter to Stockholders

Revaluation of Certain Product Lines and Facilities: Severe contraction in market demand, such as occurred in the past year, has significant impacts on the life of product lines, especially in the light of constantly rising wage and raw material costs, narrowing profit margins and technological changes. Consequently, after review of certain operations both in the U.S. and abroad, we have undertaken a program involving substantial modification of certain products and a phasing out of others. The program will require the consolidation or closing of certain facilities.

CITY STORES COMPANY
Above Stockholders' Equity

Reserves—Note G	$3,637,220

Note G: Reserves—These have been provided for the following:

Restoration of leased properties	$ 441,899
Termination of store operations	418,613
Excess rentals	192,879
Deferred compensation	1,083,829
Real estate dispositions	1,500,000
	$3,637,220

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 disposition is net of expected federal income tax reduction.

HOUDAILLE INDUSTRIES, INC.
Other Liabilities (Current portion included in current liabilities):

Long-term debt (Note B)	$30,302,523
Deferred compensation plans (Note D)	1,518,956
Provision for expenses of terminated operations	234,588
Taxes on income deferred to future periods	877,003
Total other liabilities	$32,933,070

WAGNER ELECTRIC CORPORATION
Current Liabilities:

Reserve for discontinuance of certain operations, etc. (Note 1)	$4,000,000

Note 1: Acquisition of Business—As of June 30, 1966, the Company purchased 954,062 shares of common stock of the former Wagner Electric Corporation for cash, after requesting tenders, which, together with 73,600 shares previously purchased, resulted in the Company owning approximately 49% of the stock. On September 30, 1966, the Company acquired all the assets and business for $18,067,800 principal amount of 6⅞% Subordinated Debentures, 516,224 shares of Series A $1.6625 Convertible Preferred Stock, the assumption of all the liabilities and the surrender of all shares of common stock previously acquired for cash by the Company. This transaction has been accounted for as a purchase. Accordingly, the consolidated financial statements include the results of operations of the acquired business from September 30, 1966, the date of acquisition.

The allocation of the purchase price has been made on the basis of independent appraisal and valuation of the assets acquired and liabilities assumed. As part of the allocation, reserves of $7,000,000 were recorded for costs and losses estimated to be incurred in connection with the discontinuance of a certain portion of the Motor Division of the acquired business and for other estimated costs and losses to be incurred in connection with the combining of the acquired business with the existing operations of the Company. On the consolidated statement of financial position $3,000,000 of such reserves has been applied to inventories, and $4,000,000 has been classified as a current liability.

Operating Purposes

CF&I STEEL CORPORATION
Above Stockholders' Equity

Operating Reserves, etc.	$8,732,000

COPPERWELD STEEL COMPANY
Above Stockholders' Equity

Operating Reserves	$390,731

NATIONAL STEEL CORPORATION
Above Stockholders' Equity
Reserves:

General operating purposes, including pensions	$18,444,684
Prior years' income taxes	5,853,688
Rebuilding and repairs	13,753,715
Total Reserves	$38,052,087

Litigation

MEDUSA PORTLAND CEMENT COMPANY
Above Stockholders' Equity
Reserves:

For deferred income taxes and investment credit	$2,899,000
In connection with merger—Note C	1,523,711
	$4,422,711

Note C: Merger—In September, 1966, pursuant to an Agreement of Merger, the Company issued 41,360 shares of its Series A Preferred Stock in exchange for approximately 66% of the outstanding capital stock of Western Indiana Aggregates Corporation. The minority interest in Western had been acquired in 1966 by a large diversified corporation; this owner voted against the merger, and has sought to comply with Indiana law relating to rights of dissenting shareholders in mergers by petitioning the court to appraise the fair cash value of its stock as of the effective date of the merger.

The excess of equity of Western, at the date of merger, over the aggregate stated value of Preferred Stock issued by the Company has been included in the consolidated balance sheet as a reserve for costs in connection with the merger, including any final judgment entered in the proceeding referred to above.

The operations of Western have been included in the statement of consolidated earnings since date of acquisition.

Preferred Stock Retirement

MOORE DROP FORGING COMPANY
Within Stockholders' Equity
Stockholders' Equity:

Preferred stock, Note 5	$ 355,250
Common stock, Note 5	360,697
Total Capital Stock	715,947
Capital surplus	1,907,017
Retained earnings appropriated for stock dividend, Note 6	463,752
Sinking fund for retirement of preferred stock	17,845
Earnings retained in the business, Note 3	10,477,210
	13,581,771
Preferred stock in treasury, at cost 2,199 shares (1966); 1,476 shares (1965)	94,555
Total Stockholders' Equity	$13,487,216

Note 5:

Preferred stock, 4¾% cumulative par value $50; authorized and issued 7,105 shares (1966) and 7,520 shares (1965)	$355,250
Common stock, par value $1; authorized 500,000 shares, issued 360,697 shares 1966 and 1965	360,697
	$715,947

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, 1966, 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, 1967.

General and Sundry Purposes

KENNECOTT COPPER CORPORATION
Above Stockholders' Equity

Sundry reserves and deferred credits	$9,046,196

AMERICAN METAL CLIMAX, INC.
Noncurrent Liabilities
Deferred income taxes, reserves, etc. $24,520,000
Notes to Financial Statements

Deferred Income Taxes, Reserves, etc.:

Deferred Federal income taxes	$15,670,000
Reserve for pensions for United States hourly paid employees	1,840,000
Miscellaneous reserves and noncurrent liabilities	7,010,000
	$24,520,000

Other Reserves

ADMIRAL CORPORATION
Current Liabilities:
Accrued compensation, cooperative advertising and other expenses, including employees' withholding taxes and other reserves—Note B(1) $14,960,527

Note B: *Price Redetermination, Renegotiation, Excise Taxes and Federal Income Taxes*—(1) The Company is a party to Government contracts which are subject to price redetermination and renegotiation and, in the opinion of management, reasonable provision has been made for adjustments which may arise out of future negotiations relevant to such contracts.

BATH IRON WORKS CORPORATION
Current Liabilities:
Reserve for estimated losses on contracts in process (Note 1) $6,509,930

Note 1 (in part): *Shipbuilding Contracts*—The company follows the practice of recording estimated retainable earnings on long-term shipbuilding contracts by applying the percentages of completion in each year to the estimated final retainable earnings for the respective contracts. The percentages used are furnished by representatives of the U.S. Navy or U.S. Maritime Administration. The performance of long-term shipbuilding contracts extends over several years and estimated final retainable earnings are revised each year to reflect all known factors affecting contract costs and prices, including the settlement of claims. When the estimate on a contract indicates a loss, it is the company's practice to record the entire loss. That portion of the loss which is allocable to work to be performed in the future is included in current liabilities in the accompanying balance sheet under the caption Reserve for Estimated Losses on Contracts in Process.

COLT INDUSTRIES INC.
Above Stockholders' Equity
Reserve for losses on long-term leases, etc. . $11,713,599

LUKENS STEEL COMPANY
Above Stockholders' Equity
Reserves (Note 4) $7,908,000

Note 4: *Reserves*—Reserves are provided for:

Deferred income taxes	$5,349,000
Supplemental unemployment benefits	1,660,000
Other	899,000
	$7,908,000

SONOTONE CORPORATION
Current Liabilities:
Provision for service guarantees and sundry liabilities $282,770

STANDARD OIL COMPANY (NEW JERSEY)
Above Shareholders' Equity
Annuity, insurance, and other reserves ... $428,944,000
Notes to Financial Statements

Annuity, Insurance, and Other Reserves (in part): At December 31, 1966, annuity, insurance, and other reserves comprised the following:

Annuities	$279,461,000
Employee service and separation allowances	61,137,000
Marine and fire insurance	50,698,000
Other	37,648,000
Total	$428,944,000

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 use by companies of common stock only, and away from the sole use of "capital" stock.

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 251 in 1966. On the other hand, of the 124 companies using the term "capital" in 1950 to describe their class of stock, only 71 companies used such designation in 1966. The term

TABLE 40: CLASSIFICATION OF CAPITAL STOCK

Combination of Stock Classes*	1966	1965	1960	1955	1950
A: Common Stock and one type of Preferred Stock	207	200	244	254	269
B: Common Stock	248	257	205	186	158
C: "Capital Stock"	70	77	97	113	122
D: Common Stock and two types of Preferred Stock	56	50	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
"Capital Stock" (two types)	1	1	1	1	2
G: Common Stock and three or more types of Preferred Stock	10	7	4	1	3
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	251	260	211	190	161
Both Common and Preferred Stock	278	262	291	296	315
Only "Capital Stock"	71	78	98	114	124
Total	600	600	600	600	600

*Refer to Company Appendix Section—A: 34, 111, 277, 364, 490, 592; B: 15, 123, 241, 359, 463, 543; C: 93, 128, 212, 389, 424, 596; D: 59, 139, 256, 311, 433, 527; E: 350; F: 497; G: 230, 361, 566.

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 207 in 1966. References are given at the foot of the table to the various classes of stock summarized therein.

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.

TABLE 41: VALUE SHOWN FOR SHARES OF STOCK

Class of Stock	1966	1965	1960	1955	1950
Common Stock with Shares described as:					
Par value stock	445	435	423	395	319
Par value stock at—					
"Stated value" per share	2	2	6	2	3
"Stated value" per total	14	15	10	2	—
"Assigned value" per share	1	1	1	1	1
No par value stock at—					
"Stated value" per total	15	16	15	12	—
"Stated value" per share	9	10	12	16	28
"Assigned value" per share	1	1	1	—	1
Not further described	50	50	42	66	136
Total	537	530	510	494	488
"Capital Stock" with Shares described as:					
Par value stock	54	57	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	2	4	5	3	—
"Stated value" per share	3	3	4	6	9
Not further described	10	12	14	24	35
Total	72	79	99	115	125
Preferred Stock with Shares described as:					
Par value stock	261	247	241	230	272
Par value stock at—					
"Liquidating value" or "Stated value" per share	2	2	1	1	N/C
No par value stock at—					
"Stated value" per total	10	6	8	2	—
"Stated value" per share	26	24	13	21	25
"Assigned value" per share	4	3	—	1	1
"Liquidating value" per share	6	10	9	7	8
Not further described	46	37	28	40	54
Share value not mentioned	2	—	3	—	3
Total	357	329	303	302	363

N/C—Not Compiled.

TABLE 42: STATUS OF CAPITAL STOCK

Number of Shares Shown for—	1966	1965	1960	1955	1950
*Common Stock**					
A: Authorized, issued, outstanding	113	130	165	175	192
B: Authorized, issued	305	266	196	183	159
C: Authorized, outstanding	114	128	135	117	111
D: Other presentations	5	6	14	19	26
Total	537	530	510	494	488
*"Capital Stock"**					
E: Authorized, issued, outstanding	22	23	31	42	49
F: Authorized, issued	37	42	49	51	57
G: Authorized, outstanding	13	14	16	15	10
Other presentations	—	—	3	7	9
Total	72	79	99	115	125
*Preferred Stock**					
H: Authorized, issued, outstanding	66	69	77	77	100
I: Authorized, issued	103	78	77	94	115
J: Authorized, outstanding	80	94	85	87	96
K: Authorized—None issued to date	94	73	44	27	32
L: Other presentations	14	15	20	17	20
Total	357	329	303	302	363

*Refer to Company Appendix Section—A: 9, 110, 288, 351, 473, 512; B: 75, 111, 234, 316, 445, 550; C: 11, 124, 251, 355, 429, 509; D: 205, 408; E: 97, 103, 273, 337, 431, 515; F: 63, 129, 211, 345, 401, 502; G: 52, 212, 336, 413, 561; H: 20, 117, 216, 399, 491, 520; I: 25, 171, 265, 313, 435, 566; J: 23, 142, 306, 428, 488, 529; K: 88, 170, 222, 371, 412, 530; L: 146, 283, 442.

The trend, as indicated by this table, is towards the use of the term *par value* in describing common or capital stocks; 519 such stocks were so described in 1966 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 90 common or capital stocks described as *no par value* in 1966, 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.

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 (Note 5)			46,278,150
Income retained for use in the business (Note 3)			65,522,135
			$134,300,285
Less cost of treasury stock (Note 5)			4,241,238
Shares	*1966*	*1965*	
Preferred	42,000	25,000	
Common	165,000	115,400	
			$130,059,047

Note 5: Incentive Compensation and Stock Option Plans—Deferred contingent awards under the 1963 Incentive Compensation Plan must be made at least one-half in common stock of the Company. Such awards, generally payable upon retirement, may be paid in Company common stock or cash.

Under the Qualified Stock Option Plan of 1966, approved by stockholders on April 20, 1966, options may be granted to key employees to purchase an aggregate of 250,000 shares of common stock of the Company. During 1966 options to purchase 148,500 shares were granted to 64 officers and other key employees. These options are priced at $26.50 a common share, the fair market value at date of grant, and may not be exercised before June 20, 1967, or after June 20, 1971.

Any of the common stock now held in treasury may be used for these plans.

THE BORDEN COMPANY

Stockholders' Equity:		
Capital Stock—par value $3.75 per share		
Authorized 37,000,000 shares		
Issued	27,427,956 shares	
Less treasury stock	171,956 shares	
Outstanding	27,256,000 shares	$102,210,000
Employees' stock purchase installments		5,795,588
Capital surplus		168,217,496
Retained earnings		294,315,655
Total Stockholders' Equity		$570,538,739

Notes to Financial Statements

Stock Option and Purchase Plans: On Jan. 1, 1966, 334,481 shares of capital stock of the Company were reserved for unexercised stock options and 14,840 shares were available for the granting of options, which options were granted on Jan. 25, 1966. Authority to grant options expired on April 18, 1966. On Feb. 10, the Company reserved 15,346 shares for unexercised options assumed from an acquired company. During the year optionees purchased 68,982 shares and options for 3,592 shares were cancelled. At Dec. 31, 1966, there were 292,093 shares reserved for unexercised options.

On Jan. 1, 1966 there were also 912,809 shares subscribed to under the Employees Stock Purchase Plan and 882,567 shares available for future offerings. During the year, subscriptions for 103,552 shares were cancelled; 8,624 shares were issues under the Plan for retired and deceased participants, and 520,967 shares were issued under the first offering at a price of $29.91 per share, which represented 85% of the fair market value on the expiration date of the purchase period, June 30, 1966. At Dec. 31, 1966, 279,666 shares remained under subscription and 986,119 shares were available for future offerings. Employees' installment payments, for shares under subscription, are reported in the accompanying consolidated balance sheet in Stockholders' Equity.

ADMIRAL CORPORATION

	Number of Shares	
Stockholders' Equity—Notes A(3), C, D, E, F and G:		
Capital Stock—par value $1.00 per share:		
Authorized	9,000,000	
Issued	5,103,222	$ 5,103,222
Capital Surplus—Note F		8,417,013
Retained Earnings—per accompanying consolidated statement		73,538,771
		87,059,006
Deduct: Treasury stock—at cost	40,000	320,093
	5,063,222	$86,738,913
Contingent Liabilities and Other Comments—Note G		

Note D: Stock Options— To December 31, 1966, options have been granted to certain officers and key employees to purchase Company Common Stock as follows: (a) Restricted Stock Options aggregating 407,100 shares at prices which are not less than 85% of the market value at the time of grant or reissue; (b) Qualified Stock Options aggregating 47,150 shares at the market value at the time of grant; and (c) 1964 Qualified Stock Options aggregating 47,050 shares at the market value at the time of grant.

To December 31, 1966, 386,670 shares had been issued (60,420 in 1966 and 326,250 prior thereto) pursuant to stock options. The total remaining outstanding options for 114,630 shares expire 47,000 in 1969, 60,830 in 1970, 5,800 in 1971 and 1,000 in 1972.

During the year ended December 31, 1966, 60,420 shares of Capital Stock were issued under the stock option plans and the excess of amount received over the par value of the Capital Stock issued, or $426,761 was credited to Capital Surplus. No amount has been charged to income with respect to the foregoing stock options.

The number of shares shown in this note have been adjusted for the two-for-one stock split declared in May, 1966.

Note E: Recapitalization—On May 5, 1966, the Capital Stock authorized was increased from 3,000,000 to 9,000,000 shares and subsequently split on the basis of one additional share for each share of the Company's issued Capital Stock.

BROCKWAY GLASS COMPANY, INC.

Shareholders' Equity:	
Preferred stock, $50 par value, non-voting, 5% cumulative (authorized 70,000 shares; outstanding 60,959 shares)	$ 3,047,950
Class A stock, $5 par value (Note 4) (authorized 10,000,000 shares; outstanding 1,373,175 shares)	6,865,875
Class B stock, $5 par value, non-voting (Note 5) (authorized and outstanding 1,000,000 shares)	5,000,000
Paid in capital (Note 6)	28,597,456
Retained earnings (Note 2)	24,724,027
Total Shareholders' Equity	$68,235,308

Note 4: Stock Options—Pursuant to a stock option plan approved by the shareholders on January 25, 1966, 50,000 shares of authorized and unissued Class A stock of the Company were reserved for key executive employees. Of the 50,000 shares reserved, options were granted on October 25, 1966, to purchase an aggregate of 45,000 shares at $30.75 per share. None of the options have been exercised to the date of this report.

Note 5: Class B Stock—The Class B stock is, to the extent permitted by law, non-voting. Dividends on the Class B stock are restricted for a period of ten years beginning October 1, 1964. However, this restriction is removed if the annual net earnings of Brockway Glass Company, Inc., with certain adjustments, equal or exceed $5,790,547 ($2.44 per share of the combined Class A and Class B stock) for the fiscal year ending September 30, 1967, or any fiscal year thereafter. The rights of the Class A and Class B stock will thereafter be identical except that, as noted above, the Class B stock will be non-voting.

CERTAIN-TEED PRODUCTS CORPORATION

Stockholders' Equity—Notes 1, 3, 4 and 5:	
Preferred Stock, $1 par value, authorized 2,000,000 shares; 1,517,080 shares designated as Series A Convertible, issued in 1966—1,483,080 shares (Liquidation preference $37,077,000)	$ 1,483,080
Common Stock, $1 par value, authorized 7,500,000 shares, issued 3,383,169 shares in 1966 and 3,382,439 shares in 1965	3,383,169
Capital in excess of par value	41,281,233
Retained earnings	53,257,696
Less: Common Stock held in treasury, at cost—201,685 shares	(2,095,864)
Total Stockholders' Equity	$97,309,314

Note 3 (in part): At December 31, 1966, there were outstanding transferable Stock Purchase Warrants for 170,000 shares of Common Stock exercisable prior to June 22, 1972, at per share prices ranging from $16.625 to $23.05. The foregoing includes a warrant for 20,000 shares at $23.05 per share issued in 1966 in connection with the cancellation of a contract. The Company has reserved a sufficient number of shares of treasury stock for issuance against the aforementioned warrants.

Note 4: Pursuant to stock option plans for officers and key employees adopted in 1960 and 1964, options for 25,574 shares of Common Stock were outstanding at December 31, 1966 at per share prices ranging from $13.75 to $20.50.

During the current year options for 5,600 shares were granted, options for 730 shares were exercised and options for 525 shares lapsed. No further options may be granted under the 1960 Plan; additional options for 4,400 shares may be granted under the 1964 Plan. Shares issued in connection with options exercised during the year resulted in an increase of $9,592 in capital in excess of par value.

With respect to the obligations of Gustin-Bacon for restricted stock options assumed by the Company, options for the purchase of 23,000 shares of Series A Convertible Preferred Stock at per share prices ranging from $17.8750 to $20.8125 were outstanding at December 31, 1966. No options were exercised during the year and options for 3,500 shares lapsed. No further options will be granted under this plan.

DICTAPHONE CORPORATION

Shareholders' Equity:	
Preferred shares, 4% cumulative, $100 par value	$ 415,000
Common shares, $2.50 par value	3,189,153
Capital surplus	1,591,497
Reinvested earnings	17,869,022
Total Shareholders' Equity	$23,064,672

Notes to Financial Statements

Note 6: At December 31, 1966, 54,400 common shares are reserved under stock option plans for officers and other key employees. The plans authorize the granting of options to purchase shares of authorized common stock at not less than 100% of the fair market value (95% with respect to options for 1,050 shares). Options are exercisable over a five-year period in cumulative annual instalments of 25% of the shares under option. At the beginning of the year, options to purchase 35,925 shares were outstanding. During the year, options to purchase 7,400 shares were issued, options to purchase 4,365 shares were exercised and options to purchase 1,750 shares were cancelled. At December 31, 1966, options to purchase 37,210 shares at prices ranging from $15.35 to $25.88 per share are outstanding.

GERBER PRODUCTS COMPANY

Shareowners' Equity:	
Common Stock, $2.50 par value:	
Authorized—14,000,000 shares	
Issued, including shares in treasury—8,493,836 shares	$21,234,590
Additional paid-in capital	3,046,864
Earnings retained	59,741,710
Common Stock in treasury—5,300 shares at cost (deduct)	(233,484)
Total Shareowners' Equity	$83,789,680

Notes to Financial Statements

Stock Option Plan: On July 28, 1965, the shareowners approved a qualified stock option plan for key employees and reserved 150,000 shares of Common Stock (either unissued or treasury shares) for option grants over a period of ten years at a price not less than market at date of grant. Options become exercisable twelve months after grant at the rate of one-third annually on a cumulative basis, and expire five years after date of grant. On July 29, 1965, options for 5,600 shares were granted at $44.0625 per share. At March 31, 1966, 144,400 shares were reserved for future options.

THE MEAD CORPORATION

Shareholders' Equity (Notes A and B):	
Preferred Shares	$ 18,747,716
Common Shares	122,251,361
Retained earnings	135,998,343
	$276,997,420

Note B: Shareholders' Equity—

	Shares Authorized	Shares Outstanding	Amount
Cumulative Preferred Shares, par value $100:			
4¼% series, callable at $102	35,600	35,600(1)	$ 3,560,000
5% series, callable at $105	33,088	33,088	3,308,800
Undesignated series.	28,412		
Voting Cumulative Preferred Shares, without par:			
$2.80 Convertible series	693,427	684,154(2)	$ 11,878,916
Undesignated series.	2,306,573		
Cumulative Second Preferred Shares, par value $50	295,540		
Total Preferred			$18,747,716
Common Shares, without par (6340 shares in treasury) (2) (3)	12,000,000	5,968,431	$122,251,361

(1) Exclusive of 2,900 shares for sinking fund requirements.
(2) Convertible to common shares, 1 for 1 until May 31, 1967 and 1.15 for 1 common share thereafter for which 693,427 common shares are reserved.
(3) 368,939 shares are reserved for issuance under employee plans.

The restrictions in the loan agreements limit the amount available for the payment of cash dividends at December 31, 1966, to $43,305,000.

Retained earnings includes $28,685,000, which by definition is considered capital surplus under Ohio law.

Under employee stock plans, options to purchase Common Shares have been issued to employees and officers of Mead and its subsidiaries at prices not less than 95% of fair market value on the dates granted for options granted prior to 1964 and at fair market value on the dates granted for options issued thereafter. During 1966, options for 75,350 shares were granted, options for 47,904 shares were exercised and options for 20,320 shares were cancelled. At December 31, 1966, options were outstanding for 346,445 shares and exercisable for 271,095 shares at prices ranging from $33.25 to $47.00 a share.

In addition, at December 31, 1966, options were outstanding for 9,273 Voting Cumulative Preferred Shares, $2.80 convertible series, at prices ranging from $25.28 to $41.00 a share representing Westab options assumed by Mead.

THE SUPERIOR OIL COMPANY

Stockholders' Equity:		
Common stock of $2.50 par value:		
Authorized shares	10,000,000	
Issued shares	4,250,140	
Shares in treasury	97,640	
Outstanding shares	4,152,500	$ 10,625,350
Capital surplus		167,474
Retained earnings (Note 2)		280,469,051
		$291,261,875

HAZELTINE CORPORATION

Stockholders' Equity:	
Capital stock	
Authorized, 3,000,000 shares, no par value (5,200 shares reserved for stock options at December 31, 1966, Note 4)	
Issued, 1,568,363 shares (including 700 shares treasury stock)	$ 6,176,132
Retained earnings	15,818,602
	21,994,734
Less 700 shares capital stock in treasury, at cost	10,515
Total Stockholders' Equity	$21,984,219

Note 4: Under the Company's restricted stock option plan, the number of shares of capital stock under outstanding options amounted to 14,900 at the beginning of the year. During the year options for 9,250 shares expired and options for 450 shares were cancelled. At the end of the year there were 5,200 shares under outstanding options at $19.78 per share. Options with respect to 2,600 of such shares were exercisable at December 31, 1966. No options for additional shares can be granted under the plan.

THE HOOVER COMPANY

Stockholders' Equity:	
Common Shares—par value $2.50 a share —Notes C and D:	
Class A:	
Authorized 7,300,000 shares	
Issued 6,662,986 shares at December 31, 1966, and 6,648,189 shares at December 31, 1965 (including shares held in treasury)	$ 16,657,465
Class B:	
Authorized 200,000 shares	
Issued 185,048 shares at December 31, 1966, and 177,883 shares at December 31, 1965	462,620
Total Capital Shares	$ 17,120,085
Other Capital—Note E	10,757,634
Income Employed in the Business—Note B	93,511,121
	121,388,840
Less cost of Class A Common Shares held in treasury (1966 — 263,384 shares; 1965 — 213,384 shares)	4,913,922
Total Stockholders' Equity	$116,474,918

Note C: *Voting Rights of Class A Shares*—During the year, holders of the Company's Class B Common Shares approved the granting of full voting rights to the Company's Class A Common Shares. Litigation is pending which seeks, among other things, to have such action reversed. The Company and those of its directors who are defendants in the suit are contesting such litigation.

Note D: *Share Option Plan*—There were no options granted during the year under the Share Option Plan for officers and key employees. Changes in the outstanding options during 1966 are summarized in the following tabulation:

	Class A Shares		Class B Shares	
	Shares	Amount	Shares	Amount
Outstanding January 1, 1966	155,835	$2,575,652	21,867	$331,115
Exercised during the year	14,797*	159,626*	7,165*	104,954*
Expired during the year	100,875*	1,827,687*	875*	13,562*
Outstanding December 31, 1966	40,163	588,339	13,827	212,599

*Denotes deduction

Options outstanding at December 31, 1966, were granted at fair market value at date of grant. The options are exercisable, in whole or in part, at any time during the terms of the options which expire on various dates between March 31, 1967, and May 2, 1968 (subject to certain conditions with respect to continued employment), but 7,128 Class A Shares may be exercised only in the ratio of nine Class A Shares to one Class B Share. At December 31, 1966, there were 150,657 Class A Shares and 1,125 Class B Shares released from pre-emptive rights and available for allocation and sale to employees of the Company and its subsidiaries.

THE NEW YORK AIR BRAKE COMPANY

Shareholders' Equity:	
Common Stock, par value $5 a share, authorized 3,000,000 shares, issued 1,559,141 shares and 1,540,112* shares —Notes A and B	$ 7,795,705
Capital in excess of par value	4,214,122
Retained earnings	22,728,969
Cost of 8,400 shares of Common Stock in treasury (deduction)	(198,200)
	$34,540,596

*Adjusted to reflect two-for-one stock split in 1966.

Note B: At December 31, 1966 there were reserved 78,241 unissued shares of Common Stock under Incentive Stock Option Plans. During 1966 options for 33,800 shares were granted, options for 19,029 shares were exercised and options previously granted for 2,300 shares were terminated. Options were outstanding to purchase 69,341 shares and are exercisable during various periods ending in 1971 at prices ranging from $13.53 to $26.90 per share. Such options were adjusted for the two-for-one stock split.

H. K. PORTER COMPANY, INC.

Stockholders' Equity:	
4¼% cumulative preferred stock—par value $100 per share—subject to annual sinking fund requirements—authorized, issued and outstanding 5,417 shares in 1966	$ 541,700
5½% cumulative sinking fund preference stock—par value $100 per share—subject to annual sinking fund requirements —authorized 216,277 shares in 1966— issued 186,078 shares in 1966—less 26,653 treasury shares in 1966	15,942,500
Common stock—par value $5 per share— authorized 3,000,000 shares—issued 1,322,587 shares—less 804 treasury shares in 1966	6,608,915
Capital surplus	2,893,727
Earned surplus ($10,418,706 for common stock or $13,418,706 for preferred and preference stock not restricted in 1966 as to cash dividends under loan agreements)	57,084,437
Total Common Stockholders' Equity	66,587,079
Total Stockholders' Equity	$83,071,279

THE QUAKER OATS COMPANY

Capital Stock and Earnings Retained in the Business:	
Preferred, $100.00 par value, 6% cumulative, authorized 250,000 shares; issued 180,000 shares	$ 18,000,000
Common, $5.00 par value, authorized 6,000,000 shares; issued June 30, 1966, 4,033,060 shares	20,165,300
Amount in excess of par value	26,034,234
Earnings retained in the business	108,606,195
	172,805,729
Less stock held in treasury—June 30, 1966, 89,049 shares of preferred, at cost	12,504,477
	$160,301,252

Notes to Financial Statements

At June 30, 1966, 237,389 unissued shares of common stock were reserved for issuance upon the exercise of outstanding stock options and an additional 172,422 unissued shares were available as of that date for granting additional options under the Company's managerial stock option plans. Option prices range from $60.50 to $80.50 per share. During the year ended June 30, 1966 options covering 41,335 shares were granted, options for 14,441 shares were exercised, and options for 13,975 shares were terminated.

The excess of the proceeds over the par value of the stock issued less expenses of issuance ($816,714) was credited to amount in excess of par value of common stock.

SOLA BASIC INDUSTRIES, INC.

Shareholders' Equity—Notes 3, 4, 5 and 6:	
Preferred stock—4½% Series A, $25 par value; authorized, issued and outstanding, 37,050 shares	$ 926,250
Common stock—$1 par value; authorized, 2,000,000 shares; issued, 1966—1,488,989 shares, 1965—1,430,684 shares	1,488,989
Paid-in capital	4,439,626
Income reinvested	19,746,650
Total	26,601,515
Less common stock in treasury, at cost—1966, 32,223 shares; 1965, 26,783 shares	625,002
Remainder—Shareholders' Equity	$25,976,513

Note 5: The outstanding shares of Series A preferred stock and 250,000 authorized but unissued shares of preferred stock without par value have full voting rights.

Warrants, previously issued to holders of long-term indebtedness retired during 1966, entitling the holders to purchase 108,304 shares of common stock at $27.70 a share are outstanding until March 1, 1969.

Note 6: In October 1965, the Corporation's stockholders approved a qualified stock option plan whereunder 50,000 shares of common stock were reserved for issuance upon exercise of options to be granted officers and key employees. Concurrent with the adoption of the foregoing plan, previously existing option plans were terminated except as to any options outstanding under such plans. Subsequently the number of shares reserved was adjusted to give effect to the 3% common stock dividend and the following figures have been adjusted to the same basis.

Under the existing plans, there were outstanding at July 31, 1965 options for the purchase of 69,145 shares common stock at an average option price of $14.89 a share. During the year, options were granted (all under the 1965 plan) for the purchase of 46,470 shares at an average option price of $18.38 a share, options for 18,700 shares were cancelled and options for purchase of 17,875 shares were exercised at an average price of $13.57 a share. At July 31, 1966, options are outstanding for the purchase of 79,040 shares of common stock at an average price of $17.21 a share and 5,030 shares are reserved for granting of additional options. Of the 79,040 shares under option at July 31, 1966, options for 23,662 shares are exercisable during the ensuing year.

CARRYING VALUE OF CAPITAL STOCK GREATER THAN PAR VALUE

Fifty-seven of the survey companies presented, in their 1966 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
Stated value	18
Assigned value	1
Value not referred to	29
	48
Capital stocks extended at:	
Stated value	3
Value not referred to	4
	7
Preferred stocks extended at:	
Stated value or Liquidating value	2
Total	57

The following examples illustrate various presentations shown in the 1966 reports of the survey companies.

BIGELOW-SANFORD INC.

Shareholders' Investment (Note 4):	
Common Stock—$5 Par Value—1966: Authorized 4,000,000 Shares; Outstanding 2,809,962 Shares, After Deducting 72,562 Shares in Treasury; at Stated Value (Note 3)	$26,963,695
Retained Earnings (Note 2)	19,178,869
Total Shareholders' Investment	$46,142,564

Note 4: In addition to common stock, as of December 31, 1966, 200,000 shares of cumulative preferred stock, $100 par value, were authorized but unissued.

THE BOEING COMPANY

Stockholders' Investment:	
Capital stock, par value $5 a share—Authorized, 30,000,000 shares Issued and outstanding at stated value: 1966, 19,496,519 shares; 1965, 16,374,280 shares (restated for stock split)	$315,213,000
Retained earnings	248,444,000
	$563,657,000

Notes to Financial Statements

Capital Stock: Changes in capital stock during the year were as follows:

	Shares	Amount
Balance at January 1, 1966	8,187,140	$135,979,000
Shares sold to officers and employees—		
Under stock option plan	16,740	538,000
Under incentive compensation plan	3,726	560,000
Shares issued in exchange for Convertible Subordinated Debentures	459,868	22,793,000
Shares sold under stock offering	2,165,979	112,028,000
Shares issued in connection with two-for-one stock split ($5 per share par value transferred from retained earnings	8,663,066	43,315,000
Balance at December 31, 1966	19,496,519	$315,213,000

Stock Options: At December 31, 1966, options for 246,284 shares of the Company's stock, at prices ranging from $15.25 to $63.50, were outstanding, of which 35,594 shares were exercisable. During 1966, 29,072 shares were issued upon exercise of options, options were granted for 143,200 shares and options for 1,900 shares were canceled.

An additional 40,166 shares are available for future grants under the restricted stock option plan.

FAIRCHILD HILLER CORPORATION

Stockholders' Equity:	
Preferred stock, without par value: Authorized—150,000 shares Issued—none	
Common stock, par value $1.00 per share: Authorized—6,000,000 shares (Note 8) Issued and outstanding—4,438,920 and 4,488,240 shares	$ 8,356,437
Additional paid in capital	19,886,896
Accumulated earnings (Note 2)	18,804,699
Total Stockholders' Equity	$47,048,032

INTERNATIONAL BUSINESS MACHINES CORPORATION

Capital Stock—Par Value $5.00 Per Share Authorized: 55,898,438 shares Issued and outstanding: 54,448,200 shares at December 31, 1966; 35,224,914 shares at December 31, 1965	$1,311,250,182
Retained Earnings	2,011,380,055
	$3,322,630,237

CHERRY-BURRELL CORPORATION

Shareholders' Investment:	
4% cumulative preferred stock; authorized 42,851 shares—	
1946 series, issued and outstanding 21,851 shares in 1966 and 22,120 shares in 1965	$ 2,185,100
1947 series, issued and outstanding 1,000 shares in 1966 and 2,000 shares in 1965 (1,000 shares to be redeemed annually at $101 per share)	100,000
Common stock, $5.00 par value, $8.33 stated value per share; authorized 600,000 shares, issued 489,392 shares (Note 3)	4,078,267
Capital surplus	934,129
Retained earnings (not available for common dividends; $826,078 available for acquisition of common stock)	7,060,401
	14,357,897
Less—82,892 shares in 1966 and 89,392 shares in 1965 of common stock held in treasury, at cost (Note 3)	1,149,151
	$13,208,746

NEWPORT NEWS SHIPBUILDING AND DRY DOCK COMPANY

Capital Stock and Surplus:	
Common Stock, par value $1 per share, stated value $13 per share.	
Authorized: 3,000,000 shares (Note 3)	
Issued: 1,668,755 shares at December 31, 1966 and 1,667,415 shares at December 31, 1965	$21,693,815
Capital Surplus (Excess of consideration received for Common Stock over the stated value of $13 per share)	1,465,337
Earned Surplus	63,590,416
Total Capital Stock and Surplus	$86,749,568

PITTSBURGH BREWING COMPANY

Capital Stock and Surplus:	
Capital stock (Notes 2 and 3) $2.50 Cumulative Preferred (convertible) $25.00 par, stated value $50.00. Issued and outstanding—6,868 shares	$ 343,400
Common $1.00 par	
Authorized 2,500,000 shares	
Issued and outstanding	1,520,272
Capital surplus	1,473,236
Earned surplus since Otcober 31, 1949 (Note 1)	6,314,144
	9,651,052
Less Treasury stock 1978 shares (602 shares at October 31, 1965) of $2.50 Cumulative Preferred and 361,283 shares (313,883 shares at October 31, 1965) of Common stock at cost	2,089,397
Net Capital and Surplus	$7,561,655

WALGREEN CO.

Shareowners' Equity:	
Common stock, $5 par value, authorized 5,000,000 shares; issued and outstanding 3,095,684 in 1966 and 3,091,120 in 1965, at stated value (Note 2)	$23,023,739
Retained earnings (Note 1)	48,393,359
Total Shareowners' Equity	$71,417,098

COMBUSTION ENGINEERING, INC.

Capital Stock and Retained Earnings (Notes 2, 3 and 4):		
Capital stock—		
Authorized—7,500,000 shares at $1 par value		
Issued—3,698,018 shares in 1966 and 3,511,343 shares in 1965, stated at	$ 23,469,156	
Deduct—Treasury stock, at cost—179,228 shares in 1966 and 191,459 shares in 1965	4,149,498	
	19,319,658	
Retained earnings (see accompanying statement)	109,509,468	
	$128,829,126	

THE INTERNATIONAL SILVER COMPANY

Stockholders' Equity:	
Capital Stock:	
Preferred—7% cumulative:	
Authorized and issued, 59,379 shares at $25 par value	$ 1,484,475
Common—Authorized 8,000,000 shares at $1 par value; issued and outstanding, 3,185,299 shares (1965—3,024,566 shares) at stated value (Note 4)	28,605,902
Retained earnings (Note 3)	31,722,402
	61,812,779
Less — Preferred stock in treasury, at cost (1966 — 11,326 shares; 1965 — 873 shares)	446,675
Total Stockholders' Equity	$61,366,104

TREASURY STOCK

Of the 600 survey companies, 416 referred to treasury stock in their 1966 reports as follows:

Three hundred and thirty-five companies referred only to *common* treasury stock; 21 companies showed only *preferred* stock in treasury; and 60 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.

BASIS OF VALUATION

The two most frequently mentioned bases of valuation for common and preferred treasury stock are "cost"

TABLE 43: TREASURY STOCK

Balance Sheet Presentation and Basis of Valuation*	"Common" Treasury Stock 1966	"Preferred" Treasury Stock 1966
Within Stockholders' Equity Section:		
Deducted from *total* of capital stock and surplus		
Per-share value shown at:		
A: Cost	234†	36
Par value	1	—
Stated value	1	—
Other	1	—
B: Not disclosed	3	—
Set forth separately but not deducted from total capital stock and surplus		
Per-share value shown at:		
C: Cost	39	1
Not disclosed	1	—
Deducted from issued stock of the same class		
Per-share value shown at:		
D: Cost	8†	—
E: Par value	68	31
F: Stated value	7	4
Less than cost	1	—
G: Other	1	4
H: Not disclosed	8	3
Miscellaneous other presentations		
Per-share value shown at:		
Cost	1	1
Other	2	—
Not disclosed	1	—
In Noncurrent Asset Section:		
Separately set forth therein		
Per-share value shown at:		
I: Cost	5	—
Not disclosed	1	—
Set forth therein as a part of various special funds or with other assets		
Per-share value shown at:		
J: Cost	12	1
Par value	1	—
Other	1	—
Not disclosed	2	—
Total	399	81

	"Common" Treasury Stock			"Preferred" Treasury Stock		
Number of Companies presenting:	1966	1955	1950	1966	1955	1950
Only "common" treasury stock	335	181	182	—	—	—
Both "common" and "preferred" treasury stock	60	49	48	60	49	48
Only "preferred" treasury stock	—	—	—	21	48	52
Total Treasury Stock	395	230	230	81	97	100
No treasury stock	205	370	370	197	199	204
No "preferred" stock class	—	—	—	322	304	296
Total	600	600	600	600	600	600

*Refer to Company Appendix Section—A: 7, 33, 122, 183, 235, 318, 436, 442, 557, 577; B: 157; C: 95, 130, 236, 341, 411, 531; D: 15, 51, 52, 89; E: 8, 16, 100, 193, 205, 301, 338, 449, 566, 575; F: 90, 176, 452; G: 325, 386; H: 2, 111, 372, 469; I: 268, 472; J: 118, 152, 207, 421, 474, 488.

†Includes one company with other treasury shares as an offset against the related liability in the balance sheet.

and "par value."

The basis of valuation of treasury stock used by the survey companies for the year 1966 is summarized in Table 43.

Examples of the various methods of presentation of treasury stock from the 1966 reports follow.

Within Stockholders' Equity Section

(a) Deducted from Capital Stock and Surplus

AMERICAN POTASH & CHEMICAL CORPORATION

Capital Stock and Surplus:	
Capital stock, without par value (Note 3):	
$4 Cumulative Preferred Stock, Series A	$ 3,010,000
$5 Cumulative Special Preferred Stock	372,400
Common Stock	33,222,562
Earned surplus (Note 1)	38,843,160
Total	75,448,122
Less Treasury Stock, at cost:	
$4 Cumulative Preferred Stock, Series A, acquired in anticipation of redemption requirements	16,491
Common Stock	47,018
Total Treasury Stock	63,509
Capital Stock and Surplus—Net	$75,384,613

Note 3: Capital Stock—Information as to the number of shares of capital stock authorized and outstanding, etc., as of December 31, 1966 is as follows:

$4 Cumulative Preferred Stock, Series A:	
Authorized and issued	30,100
Acquired in anticipation of requirement to redeem each year 2,100 shares, through purchase or sinking fund redemptions	182
$5 Cumulative Special Preferred Stock:	
Authorized	3,750
Issued and outstanding	3,724
Common Stock:	
Authorized	3,000,000
Reserved for issuance under restricted and qualified stock option plans	105,035
Acquired and held in treasury	1,500
Issued and outstanding	2,299,542

There are outstanding under restricted stock option plans and a qualified stock option plan options to purchase common stock of the Company at not less than 95% and 100%, respectively, of the quoted market price of the stock on the day of granting each option. Options are exercisable during periods ending five years from dates of grant except options granted prior to 1964 which expire up to ten years from date of grant. Changes in the number of shares subject to outstanding options are summarized as follows:

Options outstanding, January 1, 1966		109,360
Add options granted		4,500
Total		113,860
Deduct:		
Options expired	7,375	
Options canceled	3,750	
Options exercised	2,800	13,925
Options outstanding, December 31, 1966		99,935

As of December 31, 1966, there were 5,100 shares available for the granting of options, as compared with 5,850 shares at January 1, 1966.

COOPER INDUSTRIES, INC.

Shareholders' Equity:	
Common stock, par value $5 a share (Authorized 10,000,000 shares; issued 3,221,902 shares in 1966 and 3,208,266 shares in 1965 after giving effect to two-for-one stock split)	$16,109,000
Capital in excess of par value	6,113,000
Earnings retained	34,175,000
	56,397,000
Less: Treasury stock—48,270 shares at cost	847,000

AMERICAN SAINT GOBAIN CORPORATION

Shareholders' Equity (Notes 1, 3 and 4):	
Capital stock	
5% Cumulative Preferred, par value—$25 per share; authorized and issued, 160,395 shares	$ 4,009,875
6% Cumulative Preference, par value—$100 per share; authorized, issued and outstanding, 30,000 shares	3,000,000
Common, par value—$7.50 per share; authorized, 2,500,000 shares; issued and outstanding, 1,162,943 shares	8,722,073
Additional paid-in capital	6,164,979
Retained earnings	2,952,800
	24,849,727
Less cost of 5% Cumulative Preferred Stock held in treasury—1,490 shares	32,022
Total Shareholders' Equity	$24,817,705

CHEMETRON CORPORATION

Stockholders' Equity:	
Capital stock:	
Cumulative preferred, $100 par. Authorized (1966) 218,200 shares; issued:	
4¼% series: 1966, 11,900 shares; 1965, 12,950 shares	$ 1,190,000
4¾% series: 1966, 2,250 shares; 1965, 3,000 shares	225,000
Common, $1 par. Authorized (1966) 10,000,000 shares; reserved for conversion privileges of subordinated debentures, 401,235 shares in 1966; issued: 1966, 3,145,590 shares; 1965, 3,086,451 shares (Note 6)	3,145,590
Total Capital Stock	4,560,590
Additional paid-in capital (Note 7)	23,280,778
Retained earnings (Note 4)	80,434,827
Total	108,276,195
Less treasury stock, at cost (Note 8)	259,636
Total Stockholders' Equity	$108,016,559

Note 8: Treasury Stock at Cost—Capital stock held in the treasury was as follows:

Shares:	
Cumulative preferred, $100 par, 4¼% series	2,842
Common, $1 par	416

UNITED SHOE MACHINERY CORPORATION

Stockholders' Equity:	
Capital stock	
Preferred, 6% cumulative, par value $25 per share, authorized 600,000 shares; issued 423,908 shares (Note B)	$ 10,597,700
Common, par value $25 per share, authorized 3,600,000 shares; issued 2,365,958 shares	59,148,951
Additional paid in capital	1,001,391
Retained earnings	134,649,607
	205,397,649
Less—Cost of shares in treasury	13,922,314
Preferred: 1966 and 1965, 222,892 shares	
Common: 1966, 114,627 shares; 1965, 115,847 shares	
Total Stockholders' Equity	$191,475,335

DENNISON MANUFACTURING COMPANY

Stockholders' Equity:	
Debenture Stock, $8 cumulative, par value $100 per share (entitled in liquidation to and callable at $4,707,200):	
Authorized and issued 29,420 shares	$ 2,942,000
"A" Common Stock, par value $5 per share:	
Authorized 3,000,000 shares (1,200,000 in 1965); issued 2,335,127 shares (1,145,470 in 1965) (Note G)	11,675,635
Voting Common Stock, par value $5 per share:	
Authorized 200,000 shares (80,000 in 1965); issued 106,449 shares (75,318 in 1965) (Note G)	532,245
Capital in excess of par value (Note G)	22,330
Earnings reinvested (Notes D and G)	18,346,813
	33,519,023
Less treasury stock at cost—146,642 shares (51,081 in 1965) of "A" Common Stock; 16,382 shares (30,821 in 1965) of Voting Common Stock	658,845
Total Stockholders' Equity	$32,860,178

(b) Deducted from Issued Stock of the Same Class

KELLOGG COMPANY

Capital and Retained Earnings:	
3½% Cumulative Preferred Stock of $100 Par Value—	
Authorized and issued — 111,763 shares, less 83,386 shares in treasury (115,513, less 86,264 in 1965)	$ 2,837,700
Common Stock of $.50 Par Value—	
Authorized 20,000,000 shares; issued 17,970,928 shares in 1966 and 17,967,583 shares in 1965	8,985,464
Other Capital	6,598,777
Retained Earnings	157,172,867
	$175,594,808

McCORMICK & COMPANY, INCORPORATED

	Shares: Voting	Shares: Non-Voting	
Stockholders' Investment:			
Preferred Stock, $100 par value:			
5% cumulative, redeemable at $105, authorized 30,000 shares, issued and outstanding 5,728 shares			$ 572,800
Common Stock, no par value: (Notes G and H)			
Authorized	200,000	600,000	
Issued	121,892	407,502	
In Treasury	5,725	3,492	
Outstanding	116,167	404,010	3,643,880
Retained Earnings (Note D)			11,400,278
Total			15,044,158
Total Stockholders' Investment			$15,616,958

WEST POINT-PEPPERELL, INC.

Stockholders' Equity:	
Common stock, $5 par value; 10,000,000 shares authorized; 4,750,086 shares issued, less 86 shares held in treasury; 4,750,000 shares outstanding	$ 23,750,000
Capital surplus	9,224,176
Earnings reinvested in the business	138,364,296
Total Stockholders' Equity	$171,338,472

CUDAHY COMPANY

Capital Stock and Surplus:	
Preferred stock, 4½% cumulative, par value $100 per share—authorized and outstanding 100,000 shares (dividends in arrears at October 29, 1966, $21.375 per share, aggregating $2,137,500—Notes 2 and 9)	$10,000,000
Common stock, par value $5 per share—authorized 2,000,000 shares; issued 1,542,213 shares less cost ($13,105) of 1,275 shares held in treasury (Notes 2, 8 and 9)	7,697,960
Capital surplus	8,340,660
Deficit since October 30, 1954 (Notes 1, 2 and 9)	(11,860,965)
	$14,177,655

THE WURLITZER COMPANY

	Shares	
Shareholders' Equity:		
Common capital stock, par value $10 per share:		
Authorized	1,750,000	
Issued	1,264,988	$12,649,880
Less—in treasury (Note 4)	56,434	564,340
	1,208,554	12,085,540
Additional paid-in capital		13,087
Earnings retained in the business (less transfers to capital stock) (Note 2)		15,446,715
Total Shareholders' Equity		$27,545,342

Set Forth in Notes to Financial Statements

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

Shareholders' Equity (Notes 4, 5 and 6):	
Preferred stock	$ 9,833,000
Common stock	31,613,670
Capital in excess of par value	37,219,505
Retained earnings	99,160,135
	$177,826,310

Note 5: *Shareholders' Equity*—Capital stock outstanding at June 30, 1966 and 1965 was as follows:

Preferred stock:	
Series preferred stock, $100 par value—	
Authorized—500,000 shares	
Outstanding—none	
4% cumulative, $100 par value—	
Authorized—100,000 shares	
Outstanding—98,330 shares excluding 1,670 in treasury	$ 9,833,000
Common stock, $5 par value:	
Authorized—10,000,000 shares of which 955,913 shares are reserved (see Note 6)	
Outstanding—6,322,734 shares in 1966 and 6,257,660 in 1965 (excluding 631 in treasury)	31,613,670
	$41,446,670

THE PROCTER & GAMBLE COMPANY

Shareholders' Equity:	
Preferred shares	$ 1,160,000
Common shares	42,773,000
Additional paid-in capital	114,432,000
Earnings retained in the business	790,227,000
Total Shareholders' Equity	$948,592,000

Notes to Financial Statements

Note 1 (in part): *Shareholders' Equity*—The authorized common stock of the Company is 50,000,000 shares without par value; there were 42,273,430 shares and 43,239,135 shares outstanding at June 30, 1966 and 1965, respectively, excluding 1,000,700 shares and 524,200 shares held in treasury at the respective dates. As to the 22,500 shares of authorized 8% (cumulative) preferred stock of $100 par value each, there were 11,603 shares and 22,500 shares outstanding at those dates, respectively, excluding 10,897 shares held in treasury at June 30, 1966. Also, 457,500 shares of authorized preferred stock of $100 par value each were undesignated and unissued.

Other Presentations within Stockholders' Equity Section

THE AMERICAN DISTILLING COMPANY

Stockholders' Equity:	
Capital stock—common $10.00 par value:	
Authorized, 2,000,000 shares	
Issued: 1966 and 1965, 1,050,790 shares	$10,507,900
Surplus:	
Capital	4,814,142
Earnings retained in the business—Note 3	16,055,935
Less: Treasury stock at cost—1966, 50,600 shares; 1965, 35,800 shares	(1,623,594)
	$29,754,383

NORTHROP CORPORATION

Shareholders' Equity—Notes E, F, and J:	
Common Stock—par value $1 a share:	
Authorized 7,000,000 shares	
Issued 1966—4,293,709 shares, including 87,142 treasury shares; 1965—4,231,006 shares, including 104,560 treasury shares	$ 4,293,709
Additional capital paid in	18,274,257
Retained earnings	63,749,774
	$86,317,740

Presented in Noncurrent Assets

GENERAL CIGAR CO., INC.
Noncurrent Assets

Other Assets:	
Common stock in treasury available for employees' profit-sharing plan, at cost—18,850 shares (1965—20,452 shares) (Note 3)	$ 526,000
Long-term receivables	262,000
Unamortized bond discount and other assets	1,332,000
	$2,120,000

Note 3: Compensation Plans—Common stock in treasury available for employees' profit-sharing plan represents the cost of such stock allocated to participants under a plan which terminated at the end of 1962. Subject to a number of conditions, distribution of such stock is deferred until after the termination of the participant's employment.

No appropriation was made in 1966 under an Incentive Compensation Plan approved by the stockholders in 1965.

THE MAGNAVOX COMPANY
Noncurrent Assets

Other Assets:	
Magnavox common stock held for distribution under Incentive Compensation Plan, at cost (8,900 shares and 13,526 shares at respective dates)	$ 411,918
Investments	991,519
Deferred charges	333,758
	$1,737,195

"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 1966 survey companies from which the earnings have been accumulated is the year 1949.

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: 1966	1965	1960	1955
Years 1925 through 1948	—	—	1	29
1949-1951	1	1	1	1
1952-1954	1	1	2	1
1955-1957	—	—	1	—
1958-1961	1	2	2	—
1962-1963	3	3	—	—
1965	2	1	—	—
	8	8	7	31

As an example of dating surplus, The National Sugar Refining Company's Balance Sheet at January 1, 1967 presented earned surplus as follows:

Earned surplus, since January 1, 1965	$2,357,301

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 1966 annual survey reports disclosed 493 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	64 companies
B:	Terminated in the current year by	34 companies
C:	Amended or modified by	6 companies

*Refer to Company Appendix Section—A: 44, 192, 292, 346, 488, 559; B: 93, 186, 266, 443, 482, 496; C: 345, 350, 579.

Seventy-four stock option plans were also terminated in a prior year except for options previously granted but not exercised, due largely to more stringent requirements of the Internal Revenue Service.

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.

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.

One hundred and five companies indicated in their 1966 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 93 of the survey companies. The compensation feature received 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 1966 are presented extensively in Section 4 under "Employee Stock Plans.")

Initially Established During Year

AMERICAN CHAIN & CABLE COMPANY, INC.
Notes to Financial Statements

Note 3: In 1966, a stock option plan was authorized by the Board of Directors and approved by the stockholders. During the year, options were granted under the plan to certain key employees to purchase a total of 46,000 shares of common stock of the Company. The option price is $38.75 per share, approximately the fair market value of the stock at the date of the grant. The options become exercisable in cumulative annual instalments of 25% starting one year after the date of the grant, and expire on April 30, 1971. Options for an additional 74,000 shares of common stock may be granted until December 31, 1975 for terms up to 5 years.

In addition to the common stock, the Company is authorized to issue 300,000 shares of $50 par value serial preferred stock.

AMERICAN ENKA CORPORATION
Notes to Financial Statements

Note 3: *Stock Options*—On March 9, 1966, the stockholders approved a stock option plan which provides that a maximum of 75,000 shares of common stock, to be acquired on the open market, may be optioned to key employees at a price not less than market price on dates of grant. Options granted may be exercised one year after but not more than five years from dates of grant. At January 1, 1967, options for 12,125 shares were outstanding at a price of $37.31 per share, and options for 62,875 shares were available for future grant under this plan.

In 1966, remaining available options for 5,500 shares were granted and options for 9,600 shares were exercised (proceeds $99,150) under the terms of the plan approved by stockholders in 1958. At January 1, 1967, options for 44,750 shares were outstanding at prices ranging from $4.97 to $41.94 per share, of which options for 39,250 shares were then exercisable.

TABLE 44: EMPLOYEE STOCK OPTION PLANS

	Relation of Option Price to Market Value at date of grant of option*	1966	1965	1964	1960	1955
	Option Price shown as a percentage, which was:					
A:	Not less than 100% of market value	90	77	65	N/C	N/C
B:	Not less than 95% of market value	44	55	88	159	72
C:	Exactly 95% of market value	21	27	30	59	51
	Between 95% and 86% of market value	1	1	1	3	—
D:	Not less than 85% of market value	5	9	12	12	8
E:	Exactly 85% of market value	6	4	4	10	3
F:	More than one percentage used	83	80	70	5	—
		250	253	270	248	134
	Option Price shown in dollar amount only, which was:					
G:	Equal or approximately equal to market value	138	120	92	60	44
	Below market value	1	—	4	4	4
H:	Market value not shown or referred to	189	170	153	101	65
		328	290	249	165	113
	Option Price not shown in either per cent or dollars, but stated to be:					
	Above market value	1	1	1	1	—
I:	Equal to market value	25	23	20	15	5
		26	24	21	16	5
J:	*Neither Option Price nor Market Value stated or indicated*	66	60	37	24	19
	Total number of plans	670	627	577	453	271

Date of Option Price Determination:	1966	1965	1964	1960	1955
Date of grant of option to employee	396	380	383	323	N/A
Day prior to grant of option to employee	—	2	3	5	N/A
More than one date provided by plan	2	2	2	N/C	N/A
Miscellaneous other dates	2	2	2	N/C	N/A
No reference to time of determination of price per share to employee	270	241	187	125	N/A
Total	670	627	577	453	

Number of Companies	1966	1965	1964	1960	1955
Referring to employee stock option plans	493	484	486	438	251
Not referring to employee stock option plans	107	116	114	162	349
Total	600	600	600	600	600

*Refer to Company Appendix Section—A: 32, 136, 228, 314, 404, 576; B: 58, 110, 147, 392, 439, 551; C: 54, 134, 203, 364, 400, 430; D: 376; E: 410; F: 66, 121, 290, 330, 440, 584; G: 84, 133, 257, 313, 466, 589; H: 40, 130, 238, 319, 489, 595; I: 75, 157, 201, 355, 373, 514; J: 72, 102, 227, 332, 413, 542.
N/C—Not Compiled.
N/A—Not Available.

Treasury shares reserved for options outstanding under the 1958 plan are stated at the aggregate option price of such shares; remaining treasury shares are stated at cost, including those reserved for options outstanding under the 1966 plan (option price approximates cost). No further options are available for grant under the 1958 plan; the excess of cost of total shares purchased for this plan over aggregate option price of options granted has been charged to accumulated income retained for use in the business.

BRISTOL-MYERS COMPANY
Notes to Financial Statements

Stock Option Plans: On July 5, 1966, stockholders approved the 1966 Qualified Stock Option Plan which was adopted by the Board of Directors on August 1, 1966. That Plan provides for the granting of options covering 1,000,000 shares of the Company's $1 par value Common Stock, adjusted for the October 10, 1966 two-for-one stock split.

Under the 1966 Qualified Stock Option Plan and the 1960 Stock Option Plan previously approved by stockholders, officers and key employees may be granted options to purchase the Company's $1 par value Common Stock at 100% of the market price on the day an option is granted.

The following table, adjusted for stock splits, reflects stock option transactions during the year.

	Number of Shares Under Option	Number of Shares Available for Option
Balance January 1, 1966	464,984	43,500
Made available for option	—	1,000,000
Options granted	306,500	(306,500)
Options exercised	(34,652)	—
Options lapsed and not available for re-option	(3,970)	(3,970)
Options lapsed and available for re-option	(14,000)	14,000
Balance December 31, 1966	718,862	747,030
Exercisable at December 31, 1966	139,576	

The Company received $707,118 for the 34,652 shares exercised during the year. The options outstanding at December 31, 1966 to purchase 718,862 shares have been granted at prices ranging from $10.23 to $54.94 per share, adjusted for all stock splits subsequent to the granting of the options.

THE CESSNA AIRCRAFT COMPANY
Notes to Financial Statements

Note 4: *Stock Options*—On January 25, 1966, the stockholders approved an additional qualified stock option plan (1965 plan—adopted by the Board of Directors July 21, 1965) under which a maximum of 100,000 shares of common stock are reserved for the granting of stock options to officers and key employees.

At September 30, 1966 there were 41,850 shares of authorized and unissued common stock reserved for issuance under stock option grants. Stock option transactions during 1966 were as follows:

	Shares		
		Option plan of	
	Total	1965	1956
Reserved at September 30, 1965	34,775	—	34,775
Options granted	26,000	25,500	500
Options exercised (proceeds—$418,038)	(18,425)	(150)	(18,275)
Options cancelled	(500)	—	(500)
Reserved at September 30, 1966 of which options for 14,670 shares were then exercisable	41,850	25,350	16,500

Under the 1965 plan, no portion of the option may be exercised during the first year of the grant and thereafter the options are exercisable up to one-third annually on a cumulative basis. Under the 1956 plan, options are exercisable 20% on the date of grant and 20% annually on a cumulative basis thereafter. Under both plans, options expire five years from date of grant.

With respect to shares reserved at September 30, 1966, the option price per share was $31.75 under the 1965 plan and ranged from $18.18 to $40.63 per share under the 1956 plan. Shares available at September 30, 1966 for further grants totaled 74,500, all under the 1965 plan.

All options granted have been made under the provisions for qualified or restricted stock option plans of the Internal Revenue Code in effect at the time of grant.

THE RYAN AERONAUTICAL CO.
Notes to Financial Statements

Note 5: *Stock Option Plans*—Under a Qualified Stock Option Plan approved by the stockholders in February, 1966, options may be granted to certain key employees to purchase 100,000 shares of the Company's common stock at a price equal to the fair market value of the stock at the date options are granted. The plan provides that options may be exercised for 30% of the shares covered thereby each year during the third and fourth year from the date granted, with the balance exercisable during the fifth year. Options expire five years from date of grant.

Under a Restricted Stock Option Plan approved by the stockholders in October, 1959, options were granted to certain key employees to purchase the Company's common stock at a price equal to 95% of the fair market value of the stock at the date the options were granted. Options are exercisable annually for 10% of the shares covered thereby until expiration ten years from date of grant. No additional options may be granted under this plan.

Information with respect to the shares applicable to options (adjusted for applicable stock dividends and 1965 stock split) under these plans is as follows:

	Shares Applicable to Options		
	Granted	Available for Grant	Option Price Per Share
Balance at beginning of year	86,348	—	$ 8.08-$10.40
Year ended October 31, 1966:			
Plan approved by stockholders		100,000	
Options granted	26,990	(26,990)	20.50- 25.38
Options exercised	(10,601)	—	8.19- 10.40
Options terminated	(5,953)	—	10.40
Balance at end of year	96,784	73,010	$ 8.08-$25.38
Options exercisable at October 31, 1966	35,520		$ 8.08-$10.40

SIMPLICITY PATTERN CO. INC.
Notes to Financial Statements

Note 5: Under the 1966 Qualified Stock Option Plan as approved by the shareholders in April 1966, options totaling 161,520 shares (adjusted for 1966 5% stock dividend) of Common Stock may be granted to key employees at prices not less than 100% of the fair market value on the dates the options are granted. Options are exercisable six months after the dates of grant and must be exercised within five years. Options for 91,825 shares were granted in 1966 at prices ranging from $35.97 to $40.50 per share; all options were unexercised at December 31, 1966.

Under the 1952 Employees' Stock Option Plan, which was terminated by the Board of Directors on February 23, 1966, unexercised options expiring in 1969 for 3,898 shares were outstanding at December 31, 1966 at prices from $25.95 to $34.55 per share. During 1966 options for 785 shares were exercised at prices from $11.93 to $36.19 per share.

F. W. WOOLWORTH CO.
Notes to Financial Statements

Note G: *Stock Option and Employees' Stock Purchase Plans*—On May 18, 1966 the shareholders approved qualified stock option and employees' stock purchase plans for eligible officers and employees of the Company and certain of its subsidiaries.

Under the stock option plan, options for 700,000 shares were approved, of which 521,600 shares have been granted at a price of $27.75 per share representing 100% of the market price at the date of grant. These options are exercisable on a cumulative annual basis at the rate of 25% per annum beginning March 1967; unexercised options expire five years from the date of grant.

Under the employee stock purchase plan eligible employees may contribute up to 10% of their salary through payroll deductions to a stock purchase fund from which they will be entitled to purchase Company shares on a specified annual date at 85% of the market price of the stock on such date to a cumulative aggregate amount of 500,000 shares.

Amended or Modified During Year

BEECH AIRCRAFT CORPORATION
Notes to Financial Statements

Note D: *Stock Option Incentive Plan*—On December 16, 1965, the stockholders approved amendments to the stock option incentive plan extending the expiration date for granting options from June 30, 1967, to October 11, 1975, and adding 55,000 shares to the total number of shares available for the granting of options.

During the year ended September 30, 1966, options were granted for 5,975 shares; options were exercised for 9,887 shares; and options for 406 shares were cancelled. The par value ($9,887) of the shares issued upon the exercise of options was added to Common Stock, and the difference of $160,231 between the par value and the proceeds was added to additional paid-in capital.

At September 30, 1966, options for 34,275 shares were outstanding at prices ranging from $13.48 to $26.35 a share with an aggregate option price of $671,103, and 88,755 shares were available for granting additional options.

The number of optioned and unoptioned shares and the per share prices therefor, as referred to above, have been adjusted for the 2% stock dividend paid on November 23, 1965, and will be adjusted for the 2% stock dividend referred to in Note E.

WALTER KIDDE & COMPANY, INC.
Notes to Financial Statements

Common Stock: Under certain acquisition agreements the Company is required to issue, in January 1969, Common Stock having a then current market value of $390,000, and may be required to issue additional Common Stock during the years 1968-1972. The number of additional shares, if any, to be issued will be based on future earnings of the acquired businesses and future quoted market of Kidde Common Stock. Based on current earnings and quoted market the number of such additional shares which may be issued is immaterial.

As of December 31, 1966, 162,546 shares of Common Stock and 12,493 Preference Shares were reserved for issuance to officers and key employees under the Company's Stock Option Plan and other option commitments assumed in connection with certain acquisitions. Under the Plan, as amended in 1966, options for the purchase of Common Stock may be granted at a price which is no less than the greater of $11.045 or the market price at the date of grant. Options granted prior to February 19, 1964 become exercisable at the rate of 25% per year one year after grant and options granted after February 18, 1964 become exercisable at the rate of 50% six months after grant and the balance one year after grant. On February 24, 1965, the exercise period for subsequent grants was reduced to a maximum of five years, as compared with the seven-year period permissable in prior grants.

As of December 31, 1966 options for 114,216 shares of Common Stock were outstanding at prices ranging from $11.045 to $59.405 per share. During 1966, options for 60,988 shares were granted, none were cancelled, and options for 6,587 shares were exercised at prices ranging from $12.484 to $29.408 per share.

As of December 31, 1966 options for 12,493 Preference Shares were outstanding at prices ranging from $18.585 to $90.00 per share. During 1966, options for 17,378 shares were granted, options for 632 shares were cancelled, and options for 4,253 shares were exercised at prices ranging from $18.585 to $61.50 per share.

PHILIP MORRIS INCORPORATED
Notes to Financial Statements

Note 6: *Stock Options*—Pursuant to stock option plans approved by stockholders (the most recent plan covering 375,000 shares having been approved in 1966), common stock of the Company has been made available for option to officers and other key employees at closing market prices on the dates granted.

Shares under option, beginning of year	446,943
Options granted	175,400
Options exercised	(45,807)
Options canceled	(16,044)
Shares under option, end of year	560,492*
Shares available for option, end of year	200,598

*At prices ranging from $16.583 to $39.167.

STOCK PURCHASE PLANS

There were 72 survey companies that indicated in their 1966 annual reports the existence of various employee stock purchase plans. The information contained in the annual reports of the survey companies for 1966, 1965, 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 1966 annual reports illustrating the information given with regard to employee stock purchase plans follow. (Plans which resulted in entries to the surplus accounts during 1966 are presented 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 problems in grouping them within headings such as those shown in Table 45.

THE BLACK AND DECKER MANUFACTURING COMPANY
Notes to Financial Statements

Note C (in part): *Employees' Stock Purchase Plan*—50,000 shares less previously issued offering shares are reserved under the plan adopted in 1966 which provides for subscriptions at 90% of market price on the date offered. Unissued shares will be offered through 1970.

CLEVITE CORPORATION
Letter to Stockholders

In May, we began a stock purchase plan which gives our salaried employees an opportunity to become part owners in Clevite. The plan has been well received in its first year: 1247 employees (or 82% of those eligible) elected to participate; the 13,937 shares purchased represent a total investment of $584,000. Also, Clevite continued to buy its own common shares on the open market. We have purchased a total of 133,700 shares since this program began in 1965.

GRANITEVILLE COMPANY
Notes to Financial Statements

Note 5 (in part): *General Comment*—In April, 1966, the stockholders of the Company approved the "1966 Employee Stock Purchase Plan" which granted to all employees of the Company on May 5, 1966, the right to subscribe, prior to June 15, 1966, to an aggregate of 150,000 shares of the authorized but unissued common stock of the Company. The purchase price of $31.39 per share, which was 90% of market value on May 5, 1966, is payable in equal installments over a period of 25 months commencing July, 1966, without the right of prepayment but with the right of cancellation. At December 31, 1966, 22,307 shares remained under subscription. Shares will be delivered on the date the purchase price has been fully paid.

INTERNATIONAL BUSINESS MACHINES CORPORATION
Notes to Financial Statements

Stock Purchase Plan for IBM Employees: At the April annual meeting, stockholders adopted the IBM Employees 1966 Stock Purchase Plan and authorized up to 1,350,000 shares of unissued capital stock to be reserved from time to time over a five-year period for purposes of the Plan. To date, 750,000 shares have been reserved by the Board of Directors.

The 1966 Plan became effective on July 1, 1966 following the expiration of the 1961 Plan. Under the 1966 Plan, employees on the annual offering date, each July 1, who are not participants in a Stock Option Plan, may purchase IBM's unissued capital stock one share at a time through payroll deductions not exceeding 10% of their compensation. The price an employee pays for a share of stock is equal to 85% of the market price on the annual offering date or on the date he has accumulated enough money to buy the share—whichever price is lower. Employees purchased 255,104 shares in 1966 under the two plans, for which $72,415,283 was paid to IBM and credited to the capital stock account. At December 31, 1966, 614,869 shares were reserved for sale under the 1966 Plan.

UNIROYAL, INC.
Financial Review

Employee Stock Purchase Plan: The stock purchase plan was approved by the stockholders at the annual meeting held April 19, 1966.

The Plan provides for eligible employees to purchase on August 1, 1968, through payroll deductions which began August 1, 1966, shares of common stock based on the average price of the stock on the New York Stock Exchange on June 1, 1966, which was $37.5625 a common share. The maximum purchase per eligible employee is an amount not in excess of 10% of one year's earnings. At any time during the two year period employees may elect to cancel all or any portion of their participation and receive a refund of all or any appropriate portion of amounts deducted from their pay plus interest compounded at 5% per annum.

At the close of the year 1966, employees who elected to participate in the Plan had contributed $3,452,000 towards the purchase of 454,000 shares of common stock. These amounts plus accrued interest at December 31, 1966 are included in the balance sheet under the caption Other Accrued Liabilities.

TABLE 45: EMPLOYEE STOCK PURCHASE PLANS

Determination of Subscription Price and Relationship to Market Value*	1966	1965	1955
A: Subscription price shown as a percentage, which was not less than 75% of market value at subscription date	19	18	2
B: Subscription price shown in dollar amount only, and price set, generally, at time stock offered for subscription	9	9	5
Not determinable from annual report	—	2	3
Subscription price not shown, but stated to be equal to market:			
C: At time stock offered for subscription	2	2	1
At time of purchase	1	3	1
D: Neither subscription price nor market value stated or indicated	41	28	28
Total	72	62	40
Number of Companies with:			
Employee stock purchase plan	72	62	40
No employee stock purchase plan	528	538	560
Total	600	600	600

*Refer to Company Appendix Section—A: 158, 305, 331, 348, 402, 502; B: 167, 251, 409, 441, 572; C: 190; D: 29, 70, 115, 317, 432, 516.

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 1966 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 301 survey companies referred to such contingencies in their 1966 annual reports. In most cases (260 companies) the disclosure was made either in the notes to the financial statements or in the president's letter to stockholders. The others (41 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.

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

TABLE 46: CONTINGENT LIABILITIES

Nature of Contingency*	1966	1965	1955
A: Litigation:			
Nongovernment	87	78	53
Government	45	61	27
Not identified	47	39	23
B: Guarantees:			
Subsidiaries	51	51	48
Affiliated and associated companies	56	54	18
Other	36	36	28
C: Possible tax assessments	44	39	24
D: Accounts or notes receivable sold	48	38	15
E: Purchase or repurchase commitments	43	38	16
F: Miscellaneous agreements and contracts	32	32	34
Total	489	466	286
Number of Companies referring to Contingent Liabilities:			
On the face of the balance sheet	41	36	213
In notes to financial statements or in president's letter only	260	247	
Total	301	283	213
Not referring to contingent liabilities	299	317	387
Total	600	600	600

*Refer to Company Appendix Section—A: 53, 112, 174, 254, 373, 479; B: 60, 77, 131, 221, 558, 568; C: 311, 316, 321, 510, 548, 575; D: 63, 119, 213, 452, 523, 547; E: 9, 102, 203, 372, 484, 590; F: 218, 306, 328, 365, 481, 561.

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 1966 reports.

Litigation

CUTLER-HAMMER, INC.
Letter to Stockholders

The Company's litigation with the Milwaukee County Expressway Commission over the damages resulting from the loss of property to the expressway is expected to reach court trial in early 1967. The Commission has awarded us approximately $1,000,000 while the Company claims an amount considerably in excess of that. Meanwhile the Company expects to complete during the coming year, the remaining relocations and realignments of Milwaukee production facilities which have been required as a result of the disruption of our former centralized manufacturing complex.

GEORGIA-PACIFIC CORPORATION
Notes to Financial Statements

Note 6: Contingencies—The Corporation is a defendant in a number of lawsuits arising out of purchases of its common stock, both for the treasury and by the trustees of the Georgia-Pacific Stock Bonus Trust. The amount of ultimate liability (if any) which may result from these lawsuits is not presently determinable. However, in the opinion of the Corporation and its counsel, the amount of any such liability will not materially adversely affect the consolidated financial position of the Corporation and its subsidiaries.

THE ANACONDA COMPANY
Notes to Financial Statements

Note K: *Litigation*—The Company and certain of its subsidiaries are parties to several lawsuits. In the opinion of management, the disposition of such lawsuits will not materially affect the Company's financial position.

CERTAIN-TEED PRODUCTS CORPORATION
Notes to Financial Statements

Note 5: The Company is one of several defendants in a suit for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934, and also in two suits for alleged violations of the Securities Exchange Act of 1934. The Company is also the defendant in a suit by a builder under the former home building program, for alleged breach of contract. The Company denies liability in all of these suits and is taking all possible measures to defend them. Based on opinions of counsel, the Management believes that the disposition of all pending litigation will not have a significant adverse effect on the Company's financial position.

The Company is contingently obligated to reimburse the purchaser of certain installment notes receivable for credit losses up to a maximum of $3,000,000 which may be incurred prior to January 1, 1975, and for losses arising from risks against which the Company is carrying insurance. The Company has not been called upon to make any payments for credit losses since incurring this contingent obligation in 1965.

At December 31, 1966, the unfunded cost of past service benefits under existing pension plans, including those assumed as a result of the merger with Gustin-Bacon Manufacturing Company, amounted to approximately $2,000,000.

Federal income tax returns of certain prior years of the Company and a subsidiary (since liquidated) are being examined by the Internal Revenue Service. The examining agent has discussed with the Company matters which cumulatively could involve possible assessments material in amount; however, since no formal report has been received by the Company, it is impossible to know what the agent's final position on those matters will be and, therefore, the total amounts of additional claims which might be asserted are presently unascertainable. Should the matters so far discussed be incorporated finally in the agent's report, the Company intends to vigorously contest them, since it believes, from such information as is available to the Company, that they are substantially without merit and should have no material effect on the financial position of the Company.

NEPTUNE METER COMPANY
Notes to Financial Statements

Note 7: The Corporation is defendant in a litigation involving the alleged use of confidential information and trade secrets. In the opinion of counsel, the plaintiff's action is without merit, and liability, if any, of the Corporation would not be substantial.

THE PROCTER & GAMBLE COMPANY
Letter to Stockholders

Litigation: For the past several years, we have reported to you on the status of the case filed in 1957 by the Federal Trade Commission opposing our acquisition of the assets of the Clorox Chemical Co. We would like to review this for you.

The Commission's first decision, rendered in 1961, was favorable to us. Then in 1963 the Commission reversed itself in a second decision and ordered the Company to divest itself of the Clorox assets. The Company appealed the Federal Trade Commission's second decision to the United States Court of Appeals. In March of this year, the Court of Appeals unanimously reversed the Commission and ordered that the case be dismissed. It held that the evidence did not support the Federal Trade Commission complaint and that Procter & Gamble did not violate the law in acquiring Clorox.

The Federal Trade Commission has now requested the Supreme Court of the United States to review the Clorox case. The Supreme Court has not yet acted either to accept or reject this request. We hope that the Supreme Court will agree with the Court of Appeals, which pointed out that this protracted litigation, now at the end of its ninth year, should come to a close.

Our acquisition in 1963 of the Folger coffee business continues to be under examination and consideration by the Federal Trade Commission.

R. J. REYNOLDS TOBACCO COMPANY
Notes to Financial Statements

Note D: *Penick & Ford*—There is pending in the United States District Court for the District of New Jersey an action brought by the United States of America against the Company to require the divestiture of the assets and business it acquired in June 1965 from Penick & Ford, Ltd., Incorporated. The Company is contesting this action.

Guarantees

ARDEN-MAYFAIR, INC.
Notes to Financial Statements

Note 5 (in part): *Commitments and Contingent Liabilities*—Miscellaneous guarantees aggregated approximately $1,875,000 at December 31, 1966. The Company also has guaranteed $8,850,000 of notes payable by A-M Notes, Inc., an unconsolidated subsidiary.

BAUSCH & LOMB INCORPORATED
Notes to Financial Statements

Note 3 (in part): The Company has guaranteed loans of affiliated companies aggregating $5,430,000.

BORG-WARNER CORPORATION
Notes to Financial Statements

Note 7: The corporation has guaranteed the $20,000,000 5½% notes due 1981, of Cos-Mar Incorporated, a 50% owned company, and borrowings of foreign affiliates approximating $2,500,000.

Other contingent liabilities consist of various claims being contested which, in the opinion of management, are not expected to result in any material outlay.

CONTINENTAL OIL COMPANY
Notes to Financial Statements

Note 9 (in part): The Company and one of its subsidiaries, under agreements relating to certain companies in which they have substantial stock investments, have guaranteed, directly or indirectly, payments of $34,400,000 of loans to such companies. The Company is also obligated to other companies in which it has substantial stock investments to provide specified minimum revenues from product shipments or purchases. No significant loss is anticipated by reason of such agreements.

THE MAGNAVOX COMPANY
Notes to Financial Statements

Note 5: *Contingent Liabilities*—At December 31, 1966 the Company had a contingent obligation (in the event of dealers' default) to purchase dealers' notes payable to finance companies aggregating approximately $18,000,000 which are secured by trust receipts. On the basis of the Company's prior experience with dealer financing, management does not anticipate any significant loss from this contingent liability.

PIPER AIRCRAFT CORPORATION
Notes to Financial Statements

Note 4: *Guarantees of Customers' Obligations*—Customers' obligations guaranteed by the Company in connection with aircraft financing aggregated approximately $877,000 at September 30, 1966. The Company has experienced no losses from such financing and does not anticipate that any losses which may be sustained under these guarantees will have a significant effect on its financial position or earnings.

Possible Tax Assessments

AMERICAN BILTRITE RUBBER CO., INC.
Notes to Financial Statements

Note F (in part): *Commitments and Contingencies*—In connection with its examination of the federal income tax returns for the years 1960 through 1962, the Internal Revenue Service has proposed additional income taxes of $625,000 for the Company and one subsidiary. In addition, American Synthetic Rubber Corporation is contesting an income tax deficiency of $110,000 assessed for the year 1963. No provision has been made in the accompanying financial statements for the asserted deficiencies or the interest thereon, pending the final determination of these matters.

At December 31, 1967, American Synthetic Rubber Corporation was contingently liable as guarantor of one-half of the $1,250,000 short-term note payable to a bank by American Rubber and Chemical Company.

CONSOLIDATED ELECTRONICS INDUSTRIES CORP.
Notes to Financial Statements

Note 8: *Contingencies*—For various open tax years, begining in 1957, the federal income tax returns of the corporation, those of certain subsidiaries and predecessor companies, are subject to examination by the Internal Revenue Service.

With respect to returns of a majority-owned subsidiary (Philips Electronics and Pharmaceutical Industries Corp.) under examination, the Internal Revenue Service has made assessments aggregating $1,271,030 relating principally to the disallowance of carry-forward operating losses of a predecessor company. The subsidiary is in disagreement with the assessments and, on advice of counsel, is contesting the assessments. In the opinion of counsel, the assessments are without merit. Accordingly, no provision has been made for this contingent liability.

The corporation is contingently liable, as guarantor, for certain equipment lease obligations of Digitronics Corporation. Such lease obligations aggregated $1,623,300 at December 31, 1966.

The corporation and its consolidated subsidiaries have claims, generally incidental to their business, pending against them. In the opinion of legal counsel such claims will not result in any liability which would be material.

PARKE, DAVIS & COMPANY
Notes to Financial Statements

Note C: *Taxes on Income*—It is the Company's policy to provide currently for United States income taxes on earnings of foreign subsidiaries. A domestic consolidated subsidiary whose operations are conducted in Puerto Rico has, in accordance with the laws of the Commonwealth, been granted relief from taxes on income from such operations for periods terminating in 1970 and 1972. Such tax relief amounted to approximately $7,156,000 for the year ended December 31, 1966, and $7,086,000 for the year ended December 31, 1965. No provision has been made for federal taxes on income of this subsidiary because of the exemption provisions of the Internal Revenue Code pertaining to income from sources within possessions of the United States. Pursuant to these tax exemptions the Company has sited time deposits approximating $79,000,000 in financial institutions outside the continental United States. Currently, the Company does not intend to use such funds within the United States or its possessions other than Puerto Rico.

In connection with the examination of tax returns filed by the Company and certain of its subsidiaries for 1960, the Internal Revenue Service has made a reallocation of earnings between the Company and the subsidiary mentioned above and, as a result, has assessed additional income taxes against the Company for that year.

The Company, upon advice of counsel, has paid this assessment which, with interest, amounted to approximately $990,000. This payment was made in order to be able to establish the Company's position in Court by way of a suit for refund of that amount plus interest.

As a prerequisite to establishing the Company's position, a claim for refund of the amount paid was filed with the Internal Revenue Service on November 30, 1966.

It is possible that the Internal Revenue Service may propose similar adjustments with respect to operations of years subsequent to 1960. The issues which resulted in the additional assessment for 1960 and which could result in similar adjustments for subsequent years may require, as frequently is the case, a considerable period of time to resolve. Assuming that the resolution of these issues might not occur until as late as 1969, the Company estimates that it could be exposed to a possible liability (including applicable interest to 1969) which, stated on a per share basis, could approximate $0.17 with respect to 1961 operations; $0.21 with respect to 1962; $0.25 with respect to 1963; $0.29 with respect to 1964; $0.32 with respect to 1965; and $0.32 with respect to 1966. The foregoing per share amounts are calculated on the basis of the number of shares outstanding at the end of each year.

In the opinion of counsel, the Company should be successful in obtaining a refund of the amount already paid with respect to operations of 1960, plus interest thereon; and also should be successful in establishing the Company's position with respect to any similar adjustments that might be proposed by the Internal Revenue Service relating to operations of years subsequent to 1960. Pending final disposition of the controversy, the Company has charged the amount already paid against available reserves for taxes provided in years prior to 1966. It is not contemplated that it will be necessary to make any specific charge against the earnings of subsequent years with respect to any adjustments of a similar nature that might in the future be proposed by the Internal Revenue Service relating to operations of years subsequent to 1960.

BAKER OIL TOOLS, INC.
Notes to Financial Statements

Note 5: *United States Income Taxes*—In connection with an examination being made of the Company's United States income tax returns for the four years ended September 30, 1964, the Internal Revenue Service has indicated that it might propose adjustments of the Company's tax returns based on the capitalization of overhead in inventories (see Note 2 for the consistent practice followed by the Company with respect to the pricing of its inventories). The Service in effect is proposing an accounting practice which would increase the Company's inventories, tax liabilities, and stockholders' equity.

Based on computations made by the Service, which have not given consideration to obsolescence and other factors, the additional tax liability could amount to $1,865,000, plus interest, for the four years ended September 30, 1964, and utilizing the same assumptions, an additional tax liability of $560,000, plus interest, for the two years ended September 30, 1966.

The Company, upon advice of counsel, intends to contest any proposal by the Service to adjust its tax returns for such years. Inasmuch as the ultimate outcome of such matters is not presently determinable, no change has been made in the accounting practice of the Company with respect to its inventories and no provision has been made in the accompanying financial statements for additional liabilities, if any, which might arise therefrom.

PEABODY COAL COMPANY
Notes to Financial Statements

Note 1: Legal counsel has advised that the major issues (abandonment losses, inter-company royalties and percentage depletion on sales from one mine) in the suits filed in the Tax Court of the United States by the company and a subsidiary contesting claimed tax deficiencies aggregating $11.3 million for the years 1956-1960 have been settled on a basis whereby the additional tax will approximate $3 million, resulting principally from disallowance of losses on abandoned mining properties in 1957; partial recovery of the additional tax will be obtained in subsequent years. Protests filed by the companies against claims for additional taxes for 1961 (principally involving inter-company royalties, an issue on which the companies' position was substantially upheld in the suits for the prior years) are presently being considered by the Internal Revenue Service, and returns of the company and certain subsidiaries for later years are currently being examined by the Internal Revenue Service. Based upon the opinion of counsel with respect to the settlement of the suits for the years 1956-1960, the company is of the opinion that adequate provisions have been made for the ultimate disposition of income tax liabilities (including interest) as they relate to the years involved and subsequent years through 1966.

Accounts or Notes Receivable Sold

THE BABCOCK & WILCOX COMPANY
Financial Review

As explained in the 1965 Annual Report, the Company had under study the use of either the completed contract method or the installment method of reporting income for tax purposes. To avoid additional taxes had the installment method been adopted, it was necessary for the Company to sell as of December 31, 1965, certain accounts receivable and rights to proceeds from unbilled shipments. This was on a full recourse basis, and by the end of 1966 the Company's contingent liability to banks had been reduced from $74,966,000 to $27,173,000.

As a result of the Company's studies, a decision was made to adopt the completed contract method for income tax purposes starting with the year 1965. This method defers payment of taxes so as to bring them more nearly in line with receipts from customers.

The change in tax accounting method has had no material effect on financial accounting for determining earnings for stockholder reports. For such purpose the Company continues to determine income from long-term contracts on a percentage of completion basis.

STANDARD PACKAGING CORPORATION
Notes to Financial Statements

Note 7: *Lease Commitments and Contingent Liability*—Under lease arrangements expiring more than three years after December 31, 1966, the Company is obligated to pay fixed annual rentals of approximately $908,000 to 1970 with diminishing amounts thereafter until 1994.

At December 31, 1966 the Company was contingently liable for notes receivable discounted in the amount of approximately $405,000.

McKESSON & ROBBINS, INCORPORATED
Notes to Financial Statements

Note 7 (in part): *Contingent Liabilities and Other Comments*—The Company from time to time is involved in litigation incidental to its business, generally related to such matters as alleged product liability and patent infringement. In the opinion of management, based on opinions of counsel, none of the pending litigation will involve the Company in any material liability or have any material adverse effect on the Company's operations.

From time to time, the Company repurchases past due collateralized installment notes which have been sold to a finance company. Pursuant to the related agreement, the finance company has withheld as at March 31, 1966 proceeds amounting to $2,050,840 ($921,950 in current receivables and $1,128,890 in other assets), against which the finance company could charge losses in the event any such notes are not repurchased. Also, the Company may be required to deposit with an escrow agent an additional amount based on a formula, which amount as at March 31, 1966 is not material.

MOHASCO INDUSTRIES, INC.
Notes to Financial Statements

Note 9 (in part): *Commitments and Contingent Liabilities*—There were other contingent liabilities at December 31, 1966, consisting of discounted notes receivable, purchase commitments, legal suits, etc. arising in the ordinary course of business. The financial risk involved in connection with all contingent liabilities, including the tax matters discussed in note 7, is not considered material in relation to the consolidated financial position.

THE SEEBURG CORPORATION
Notes to Financial Statements

Note 4: *Contingent Liabilities*—As of October 31, 1966, the company was contingently liable for the repurchase of approximately $17,900,000 of notes and trade acceptances (including $3,800,000 of notes from affiliated European distributors) which have been sold to financial institutions. The company was also contingently liable for approximately $9,500,000 of other discounted commercial paper.

WHITE MOTOR CORPORATION
Notes to Financial Statements

Note F: *Contingent Liabilities*—The companies have a contingent liability under certain notes sold with recourse and have a secondary contingent liability under certain repurchase agreements in the aggregate amount of approximately $17,748,000 at December 31, 1966. Adequate reserves have been provided.

Purchase or Repurchase Commitments

CORNING GLASS WORKS
Notes to Financial Statements

Note 8: *Lease Commitments and Guarantees*—Lease commitments are approximately $2,231,000 annually, including a commitment to the 719 Fifth Avenue Corporation of $1,163,000 through 1984. Commitment at the owner's option to purchase stock of 719 Fifth Avenue Corporation is approximately $3,666,000.

GENERAL MILLS, INC.
Notes to Financial Statements

Note 10: *Other Matters*—As of May 29, 1966, the unpaid cost of past services in connection with the several employees' retirement plans has been estimated by independent actuaries to be $12,473,000.

Commitments at May 29, 1966, for unexpended appropriations for property additions and improvements and for the purchase of the outstanding capital stock of Toronto Macaroni & Imported Foods Limited (acquired May 30, 1966) amounted to approximately $31,800,000.

Subject to certain conditions, the company has agreed to exchange 1,644,605 shares of $1.75 cumulative convertible preference stock (no par value) for the business and substantially all of the assets of Tom Huston Peanut Company.

There was no litigation pending at May 29, 1966, not provided for in the accounts, which, in the opinion of management, would have a significant effect on the financial position of the company.

INTERLAKE STEEL CORPORATION
Notes to Financial Statements

Note 2: *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 $2,250,000 annually over about 20 years, regardless of the quantity of ore received.

OLIN MATHIESON CHEMICAL CORPORATION
Notes to Financial Statements

Note 5 (in part): *Commitments and Contingent Liabilities*—(A) The company and Revere Copper and Brass Incorporated, joint owners of Ormet Group, have agreed to purchase Ormet's entire production of primary aluminum at a price equivalent to 100% of Ormet's cost. Such purchases and the cost thereof are allocable to the joint owners at 66% and 34%, respectively. Depreciation and amortization are included in Ormet's costs each year in amounts not less than its bond maturities. Maturities, in costs to be billed the company, amount to $3,960,000 annually through 1973 and $5,280,000 annually from 1974 through 1978. Similarly, maturities of ship purchase obligations of Ormet in costs to be billed the company range from $428,000 annually to a maximum of $836,000 at maturity January, 1980.

Miscellaneous Agreements or Contracts

AMERICAN SMELTING AND REFINING COMPANY
Notes to Financial Statements

Note 8: *Commitments*—The Company is committed to participate in the development and operation of the Granduc copper mining project in British Columbia. It is estimated that the Company's share of the investment in the project will total about $45,000,000, an increase of $5,000,000 over the previous estimate. $12,465,000 has been expended to the end of 1966.

BEAUNIT CORPORATION
Notes to Financial Statements

Note 1: As of December 31, 1964, the Company entered into a joint venture agreement with El Paso Products Company for the construction and operation of chemical and fiber plants to produce nylon 6/6. Each of the parties owns an undivided one-half interest in all assets of the joint venture and shares equally in the operations. At March 31, 1966, certain of the facilities were completed and in use; however, operations to that date were not significant. The Company's one-half interest in the assets of the joint venture is included in the balance sheets as follows:

Current assets, principally inventories	$ 601,250
Property, plant and equipment	21,420,128
Deferred preproduction expenses	2,541,374
	$24,562,752

At March 31, 1966, the Company's commitment for completion of the project was estimated to be approximately $7,000,000.

GENERAL BRONZE CORPORATION
Notes to Financial Statements

Note 2: The contract under which the business of Freeman Industries, Inc. was acquired in 1963 provides for contingent payments based on annual pretax earnings of the Freeman Industries Division during the five years ending December 31, 1968, with a maximum contingent payment of $600,000.

MSL INDUSTRIES, INC.
Notes to Financial Statements

Note 6 (in part): *Commitments and Contingent Liabilities*—MSL is contingently liable for approximately $3,000,000 with respect to certain mortgage and equipment trust obligations assumed by the Chicago and North Western Railway Company in connection with the sale of the railroad assets and business in 1960.

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 1966 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 1966 reports.

Carry-forward Losses

ALLEN INDUSTRIES, INC.
Operating Review

Consolidated net earnings in 1966, after all charges, including provision for income taxes, were $2,919,949 or $2.80 per share outstanding at the end of the year, compared to 1965 consolidated net earnings of $3,599,932 or $3.46 per share adjusted to the same number of outstanding shares. The operating loss of our Canadian subsidiary provides a valuable tax loss carry forward against future Canadian earnings; however, it cannot be used as a tax credit for 1966. It thus reflects more severely against consolidated net earnings than would otherwise be the case. Had the Canadian 1966 operations broken even, and eliminating certain other non-recurring items of expense previously referred to in this report, consolidated 1966 earnings would have closely approximated 1965.

CONSOLIDATED PACKAGING CORPORATION
Notes to Financial Statements

Note 5: Federal Income Taxes—Net operating loss carryovers available to reduce future taxable income approximate $5,500,000, which expire as follows:

1967	$ 200,000
1968	400,000
1969	1,400,000
1970	1,300,000
1971	2,200,000
	$5,500,000

Approximately $300,000 is available to offset future taxable income when losses provided for in 1965 are sustained.

WALWORTH COMPANY
Notes to Financial Statements

Note 8: The Company and its domestic subsidiaries file their federal income tax returns on a consolidated basis. No provision for federal income tax was necessary because tax loss carry forwards were available in both 1966 and 1965. Without such tax loss carry-forwards net income per share would be $.90 in 1966 and $.11 in 1965. At December 31, 1966 approximate tax loss carry forwards available to the Company through 1969 amount to $2,400,000.

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

STUDEBAKER CORPORATION
Notes to Financial Statements

Note E: Federal Income Taxes—No provision for federal income taxes is required in 1966 and under present legislation, future earnings of the Corporation will not be subject to federal income taxes until such earnings exceed existing tax loss carry-forwards of approximately $24,000,000 (most of which will be available until 1969) plus the portion of reserves for liquidation of discontinued operations (see Note F) that is actually expended after 1966. The amount available as a tax loss carry-forward may be increased substantially by a presently undetermined amount representing abandonment of goodwill attributable to automotive operations which will be claimed as a deduction in the Corporation's 1966 federal income tax return.

Unused Investment Credit Available for Future Years

PITTSBURGH STEEL COMPANY
Notes to Financial Statements

Note 5 (in part): *Estimated Income Taxes and Depreciation*—Estimated income taxes for 1966 have been reduced by an investment credit of $568,000, as compared with $550,000 for 1965. The company recognizes the full investment credit allowable as a reduction of the provision for federal income taxes. At December 31, 1966, $987,000 of unused investment credit arising from qualified property additions is available to apply against federal income tax provisions in future years.

SEABOARD ALLIED MILLING CORPORATION
Notes to Financial Statements

Note 4 (in part): *Federal Taxes on Income*—The provision for Federal income taxes has been reduced by approximately $35,000 representing the investment tax credit allowable for the year ended May 28, 1966. At that date, the Company had investment tax credits of approximately $84,500 which may be carried forward to offset income tax liabilities in future years. The deferred Federal income taxes result from the use of depreciation deductions for tax purposes which, in the aggregate, have exceeded book depreciation.

SHARON STEEL CORPORATION
Notes to Financial Statements

Note E: Taxes on Income—Taxable income has not been resolved with the Internal Revenue Service for any year since 1958 and, because of complicated and interrelated considerations during the entire period, the ultimate disposition of these matters is indeterminate at this time. Management believes that adequate provision has been made for all tax liability which may arise when these years are settled.

The company has consistently recognized the full income effect of the investment tax credit by reducing provisions for federal income taxes. In addition, there are unapplied investment tax credits available from current and prior periods, the ultimate utilization of which is dependent upon future earnings and final determination of taxable income for years subsequent to 1961.

Provisions have been made in amounts equivalent to the reduction in federal taxes on income arising from the excess of depreciation and amortization for income tax purposes over depreciation for financial statement purposes. The provisions were $940,000 in 1966 and $780,000 in 1965.

Claims for Refund of Taxes

ANDERSON, CLAYTON & CO.
Notes to Financial Statements

Note 5: The Company's federal income tax returns have been examined by the Internal Revenue Service for years through July 31, 1963. For the years 1960 and 1961 deficiencies of $7,502,000, plus interest of $1,593,000, were assessed and paid during the year ended July 31, 1965; however, claims for refund have been filed for the amounts paid. 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. 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 chances are excellent that a major portion of the Company's claims will ultimately be upheld. Net tax claims against the Company totaling $808,920 for the years 1962 and 1963 have also been received. It is the opinion of counsel that any differences from provisions already made will not be material.

Investment tax credit for the current year of $447,000 was used to reduce the current year's tax provision.

ELI LILLY AND COMPANY
Notes to Financial Statements

Note D: Federal Income Taxes—Litigation is pending on suits filed by the company to recover approximately $825,000 in federal income taxes paid for the years 1952 through 1959. Adjustments which were not material were recorded in 1966 to reflect a tentative settlement of federal income tax matters for 1961 and 1962. The returns for the years 1963 through 1965 are currently under examination.

UNITED SHOE MACHINERY CORPORATION
Review of Operations

Litigation (in part): The Corporation has filed claims for recovery of approximately $11,000,000 of additional federal taxes assessed and paid for the period ended February 28, 1962. If these claims are rejected, the Corporation will take legal action for recovery.

Other

CONGOLEUM-NAIRN INC.
Review of Operations

Patents and Related Litigation: On December 20, 1966, the United States Patent Office issued to our Company two patents containing a total of 104 claims and covering the embossed vinyl foam products which we have been successfully marketing since 1963. The inventions covered by these patents represent one of the most significant technical breakthroughs in the flooring industry in the last forty years. One patent covers the manufacturing process and the other the related products. The products which are covered by these patents, and which vary in pricing and application, are marketed under the trademarks "Cushionflor," "Spring," "Comfortflor" and "Mobileflor." Licenses under the patents have already been granted to leading manufacturers in the United States, Canada and Europe.

On the date of the issuance of the two patents, our Company commenced patent infringement actions against Armstrong Cork Company, The Ruberoid Co., Mannington Mills, Inc. and New London Mills, Inc. The remedies sought in each of the actions include a permanent injunction against the manufacture and sale of the infringing products and damages.

NORTH AMERICAN SUGAR INDUSTRIES INCORPORATED
Notes to Financial Statements

Note 1: The accompanying financial statements include the assets, liabilities and operations of the company and all of its domestic subsidiaries.

As reported in the annual report to the stockholders for the year ended September 30, 1960, the Cuban Government seized all of the Cuban subsidiaries' assets in Cuba and also all of their accounting records, thereby precluding the customary annual examinations by independent public accountants and leading the board of directors to decide that it would not be prudent to assign an estimated value to the company's equity in the Cuban subsidiaries. Such equity accordingly was eliminated from the consolidated financial statements at September 30, 1960. Continuing effort is being made to obtain redress for the seizure, but it is impossible to estimate what amounts ultimately may be received or recovered.

ZENITH RADIO CORPORATION
Letter to Stockholders

Litigation: In the Company's litigation with the Hazeltine Corporation and its subsidiary, Hazeltine Research, Inc., referred to in previous annual reports, Hazeltine's appeals from judgments in favor of Zenith totalling $34,961,631 are pending in the United States Court of Appeals for the Seventh Circuit.

The Company is also involved in certain other legal actions arising out of matters incident to the ordinary conduct of its business and adequate provision has been made for possible liability resulting therefrom. In the opinion of management and counsel the outcome of these litigations should be favorable to the Company.

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

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 the 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.

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 568 companies having subsidiaries in 1966, 290 companies presented fully consolidated statements, 267 companies had some subsidiaries consolidated and some not consolidated, and only 11 reports disclosed all subsidiaries as unconsolidated.

The most significant factors in excluding certain subsidiaries from consolidation were: exclusion of all foreign subsidiaries (23 companies); geographic location of some foreign subsidiaries (72 companies); and nonhomogeneous operations of domestic subsidiaries (58 companies). The latter (58 companies) include companies with both domestic and foreign subsidiaries.

The nonhomogeneous operations of these excluded subsidiaries consist of the following: Finance 46, Real Estate 4, Insurance 9, Marketing 4, Equipment Leasing 4, Railway 1, and Baseball 1. One company did not disclose the nature of the nonhomogeneous operations and some companies had subsidiaries excluded for more than one reason.

The present survey also disclosed 27 companies consolidating subsidiaries with nonhomogeneous operations.

Examples of some of the consolidated practices, taken from the reports of the 1966 survey companies, are set forth below.

Fully Consolidated Statements

DIANA STORES CORPORATION
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The accompanying consolidated financial statements include the accounts of Diana Stores Corporation and its subsidiaries; the 1965 accounts have been restated to include the real estate subsidiaries which heretofore had been presented in separate combined statements.

The investment in 50%-owned companies is stated at Diana's equity in the net assets of such companies based on financial statements for the year ended July 31, 1966; all significant companies were audited as of the end of their respective fiscal year.

HARSCO CORPORATION
Notes to Financial Statements

Note 1 (in part): *Basis of Consolidation*—The consoliated financial statements include those of Harsco Corporation and its wholly-owned and majority-owned domestic and foreign subsidiaries.

RALSTON PURINA COMPANY
Financial Review

Principles of Consolidation: The financial statements include the accounts of the Company and its majority-owned subsidiaries, both domestic and foreign. The accounts of foreign subsidiaries have been translated at current exchange rates, with the exception of properties and related depreciation which have been translated at the exchange rates prevailing at dates of acquisition.

RANCO INCORPORATED
Notes to Financial Statements

Note 1: The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries.

Net assets in foreign countries at September 30, 1966, translated at appropriate rates of exchange, amounted to $10,950,000 including $8,147,000 of net current assets. The parent company's equity in net earnings of foreign subsidiaries aggregated $1,154,000 in 1966.

Inclusion of Wholly-Owned Subsidiaries

CENTRAL SOYA COMPANY, INC.
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries. Investments in nonconsolidated subsidiaries are reflected in the balance sheet at cost plus the Company's share of undistributed earnings (adjusted for amortization of cost in excess of book equity acquired). Carrying value of such investments exceeds the underlying book equity by $780,627. The Company's share of net earnings of the nonconsolidated subsidiaries amounted to $316,321 and is included in other income.

During the year, the Company issued 39,012 shares of its capital stock in exchange for all of the capital stock of McKee Feed and Grain Company and Austin Farms, Incorporated. These exchanges have been treated for accounting purposes as poolings of interest and, accordingly, the consolidated financial statements include the accounts of these subsidiaries for the full year ended August 31, 1966. Statements for the prior year have not been revised to include the accounts of these subsidiaries since the effect of such revision would not have been material. In addition, 4,869 shares of capital stock were issued for the purchase of certain facilities.

EX-CELL-O CORPORATION
Notes to Financial Statements

Note 1: The consolidated financial statements include the accounts of Ex-Cell-O Corporation and all wholly owned domestic and foreign subsidiaries. Investment in a non-consolidated majority-owned foreign subsidiary is adjusted annually for the Company's proportionate share of earnings; investments in other affiliated companies are carried at cost. Ex-Cell-O has guaranteed bank loans of the majority-owned foreign subsidiary in an amount not to exceed $1,000,000.

A subsidiary acquired in 1966 has been recorded on a pooling of interests basis, and consequently the comparative figures for 1965 have been restated to include this subsidiary.

PHELPS DODGE CORPORATION
Notes to Financial Statements

Note A: *Basis of Consolidation*—The consolidated statements include the accounts of the Corporation and all of its 100 percent owned subsidiaries, which include all of its principal subsidiaries. Subsidiaries less than 100 percent owned are included in investments.

Subsidiaries with Nonhomogeneous Operations Excluded

CHRYSLER CORPORATION
Notes to Financial Statements

Principles of Consolidation: The consolidated financial statements include the accounts of Chrysler Corporation and majority-owned and controlled subsidiaries except those engaged primarily in retail selling, leasing, financing and insurance of the Corporation's products. Investments in unconsolidated subsidiaries are carried at equity.

MONTGOMERY WARD & CO., INCORPORATED
Notes to Financial Statements

Principles of Consolidation: The consolidated statements include all subsidiaries except Montgomery Ward Credit Corporation, M-W Properties Corporation, and Montgomery Ward Realty Corporation, wholly owned subsidiaries for which separate or combined balance sheets are presented in this report. The net equity of subsidiaries not consolidated is stated in the Consolidated Balance Sheet at the amount of the Company's investments in such subsidiaries plus accumulated earnings in the net amount of $24,116,815 as of February 2, 1966, which amount is included in Earnings Reinvested.

TABLE 47: CONSOLIDATION OF SUBSIDIARY COMPANIES

Consolidation Policy*	Location of Subsidiaries: Domestic Only	Domestic and Foreign	Foreign Only	Not Indicated	1966 Total Companies
A: Fully consolidated financial statements	(1) 102	(2) 173	(3) 13	2	290
B: Unconsolidated financial statements	(4) 5	(5) 6	—	—	11
Partially consolidated financial statements**	23	233	8	3	267
Total Companies having subsidiaries	130	412	21	5	568
Companies having no subsidiaries					32
Total					600

**Partially Consolidated Financial Statements—Consolidation Policy	1966 Total Companies
Companies having domestic subsidiaries only:	
C: Wholly-owned, active subsidiaries consolidated	14
D: All subsidiaries consolidated except those with nonhomogeneous operations	8
Other basis	1
Total companies having domestic subsidiaries only	23
Companies having both domestic and foreign subsidiaries:	
All domestic subsidiaries consolidated, with following treatment of foreign subsidiaries (65 companies)	
Inclusion of all wholly-owned, and active	4
E: Inclusion of all significant, principal, and active	10
F: Inclusion based upon geographic location or geographic location plus other factors	29
G: Exclusion of all	18
Basis not indicated	4
Wholly-owned, active domestic subsidiaries consolidated, with following treatment of foreign subsidiaries (65 companies):	
H: Inclusion of all wholly-owned and active	42
I: Inclusion based upon geographic location or geographic location plus other factors	18
J: Exclusion of all	3
Other basis	2
Only domestic subsidiaries with operations homogeneous to those of the parent company consolidated, with following treatment of foreign subsidiaries (50 companies):	
K: Inclusion of all significant, principal, and active, with homogeneous operations	4
L: Inclusion of all wholly-owned and active	8
M: Inclusion of all significant, principal, and active	7
N: Inclusion based upon geographic location or geographic location plus other factors	14
O: Inclusion of all	9
P: Inclusion of all with homogeneous operations	5
Exclusion of all	2
Other basis	1
Other variations (53 companies):	
All subsidiaries based on voting control or fixed percentage of ownership	3
Q: All significant, principal, and active subsidiaries included	21
Domestic, significant subsidiaries included with some foreign subsidiaries excluded on basis of geographic location	4
R: Other basis indicated	9
S: Basis not indicated	16
Total companies having domestic and foreign subsidiaries	233
Companies having foreign subsidiaries only:	
T: Exclusion based upon geographic location or geographic location plus other factors	7
Exclusion of all	1
Total companies having foreign subsidiaries only	8
Not indicated	3
Total companies partially consolidating financial statements	267

*Refer to Company Appendix Section—A(1): 16, 77, 155, 173, 492, 547; A(2): 91, 257, 273, 369, 511, 516; A(3): 24, 193, 271, 423, 440, 556; B(4): 291, 427; B(5): 258, 268; C: 15, 45, 265, 335, 428, 533; D: 59, 140, 186, 225, 272, 587; E: 139, 294, 303, 578; F: 37, 209, 325, 470, 536, 595; G: 79, 134, 224, 372, 409, 471; H: 13, 43, 133, 184, 312, 542; I: 81, 221, 315, 447, 513, 598; J: 456, 588; K: 250, 310; L: 356, 499; M: 125, 188; N: 17, 101, 124, 236; O: 176, 208; P: 233, 351; Q: 240, 285, 375, 402, 433, 467; R: 197, 304, 469; S: 199, 254, 371, 465; T: 110, 111, 448.

All Significant, Principal, and Active Subsidiaries Included

FMC CORPORATION
Financial Review

Principles of Consolidation—The audited financial statements which follow reflect the consolidation of significant domestic and foreign subsidiaries.

The accounts of foreign subsidiaries have been included at approximate exchange rates in effect at the end of the period, except that property, plant, and equipment, and related depreciation are included at approximate exchange rates in effect at dates of acquisition.

Data shown in the statement of income for 1965 have been restated to reflect changes in format adopted for 1966.

H. H. ROBERTSON COMPANY
Notes to Financial Statements

Note 1: The consolidated financial statements include the accounts of H. H. Robertson Company and all its active subsidiaries. The assets, liabilities, and operations of foreign subsidiaries consolidated are translated at fixed rates which as to some countries are the official rates of exchange and as to others are the approximate current exchange rates; except that the property, plant, and equipment and depreciation of the Canadian subsidiaries are computed at a composite rate which includes property acquired prior to 1961 at par and property acquired thereafter at the current fixed rates.

As of December 31, 1966, the Company has arranged to purchase at the net book value of $126,753, the remaining minority interests in its Canadian subsidiaries which amount has been included in other liabilities in the consolidated balance sheet.

G. D. SEARLE & CO.
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include the Company and all subsidiaries except certain insignificant subsidiaries which are carried in the accompanying balance sheets at the Company's equity in their net assets. The accounts of foreign subsidiaries included in the consolidated financial statements have been translated into U.S. Dollars at the applicable official rates of exchange. Net sales and the Company's equity in the net assets of consolidated foreign subsidiaries were as follows:

Net Sales	$22,974,201
Net Assets	12,090,963

Inclusion Based on Voting Control or Fixed Percentage of Ownership

SHOE CORPORATION OF AMERICA
Notes to Financial Statements

Note 1 (in part): The consolidated financial statements include the accounts of the Company and 80% or more owned domestic and Canadian subsidiaries.

In accordance with shareholder approval on April 21, 1965, the fiscal year of the Company was changed from a calendar year to a fiscal year ending in January, effective with the year beginning January 30, 1966. The prior year consolidated financial statements are presented on a comparable fiscal year basis.

Exclusion of Foreign Subsidiaries Based on Geographic Location

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements, pursuant to a policy consistently followed, include the accounts of all wholly-owned domestic and Canadian subsidiaries but exclude other wholly-owned foreign subsidiaries.

The company's share of the net earnings of the non-consolidated foreign subsidiaries and affiliated companies, after elimination of intercompany profits and provision for Federal taxes on income which may be payable when the income is realized in the United States, amounted to approximately $2,620,000 for 1966 and $1,300,000 for 1965. Such amounts, which are not included in the statement of consolidated earnings, are equivalent to $.96 per share in 1966 and $.51 per share in 1965. At December 31, 1966, the company's equity in such companies exceeded the investment therein by approximately $4,115,000.

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.

The net earnings of the unconsolidated foreign subsidiaries, reporting principally on a calendar year basis, are stated after elimination of intercompany 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 the year ended January 31, 1965; such dividends received in the current year were negligible.

All Foreign Subsidiaries Excluded

JOHNSON & JOHNSON
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, 1966, exceeded the carrying values of the Company's investments in such subsidiaries by $43,053,924.

UMC INDUSTRIES, INC.
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements, from which intercompany items have been eliminated, include the accounts of all domestic subsidiaries. Foreign subsidiaries, not consolidated, are carried at cost which approximates equity. Dividends from foreign subsidiaries, approximating equity in earnings, have been included in the accompanying statement of operations.

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 classifies the significant disclosures of post balance sheet events taken from the annual reports for 1966 of the 600 companies covered by this survey. The main source of such disclosures was the letter to stockholders or financial review, which revealed 159 post balance sheet events. One hundred and seven events were disclosed in the notes to financial statements, 4 in the balance sheet, and 1 in the accountants' report.

Examples of such disclosures, with fiscal year-ends, follow.

TABLE 48: POST BALANCE SHEET DISCLOSURES

Capital Stock:		1966
A:	Stock split proposed or approved	22
B:	Changes in capital structure	3
C:	Treasury stock transactions including stock acquired for redemption or conversion	2
D:	Extra distributions declared in cash or stock, or dividends omitted	25
E:	Issue of additional stock	4
F:	Stock acquired for redemption or retirement	6
Employees:		
G:	Welfare, pension, and stock option plans	16
H:	Union negotiations	13
I:	Profit-sharing or other employee benefits	15
Property Plant and Equipment:		
J:	Purchased	3
K:	Sold	4
L:	Constructed	10
M:	Operations of a division terminated or sold	4
Indebtedness:		
N:	Incurred	28
O:	Reduced	6
P:	Refinanced	5
Subsidiary or affiliated companies:		
Q:	Mergers pending, proposed, or effected	22
R:	Acquired or holdings increased	47
S:	Sold or holdings decreased	4
T:	Contracts entered into or cancelled	5
U:	Litigation	14
	Various other	13
	Total	271

Number of Companies:	
Referring to post balance sheet events	220
Not referring to post balance sheet events	380
Total	600

*Refer to Company Appendix Section—A: 16, 159, 318, 431, 511, 559; B: 280, 307; C: 187; D: 151, 301, 364, 458, 583; E: 258, 473; F: 132, 171, 562; G: 98, 273, 356, 376, 538, 567; H: 17, 44, 194, 385, 494, 550; I: 97, 184, 200, 351, 402, 553; J: 417, 475; K: 87, 198; L: 60, 61, 298, 327; M: 249, 291; N: 8, 196, 391, 355, 476, 585; O: 84, 116, 416, 575; P: 212, 536, 543; Q: 142, 196, 361, 584; R: 47, 68, 88, 190, 347, 488; S: 35, 100; T: 377, 477, 542; U: 43, 100, 202, 233, 466, 518.

Capital Stock

Stock Split Proposed or Approved

AMPCO METAL, INC.
January 1, 1967†
Notes to Financial Statements

Note 4: On February 16, 1967, which date is subsequent to the date of the auditors' report, the board of directors approved a three-for-two stock split payable April 14, 1967. This authorized stock split will result in the issuance of an additional 291,407 shares of unissued $1.00 par value common stock on that date.

CARRIER CORPORATION
October 31, 1966
Letter to Stockholders

On December 15, 1966 the directors increased the quarterly common stock dividend to 50 cents effective with the March 1, 1967 payment to stockholders of record February 15, 1967. They also voted to recommend to the stockholders at the annual meeting on February 28, 1967 a two-for-one split of the common stock and a related increase in the number of authorized shares to ten million from five million. If approval is given, the directors intend to place the new shares on a quarterly dividend basis of 25 cents per share beginning with the payment on June 1, 1967.

CENTRAL SOYA COMPANY, INC.
August 31, 1966
Notes to Financial Statements

Note 10: *Subsequent Events*—During September 1966, the Company agreed to acquire all of the capital stock of the A.B.C. Grain Corporation and Delphos Soya Products Company in exchange for approximately 35,000 shares of Central Soya Company, Inc. capital stock. These exchanges will be treated for accounting purposes as poolings of interest.

On September 7, 1966, the shareholders approved an increase in authorized capital stock of the Company from 5,000,000 shares to 10,000,000 shares and a stock split on a two-for-one basis by the issuance of an additional share for each share outstanding. The additional shares were issued on October 12, 1966.

All references to the number of shares in the consolidated financial statements and notes are based on shares authorized and outstanding as of August 31, 1966—prior to the two-for-one stock split mentioned above.

POOR & COMPANY
December 31, 1966
Notes to Financial Statements

Note 2: The Board of Directors, on January 25, 1967, authorized a stock distribution on the issued and outstanding shares of common stock of the Company at the rate of one additional share of common stock for each two issued and outstanding shares of common stock, to stockholders of record at the close of business on February 10, 1967, with the distribution to be made on March 15, 1967 in authorized but heretofore unissued common stock of the Company; however, no certificates for fractional shares shall be issued in payment of such distribution but, in lieu thereof, cash representing the value of such fractional interests shall be paid. The full share distribution will aggregate 293,057 shares bringing the total outstanding common shares at that date to 879,170 shares. At the time of the distribution, $10 for each new share will be transferred from the retained earnings account to the common capital stock account.

†The date appearing below the company's name is its fiscal year-end.

GENESCO INC.
July 31, 1966
Notes to Financial Statements

Note 10: *Post Balance Sheet Events*—

(a) *Special Stockholders' Meeting*: At a special meeting held on August 15, 1966 the stockholders of the company approved an amendment to the Certificate of Incorporation which (i) increased the number of authorized shares of common stock from 10,000,000 shares to 20,000,000 shares; (ii) changed each issued and outstanding share of common stock into one and one-half shares of common stock, with no change in par value; (iii) eliminated from the authorized capitalization of the company 73,936 authorized but unissued shares of $4.50 cumulative convertible preferred stock; and (iv) authorized the issuance of not more than 800,000 shares of subordinated cumulative convertible preference stock, without nominal or par value, to be issued in not more than four series, no series to exceed 400,000 shares and adopted a special resolution authorizing the Board of Directors of the company to fix the distinguishing characteristics of each series prior to issuance.

(b) *Acquisition of Roos/Atkins*: The company has agreed to acquire the net assets of Roos/Atkins, a California corporation, engaged in the retail sale of clothing and sporting goods. The company is to issue at the closing 138,774 shares of its common stock and 114,905 shares of a new Series A subordinated preference stock which carries an annual dividend of $4.25 per share and is convertible into three shares of common stock for each preference share, all on a deferred basis. At the close of its latest fiscal year, January 31, 1966, Roos/Atkins had total assets of $18,934,539 and net worth of $4,846,515. The net sales and net earnings of the company for the year ended January 31, 1966 were $35,443,283 and $1,254,679, and for 1965 were $31,052,252 and $863,888. The stockholders of Roos/Atkins approved the transaction at a special meeting held on August 22, 1966.

Extra Distributions Declared in Cash or Stock, or Dividends Omitted

BELDING HEMINWAY COMPANY, INC.
December 31, 1966
Notes to Financial Statements

Note E: On February 15, 1967, the Board of Directors declared a 3% stock dividend to be distributed April 21, 1967 to stockholders of record on March 1, 1967. Distribution of this dividend will result in a deduction of approximately $394,000 from Retained Earnings and additions of $23,000 to Common Stock and $371,000 to Capital Surplus.

At December 31, 1965, the unpaid purchase price for a company acquired in 1965 was 25,500 shares of the Company's Common Stock. Of this, 2,167 shares were issued in 1966, and the remainder are to be issued in 1967 (12,017 shares) and 1968 (12,016 shares). The number of shares remaining to be issued has been adjusted to give effect to the 3% stock dividend referred to above.

LILY-TULIP CUP CORPORATION
December 31, 1966
Letter to Stockholders

Quarterly dividends on the Common Stock were paid in 1966 at the rate of 30¢ per share, an aggregate of $1.20 per share for the year, compared with the $1.00 rate paid in the prior year. On February 16, 1967, the 150th consecutive quarterly cash dividend was declared, also at the rate of 30¢ per share, payable on March 15, 1967. To commemorate the occasion, and to increase the permanent capital funds of the corporation, a special 5% stock dividend was also declared, to be distributed on May 1, 1967.

WEST POINT-PEPPERELL, INC.
August 27, 1966
Letter to Stockholders

In February of this year the quarterly dividend rate was raised from 45¢ to 50¢ per share. This was the second increase in the quarterly rate since the merger of the two companies some nineteen months ago when the rate was 40¢ per share. On September 27 the Directors declared a year-end extra dividend of 25¢ per share to be paid with the regular November distribution.

Stock Acquired for Redemption or Retirement

HYGRADE FOOD PRODUCTS CORPORATION
October 29, 1966
Letter to Stockholders

Redemption of Preferred Stock—Series B: On December 1, 1966, 830 shares of a par value of $100 per share of Series B 5% Preferred Stock of your Company were purchased pursuant to the sinking fund therefor, at a purchase price of $100 per share plus accrued dividends to December 1, 1966. Such shares have been cancelled and the stated capital has been reduced by $83,000.

O'SULLIVAN RUBBER CORPORATION
December 31, 1966
Notes to Financial Statements

Note 4: *Preferred Stock Dividends*—Cumulative preferred stock dividends were paid to October 1, 1966, and were declared for the quarter ending December 31, 1966, payable January 1, 1967.

Preferred Stock Sinking Funds—The certificate of incorporation provides that, each year, 5% of the annual net earnings shall be set aside as a fund and used, in the sole discretion of the Board of Directors, to purchase and/or redeem preferred stock. On December 31, 1966, the net accumulated requirements for this purpose totaled $16,930. The Directors are not required to purchase or redeem any preferred stock until this fund equals or exceeds $10,000. In March 1967, 394 shares of preferred stock were purchased at a cost of $7,186.

Employees

HEWLETT-PACKARD COMPANY
October 31, 1966
Notes to Financial Statements

Note 8: *Subsequent Events*—During December 1966, Hewlett-Packard Company granted options to certain employees of the company and its subsidiaries, pursuant to the 1964 and 1966 stock option plans, of 15,000 shares and 62,600 shares, respectively. The option price was $49.06 a share.

JOSLYN MFG. AND SUPPLY CO.
December 31, 1966
Financial Review

Effective February 1, 1967 increased benefits were provided under the group insurance program, including the addition of a major medical plan. It is estimated that these improved benefits will add about $125,000 annually to the cost of the program.

SINCLAIR OIL CORPORATION
December 31, 1966
Review of Operations

Industrial Relations: In mid-January, 1967, following intensive negotiations which began in late 1966, a two-year agreement on wages and contract items was reached with the bargaining agent for Sinclair's largest group of organized employees. This settlement, essentially within the framework of earlier competitor agreements, will contribute toward the continuance of sound and harmonious union relationships through 1968.

U. S. PLYWOOD-CHAMPION PAPERS INC.
December 31, 1966
Notes to Financial Statements

Note 7 (in part): Under Champion's contingent compensation plan, 13,867 shares of Champion common stock were awarded in February, 1966 to participants in the plan; 14,265 additional shares were awarded in September, 1966 to participants. In January, 1967, a final award of 7,000 such shares was made to new participants in the plan. The latter two awards resulted in the issuance of 21,265 shares of Champion common stock after December 31, 1966.

Property, Plant and Equipment

BATES MANUFACTURING COMPANY, INCORPORATED
December 31, 1966
Letter to Stockholders

We wish to report to you that, on March 1, 1967, we sold to a subsidiary of Phillips Petroleum Company, Phillips Fibers Corporation, the partially-completed polyester-producing facilities operated by Phoenix Fibers, Inc. at Rocky Mount, North Carolina. The sale price for the total facilities was $19 million. Bates received $3,500,000 in cash and $8,750,000 in notes payable over three years. The balance of $6,750,000 will be received when the plant is completed in accordance with the provisions of the purchase and sale agreement.

GAR WOOD INDUSTRIES, INC.
October 31, 1966
Notes to Financial Statements

Note 1: *Expansion of Manufacturing Facilities*—The Corporation is currently constructing a manufacturing facility in Ypsilanti, Michigan. The total cost of the building and equipment is expected to be approximately $4,000,000. Negotiations with respect to the financing of the construction and equipping of this new facility are in process.

Indebtedness

WILSON & CO., INC.
October 29, 1966
Notes to Financial Statements

Note 10: *Additional Financing*—In December, 1966 the Company arranged with a group of banks for a five-year term loan of $15,000,000, to be drawn down as required for planned capital additions.

BETHLEHEM STEEL CORPORATION
December 31, 1966
Letter to Stockholders

New Financing: In January of this year, Bethlehem sold $150,000,000 principal amount of its 5.40% Debentures, due January 15, 1992. The net proceeds from the sale, supplemented by other corporate funds, will be used in meeting the cost of additions and improvements to property and for other corporate purposes.

In August, 1966, Bethlehem entered into an agreement with a group of ten banks, which provided for revolving credit and term loans in an aggregate amount not exceeding $100,000,000. No funds were borrowed under the agreement and it was terminated January 31.

Subsidiary or Affiliated Companies

THE AMERICAN TOBACCO COMPANY
December 31, 1966
Notes to Financial Statements

Note 2: On December 29, 1966, the Company, through a newly formed wholly-owned subsidiary, purchased for $83,087,000 in cash 1,954,991 shares of James B. Beam Distilling Co. representing 74.8% of the outstanding common shares of that company. In January 1967, an additional 611,683 shares were purchased for $25,997,000. The total investment at January 31, 1967, representing 98.3% of the outstanding shares, exceeded the net underlying assets as recorded on the books of James B. Beam Distilling Co. at December 31, 1966 by approximately $69,700,000. Detailed appraisals are currently under way to determine the portions of this excess to be assigned to inventories and physical plant.

NORTHROP CORPORATION
July 31, 1966
Notes to Financial Statements

Note J: Event Subsequent to July 31, 1966—On August 25, 1966, the Company entered into an agreement to purchase certain assets and assume certain liabilities of The Hallicrafters Co. in exchange for shares of convertible preferred stock. The authorization of the new class of preferred stock is subject to the approval of the Company's shareholders.

THE VENDO COMPANY
December 31, 1966
Review of Operations

Early in 1967 a majority interest was purchased in the Coldflo group of companies in Johannesburg, Republic of South Africa. Coldflo manufactures beverage coolers for bottlers in South Africa, and expansion of the product line with the introduction of some Vendo models is contemplated in a year.

XEROX CORPORATION
December 31, 1966
Financial Review

In January of 1967 we completed the sale of the assets of a subsidiary, Electronic Films, Incorporated, of Burlington, Massachusetts, whose product line of electronic circuitry blanks was no longer compatible with our corporate objectives. Formed in February of 1964 as the jointly-owned Mallory-Xerox Corporation, Electronic Films had been operated by us as a wholly-owned subsidiary since our purchase of P. R. Mallory & Co. Inc.'s 50% interest in May of 1965. Electronic Films and Mallory-Xerox never operated profitably.

Litigation

AMPEX CORPORATION
April 30, 1966
Letter to Stockholders

Just after the close of the fiscal year, agreement was reached settling our lengthy litigation with Mach-Tronics (now MVR) Corporation. Under that settlement, MVR dismissed its antitrust claims against Ampex. In addition, our patent infringement action against MVR's videotape recorders was settled with their acknowledgment of the validity of our patent. MVR was enjoined from further use of the patent in videotape recorders, but they became a licensee under certain of our patents for use in their video disk recorders.

ANHEUSER-BUSCH, INCORPORATED
December 31, 1966
Notes to Financial Statements

Note 5 (in part): On January 11, 1967, Beverage Distributors, Inc. (a former wholesaler of the Company whose relationship was on an order to order basis, terminable at the will of either party) filed suit against the Company because of its termination as a wholesaler on December 21, 1966. Beverage Distributors, Inc. requests a permanent injunction against the Company restraining it from fixing prices charged to Beverage Distributors, Inc. by the Company's wholesalers; persuading other brewers and wholesalers to refuse to sell beer to Beverage Distributors, Inc. and conspiring with others to prohibit the sale of beer to Beverage Distributors, Inc. Damages are claimed in the sum of $20,000,000. The Company believes the suit is without merit and that Beverage Distributors, Inc. is not entitled to recover any sum or sums of money.

STANDARD OIL COMPANY OF CALIFORNIA
December 31, 1966
Letter to Stockholders

At the beginning of 1967, the Company's right was upheld to exclusive use of the name "Standard Oil" and its derivatives in the states of Alabama, Florida, Georgia, Kentucky and Mississippi.

The U.S. Court of Appeals had confirmed the sole right of Standard Oil Company (Kentucky), a subsidiary, to the Standard Oil trademark in the states cited, and the U.S. Supreme Court declined to review the case further. This landmark decision is final and successfully concludes several years of litigation on this issue.

LONG-TERM LEASES—Disclosure by Lessors

Opinion No. 7, Accounting for Leases in Financial Statements of Lessors, released in May, 1966 by the accounting principles board of the American Institute of Certified Public Accountants, reflects two acceptable accounting methods for lessors in the allocation periods covered by a lease:

5. *Financing method*—Under the financing method, the excess of aggregate rentals over the cost (reduced by estimated residual value at the termination of the lease) of the leased property is generally designed to compensate the lessor for the use of the funds invested. Since this excess is in the nature of interest, it is recognized as revenue during the term of the lease in decreasing amounts related to the declining balance of the unrecovered investment or, in other words, as an approximately level rate of return on funds not yet recovered. When rentals are level, this results in a decreasing percentage of each succeeding rental being accounted for as revenue and an increasing percentage as recovery of investment. This is comparable to the method followed by most lending institutions in accounting for level repayment plans.

6. *Operating method*—Under the operating method, aggregate rentals are reported as revenue over the life of the lease. The amount of revenue to be recognized in each accounting period will ordinarily be equivalent to the amount of rent receivable according to the provisions of the lease unless distortion of periodic revenue would result, e.g., when the rentals depart radically

from a straight-line basis without relation to the economic usefulness of the leased property. The income statement reflects, as expenses, depreciation of the leased property, maintenance and other related costs, as well as the cost of any other services rendered under the provisions of the lease. The amount of these expenses to be recognized in each accounting period should be determined by methods which are appropriate in the circumstances and which are conventionally used for such expenses when incurred in activities other than leasing.

7. *Basis for selection*—The objective of fairly stating the lessor's net income during each of the periods covered by the leasing activities is the most important consideration in differentiating between the use of the financing or operating methods (see Paragraphs 13-15 for a description of balance sheet presentations consistent with the method used in determining income). Pertinent factors in making the choice, among others, are the following: the nature of the lessor's business activities; the specific objectives of its leasing activities, including the relationship to other business activities of the lessor, if any; the term of the lease in relation to the estimated useful life of the property; the existence of renewal or purchase options and the likelihood that the lessee will exercise them; provisions of the lease which indicate the extent to which the usual risks of ownership (e.g., obsolescence, unprofitable operation, unsatisfactory performance, idle capacity, dubious residual value) or rewards of ownership (e.g., profitable operation, gain from appreciation in value at end of lease) rest with the lessor or the lessee.

8. The financing method is generally appropriate for measuring periodic net income from leasing activities of entities engaged in, perhaps among other things, lending money at interest—e.g., lease-finance companies, banks, insurance companies or pension funds. Lease agreements of institutions of this kind typically are designed to pass all or most of the usual ownership risks or rewards to the lessee, and to assure the lessor of, and generally limit him to, a full recovery of his investment plus a reasonable return on the use of the funds invested, subject only to the credit risks generally associated with secured loans. Usually, the financing method is similar to the method of accounting for revenue already in use for other lending activities of the institions. The financing method is also appropriate for a leasing activity of an entity which is not identified as a financial institution, such as a manufacturer, if the lease agreements have the characteristics described earlier in this paragraph.

9. On the other hand, there are companies (e.g., the owner-operator of an office building, the lessor of automotive equipment on short-term leases—daily, weekly or monthly) which retain the usual risks or rewards of ownership in connection with their leasing activity. They may also assume responsibilities for maintaining the leased property or furnishing certain related services which will give rise to costs to be incurred in the future. Rental revenues are designed to cover the costs of these services, depreciation and obsolescence, and to provide an adequate profit for assuming the risks involved. In these cases the operating method is appropriate for measuring periodic net income from leasing activities. The operating method is also appropriate if the leasing activity is an integral part of manufacturing, marketing or other operations of a business which generate revenues and costs which must be considered along with revenues and costs from the leasing activities in arriving at appropriate methods for measuring the overall periodic net income (examples are leases of retail outlets with lease provisions deliberately made favorable to induce lessee to handle lessor's product and leases which generate significant servicing revenues and costs). The operating method likewise is appropriate for leasing activities for an otherwise strictly financing institution if such activities are characterized as set forth in this paragraph.

In the matter of financial reporting the board states:

14. When the financing method is used, the aggregate rentals called for in the lease should be classified with or near receivables and a description used along the lines of "receivables under contracts for equipment rentals" or "contracts receivable for equipment rentals." When a company is predominantly engaged in leasing activities for which the financing method is appropriate, information should be disclosed regarding future maturities of the rentals receivable. Unearned finance charges or interest (as defined in Paragraph 5) included in the aggregate rentals should be shown as a deduction therefrom.[2] Estimated residual value should be classified separately with or near property, plant and equipment unless the residual value represents an amount expected to be collected from the lessee (e.g., when a favorable purchase option exists), in which case it should be classified with or near notes and accounts receivable. Thus, the investment is represented by the net rentals receivable plus the residual value. Re-

[2] See Paragraph 14 of Opinion No. 6 of the Accounting Principles Board.

ceivables under financing leases are subject to the same considerations as to current or noncurrent classification, where such segregation is appropriate in the balance sheet, as are assets resulting from other activities.[3]

15. When the operating method is used, the investment should be classified with or near property, plant and equipment and a description used along the lines of "investment in leased property," "property held for or under lease," or "property (equipment, buildings, machines, etc.) leased to others"; accumulated allowances for depreciation and obsolescence should be shown as a deduction from the investment.

16. In addition to an appropriate description in the balance sheet of the investment in property held for or under lease (see Paragraphs 13-15), the principal accounting methods used in accounting for leasing activities should be disclosed. Further, where leasing is a substantial portion of a nonfinancing institution's operations, the Board believes that financial statements should disclose sufficient information to enable readers to assess the significance of leasing activities to the company. Leases and leased property are also subject to the conventional disclosure requirements affecting financial statements as, for example, disclosure of pledges of leased property and leases as security for loans.

The disclosure requirements of *Opinion No. 7* are effective for all fiscal years beginning after December 31, 1966. However, there were 66 survey companies that reflected long-term leases from the position of lessor in the 1966 reports. Balance sheet disclosure was made for 24 lease items. The following tabulation reflects the balance sheet location of lease-related assets and disclosure of, or inference by asset presentation to, the accounting method employed.

Financing Method	
In "current assets" as a receivable	1
In "other assets" as a receivable	2
Residual value in "property" section	7
Operating Method	
In "property" section	2
Method Not Identified or Inferred	
Residual value above or below the "property" section as a separate amount	12
Total	24

[3] See Chapter 3A of Accounting Research Bulletin No. 43.

Examples—Balance Sheet Presentation

The examples below illustrate those presentations which most nearly conform to the disclosure requirements of *Opinion No. 7* in location of the lease assets in the balance sheet coupled with specific identification of the accounting method used.

Financing Method

HOWMET CORPORATION
Notes to Financial Statements

Note 1: Investment in Intalco project—The participants in the Intalco project (aluminum reduction plants at Bellingham, Washington) are Howmet, Pechiney Enterprises Incorporated (Enterprises), which owns approximately 46% of Howmet's common stock, and American Metal Climax, Inc. (Amax). During the year the project's first two plants began operation. Howmet, through a consolidated real estate subsidiary (Howmet Realty Corp.), owns the first plant jointly with Amax but has no investment in the second. Each plant is leased to an operating company, the capital stocks of which are 25% owned by Howmet, 25% by Enterprises and 50% by Amax.

At December 31, 1966, Howmet's investment in the Intalco project consisted of the following:

Capital stocks of Intalco operating companies, at cost	$ 2,137,500
Rents receivable to 1986 under lease to an Intalco operating company (less unearned interest included therein)	27,192,069
	29,329,569
Less rents receivable included in current assets	820,668
	$28,508,901

Howmet Realty Corp.'s investment in the first plant is considered to be a receivable for rents since the plant is leased to an Intalco operating company on a rental basis which will recover Howmet Realty Corp.'s total cost of the plant plus interest. Rents receivable are based upon an estimate of cost upon final completion of $27,500,000. However, plant changes may increase this total cost. These rents are assigned to the lenders of the $27,500,000 borrowed for construction under the 4.85% notes due 1986.

Both Financing and Operating Methods

EVANS PRODUCTS COMPANY
Notes to Financial Statements

Contracts Receivable (in part): The contracts for equipment rentals covering certain railcars leased in 1966 and accounted for under the finance method are collectible over periods of 8 and 9 years.

Property, Equipment and Timber—at cost:

Land		$ 2,475,000
Buildings	18,639,000	
Machinery and equipment	26,468,000	
Leased railcars	39,813,000	
	84,920,000	
Less accumulated depreciation	26,233,000	58,687,000
		61,162,000
Residual value of leased railcars accounted for under the finance method		921,000
Timber and timber rights—less depletion		2,603,000
		$64,686,000

Revenues—Certain railcars placed on lease during 1966 are accounted for under the finance method, which provides for the recognition of leasing income over the period of the lease in decreasing amounts on a money-in-use basis. Other railcar leases are accounted for under the operating method which recognizes leasing income over the period of the lease on a straight-line basis. Rentals earned under both finance and operating methods aggregated $6,912,000 in 1966.

R. G. LeTOURNEAU, INC.
Notes to Financial Statements

Note 2 (Notes payable in part): Collateral for the above notes consists of assigned future proceeds from a United States Army supply contract and the below listed assets:

Cash	$ 500,000
Notes and accounts receivable	1,670,000
Inventories	6,598,000
Construction and rental equipment	2,127,000
Property, plant and equipment, net of depreciation	6,068,000
	$16,963,000

Note 10: The Company and a consolidated sales subsidiary are lessors of construction and material handling equipment. The leases are being accounted for under the operating accounting method with rental reported as revenue over the term of the lease. The sales subsidiary also uses lease-purchase agreements to assist in marketing the parent Company's manufactured products. Income, which is the excess of the amount derived from the lease-purchase agreement over the normal sales price of the manufactured product, is reported under the financing method in decreasing amounts related to the declining balance of the unrecovered investment.

Method of Disclosure

The 66 survey companies that referred to the existence of long-term leases from the position of lessor provided varying degrees of information concerning the leases. Twenty-one of these companies mentioned long-term leases but omitted all details thereof. The following tabulation summarizes the nature of the information disclosed by the remaining 45 companies and the related methods of disclosure.

Disclosure by Lessors	
Annual rental amount	11
Minimum annual rental	1
Aggregate rental amount	2
Lease expiration date	1
Number of leases	1
Renewal or purchase option	3
Buy-leaseback feature	1
Term of leases	2
Schedule of rental by period of years	2
Type or types of property	40
Obligations assumed or guarantees made	6
Total	70

Location of Details	
Balance sheet only	4
Footnotes	43
Letter to stockholders	23
Total	70

Examples

The illustrations presented below reflect the various methods of disclosure regarding details of long-term leases as reported by the survey companies in their 1966 annual reports.

Rental Amounts

AMERICAN MACHINERY & FOUNDRY COMPANY
Letter to Stockholders

AMF ended 1966 with $11,547,000 of bowling receivable reserves. The Company's continuing policy is to provide for possible losses on its bowling business in proportion generally to the revenue received and to be received from the over 62,000 AMF Pinspotters outstanding on long term lease. The estimated minimum rentals alone on these machines to the expiration of leases should provide $240,000,000 of future revenues.

Types of Property

BELL & HOWELL COMPANY
Balance Sheet

	(In thousands)
Investments and Other Assets	
Investment in 50%-owned affiliate, at equity in net assets	$ 868
Land and buildings leased to others, at cost less depreciation	2,512
Deposits and other assets	2,863
	$6,243

TOBIN PACKING CO., INC.
Balance Sheet

Property and equipment leased to others (at cost less accumulated depreciation) (note 1)	$ 608,540
Patents and trade name (at cost less accumulated amortization)	37,518

Notes to Financial Statements

Note 1: The amount of $608,540 shown for property and equipment leased to others includes $544,596, representing machinery, equipment and leasehold improvements at a plant previously used by the Company in its operations under a lease with an annual rental of $101,400 which expires September 30, 1977. This plant was subleased to another company for a five-year period ending January 18, 1970 at an annual rental of $51,000. The machinery and equipment was leased to this other company for the same period at an annual rental of $50,000.

Section 3 INCOME STATEMENT

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 1966 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 1966 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 1966 annual reports—369 companies. Thirty-eight companies used *net sales and operating revenue.* The term *sales* was used by 84 companies while 54 companies used *sales and revenues* or *sales and operating revenue.* Other income statement presentations in this connection are indicated in Table 1, together with references in each case.

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

TABLE 1: SALES

	Income Statement shows*	1966	1965	1960	1950
	Net Sales:				
A:	Net Sales	369	363	382	307
B:	Net Sales and operating revenue	38	35	—	—
C:	Net Sales after deducting discounts, returns, etc.	4	4	4	12
D:	Sales less discounts, returns, etc.	18	20	48	50
E:	Gross Sales less discounts, returns, etc.	4	9	15	46
F:	Both Gross and Net Sales	8	9	8	17
G:	Gross Sales	8	6	10	28
H:	Sales	84	87	97	97
I:	Sales and operating revenue	54	49	—	—
J:	Revenue or Gross Operating Income	12	16	25	2
	Revenues (less returns and allowances)	1	1	—	—
	No "Sales"; initial item is "Gross profit" or "Operating profit"; or no income statement presented	—	1	11	41
	Total	600	600	600	600

*Refer to Company Appendix Section—A: 7, 75, 243, 348, 531, 596; B: 10, 88, 163, 286, 380, 592; C: 263, 283; D: 18, 292, 305, 347, 467, 584; E: 468; F: 36, 223, 390, 519; G: 29, 235, 284, 410; H: 43, 127, 218, 310, 440, 562; I: 70, 175, 350, 434, 516, 563; J: 57, 198, 369, 437, 534, 549.

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 1966 reports follow.

Net Sales

BETHLEHEM STEEL CORPORATION

Revenues:	
Net sales	$2,669,437,000
Interest, dividends and other income	22,265,000
	$2,691,702,000

THE HOOVER COMPANY

Net sales	$259,577,010
Interest and other income	4,732,643
	$264,309,653

MARSHALL FIELD & COMPANY

Net sales	$306,034,046

PEDEN IRON & STEEL CO.

Sales (Net)	$36,550,923

SCOVILL MANUFACTURING COMPANY

Revenues:	
Net sales	$321,786,000
Other income	759,000
	$322,545,000

UNITED STATES GYPSUM COMPANY

Income:	
Net sales	$291,151,279
Interest and dividend income	3,093,623
Royalties and miscellaneous income (net)	219,327
Total Income	$294,464,229

Net Sales and Operating Revenue

ACF INDUSTRIES, INCORPORATED

Net rentals, sales and services	$323,218,000

BRUNSWICK CORPORATION

Income:	
Net sales and revenue	$344,648,000
Interest income	18,170,000
Total Income	$362,818,000

GARLOCK INC.

Net Sales and Operating Revenues	$59,343,701

INDIAN HEAD INC.

Net Sales and Operating Revenues	$225,455,310

JOHN MORRELL & CO.

Net sales and other operating revenues	$812,114,300

STOKELY-VAN CAMP, INC.

Income:	
Net sales and operating revenues	$225,686,842
Other income	573,612

Net Sales After Deducting Discounts, Returns, etc.

BIGELOW-SANFORD, INC.

Net Sales (After Cash and Other Discounts)	$102,619,037

SPRAGUE ELECTRIC COMPANY

Net Sales after deducting cash discounts of $1,352,476 and $1,100,269	$141,466,479

Sales, Less Discounts, Returns, Allowances, etc.

ARMCO STEEL CORPORATION

Revenues:	
Sales, less discounts, returns, and allowances	$1,224,604,758
Dividends, royalties, and interest	26,219,429
Total	$1,250,824,187

GEO. A. HORMEL & COMPANY

Sales (less returns and allowances)	$491,732,861
Other income	119,733
	$491,852,594

LILY-TULIP CUP CORPORATION

Sales, less returns and allowances	$116,043,525
Cash discount and freight-out	8,375,226
Net sales	$107,668,299

MIDWEST RUBBER RECLAIMING COMPANY

Sales, less freight allowed to customers	$13,516,001

REPUBLIC STEEL CORPORATION

Sales, less discounts allowed	$1,359,758,378
Dividends, interest, and other income—Note B	14,341,293
Total	$1,374,099,671

UNITED-GREENFIELD CORPORATION

Sales, less returns and allowances	$89,520,000

Gross Sales, Less Discounts, Returns, etc.

SNAP-ON TOOLS CORPORATION

Gross Sales less returns, allowances and dealer discounts	$47,203,058
Cost of Goods Sold	22,585,195
Gross Profit	$24,617,863

STONE CONTAINER CORPORATION

Net Sales and Other Income:	
Gross sales, less discounts, returns and allowances	$84,438,279
Other income (net)	87,885
Total	$84,526,164

THE YOUNGSTOWN SHEET AND TUBE COMPANY

Sales and Other Revenues:	
Gross sales, less discounts, returns and allowances	$761,666,664
Dividends, interest and other income	17,305,636
Total	$778,972,300

Gross and Net Sales

AMERICAN HOME PRODUCTS CORPORATION

Sales	$975,855,925
Less, Returns, allowances, delivery, etc.	66,269,426
Net sales	909,586,499
Other income	9,431,786
	$919,018,285

DUFFY-MOTT COMPANY, INC.

Gross Sales	$76,112,042
Less: Freight, Discounts, etc.	5,858,698
Net Sales	70,253,344
Cost of Goods Sold	55,795,620
Gross Profit on Sales	$14,457,724

NATIONAL PRESTO INDUSTRIES, INC.

Gross Sales	$47,561,380
Less excise taxes, freight, discounts, etc.	1,071,099
Net sales	46,490,281
Cost of sales	31,959,386
Gross Profit	$14,530,895

PITTSBURGH BREWING COMPANY

Sales	$31,090,371
Less Federal and state excise taxes	11,483,573
Net Sales	19,606,798
Cost of sales	13,194,027
Gross Profit	$ 6,412,771

Gross Sales (Including Gross Income, etc.)

ANDERSON, CLAYTON & CO.

Gross sales	$543,416,000
Interest income	10,596,000
	$554,012,000

GENERAL AMERICAN TRANSPORTATION CORPORATION

Gross Income:	
From manufacturing	$223,240,799
From services—operation of distribution and terminal facilities	149,020,270
Dividends and interest	2,540,340
Other income	1,572,753
	$376,374,162

INTERNATIONAL BUSINESS MACHINES CORPORATION

Gross Income from Sales, Service and Rentals	$4,247,706,091

TEXAS GULF SULPHUR COMPANY

Gross Revenue from Sales	$132,718,172
Royalties, Interest and Other Income	3,337,809
	$136,055,981

Sales

THE AMALGAMATED SUGAR COMPANY

Sales	$84,994,000
Income from miscellaneous sources	321,000
	$85,315,000

COLT INDUSTRIES INC

Sales	$240,089,300

W. T. GRANT COMPANY

Sales	$839,715,457
Income from concessions	1,614,119
	$841,329,576

PENN FRUIT CO., INC.

Sales	$171,367,800

UNITED AIRCRAFT CORPORATION

Income:	
Sales	$1,663,202,732
Royalties from licensees	2,331,472
Dividends from affiliated companies	571,686
Other income	6,924,650
	$1,673,030,540

WEYERHAEUSER COMPANY

Income:	
Sales	$837,835,726
Other income (net)	10,108,444
	$847,944,170

Sales and Operating Revenue

CALIFORNIA PACKING CORPORATION

Sales and Revenues:	
Sales and operating revenues	$478,972,000
Other income	591,000
	$479,563,000

GULF OIL CORPORATION

Revenues:	
Sales and other operating revenues	$4,655,982,585
Dividends, interest, and other revenues	60,871,053
	$4,716,853,638

MARATHON OIL COMPANY

Revenues:	
Sales and other operating revenues	$745,305,000
Less consumer taxes collected for governments—Note E	123,480,000
Net Sales	621,825,000
Dividends, interest and other income	7,683,000
Total Revenues	$629,508,000

SIGNODE CORPORATION

Operating Revenues—	
Sales	$124,562,786
Revenues from leased equipment	4,925,303
	129,488,089
Other Income	459,305
	$129,947,394

SWIFT & COMPANY

Sales, including service revenues	$2,970,465,995
Equity in earnings of affiliated insurance businesses—Note 2	2,085,022
Interest and dividends	1,821,555
Miscellaneous—net	328,947
Total	$2,974,701,519

UNIVERSAL LEAF TOBACCO CO., INC.

Total Sales including Tobacco Sales and Tobacco Order Sales	$329,952,273
Other Operating Revenues including Rehandling and Sundry Income	18,398,801
	$348,351,074

Revenue or Gross Operating Income

THE AMERICAN SHIP BUILDING COMPANY

Revenues—Note A	$52,171,870
Other income	76,685
	$52,248,555

THE CURTIS PUBLISHING COMPANY

Net Revenues from Advertising, Circulation and Other Sources	$128,897

HALLIBURTON COMPANY

Net Revenues	$699,329,063

METRO-GOLDWYN-MAYER INC.

Income:	
Feature films and shorts—	
Theatrical distribution	$114,517,000
Television distribution	16,826,000
	131,343,000
Television programs and commercials	22,827,000
Records and music income	30,531,000
Dividends, interest and other income	217,000
	$184,918,000

SUNRAY DX OIL COMPANY

Gross Income:	
Gross operating income	$525,290,000
Dividends, interest and other	5,883,000
	$531,173,000

TIME INCORPORATED

Net Revenues:	
Magazine advertising	$247,193,000
Circulation, books, paper products, broadcasting and other sources	255,867,000
	$503,060,000

Revenues (Less Returns and Allowances)

MEREDITH PUBLISHING COMPANY

Revenues (less returns and allowances)	$100,402,776

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 450 companies in the current survey of the 1966 annual reports disclosed a separate caption and amount for either cost of goods sold or cost of manufacturing, only 115 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 (120) 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 1966 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

AMERICAN AIR FILTER COMPANY, INC.

Sales	$69,701,606
Cost of sales	49,001,699
Selling, administrative, research and product development expenses	14,906,818

BAYUK CIGARS INCORPORATED

Net Sales	$47,308,000
Costs and expenses:	
Cost of goods sold	33,342,000
Selling, administrative and general	11,626,000
Depreciation and amortization	1,170,000
Interest	810,000
Gain on sales of tobacco	(65,000)
Miscellaneous income	(220,000)
Provision (recovery) for income taxes	107,000
	$46,770,000

OXFORD PAPER COMPANY

Revenues:	
Net sales	$97,349,680
Other income	1,366,863
	98,716,543
Costs and Expenses:	
Cost of products sold	69,675,161
Depreciation and depletion	6,315,543
Selling, general, and administrative expenses	7,411,271
Interest on long-term debt	1,988,359
Other expenses	175,903
	$85,566,237

PHILLIPS PETROLEUM COMPANY

	1966
Income:	
Gross operating income	$1,686,019,000
Other income	22,041,000
	1,708,060,000
Costs and Expenses:	
Cost of sales and services	1,073,100,000
Selling, general, and administrative expense	208,894,000
Depreciation, depletion, and retirements	144,033,000
Interest and expense on indebtedness	29,645,000
Taxes other than income taxes	41,085,000
Provision for income taxes	66,758,000
	$1,563,515,000

TABLE 2: COST OF GOODS SOLD AND GROSS PROFIT

Cost of Goods Sold*	1966	1965	1960	1950
Income Statement Presentation—				
Single total amount for:				
A: Cost of goods sold	430	416	359	354
B: Cost of goods sold together with other expenses	120	133	187	175
C: Manufacturing cost of goods sold	20	19	14	15
Cost of goods sold shown in:				
D: Separate elements of cost	29	27	27	13
Detailed section therefor	1	4	1	2
	600	599	588	559
Not shown in statement—				
Initial item is "Gross profit" or "Operating profit"; or no income statement presented	—	1	12	41
Total	600	600	600	600

Gross Profit*	1966	1965	1960	1950
Income Statement Presentation—				
As initial item of gross profit	—	1	5	23
With single total amount:				
E: Designated "Gross profit"	87	89	90	123
F: Identifiable as "Gross profit"	28	27	29	25
	115	117	124	171
G: Not shown in statement	485	483	470	411
Initial item is "Operating profit," etc.	—	—	5	15
No income statement	—	—	1	3
Total	600	600	600	600

*Refer to Company Appendix Section—A: 227, 292, 318, 353, 495, 582; B: 110, 192, 361, 498, 545, 586; C: 28, 191, 204, 239, 395, 420; D: 2, 277, 319, 517, 519, 553; E: 7, 119, 245, 354, 461, 578; F: 43, 148, 301, 449, 468, 523; G: 14, 173, 257, 377, 446, 509.

DENNISON MANUFACTURING COMPANY

Sales and Equipment Rentals	$87,410,324
Costs and Expenses:	
Cost of products sold	48,886,888
Selling, administrative, and general expenses	28,225,822
Interest expense:	
Long-term debt	278,498
Other	265,595
United States and Canadian income taxes	4,502,000
	$82,158,803

McCORMICK & COMPANY, INCORPORATED

Net Sales	$73,080,136
Operating Expenses:	
Cost of goods sold	41,339,811
Selling, general, and administrative expenses	27,180,632
	$68,520,443

Cost of Goods Sold and Gross Profit

CHERRY-BURRELL CORPORATION

Net Sales	$25,089,454
Cost of Goods Sold	19,224,508
Gross Profit	$ 5,864,946

ELASTIC STOP NUT CORPORATION OF AMERICA

Net sales	$52,449,763
Cost of goods sold	32,921,651
Gross Profit	$19,528,112

THE MOHAWK RUBBER COMPANY

Net sales	$59,035,722
Cost of products sold	46,362,558
	$12,673,164

SIMMONS COMPANY

Net Sales	$184,794,141
Cost of Sales	138,255,109
Gross Profit	$ 46,539,032

UMC INDUSTRIES, INC.

Net Sales	$115,379,115
Cost of Goods Sold	81,751,975
	$ 33,627,140

VARIAN ASSOCIATES

Sales	$145,182,000
Cost of Sales	92,217,000
Gross Profit	$ 52,965,000

Cost of Goods Sold Included in Costs and Expenses

E. I. du PONT de NEMOURS & COMPANY

Net Sales	$3,158,932,506
Other Operating Revenues	26,209,559
	3,185,142,065
Less:	
Cost of Goods Sold and Other Operating Charges	1,827,484,578
Selling, General and Administrative Expenses	354,886,335
Provision for:	
Depreciation and Obsolescence	258,660,984
"B" Bonus (credited to Fund)	48,850,000
Federal and Foreign Taxes on Operating Income (Note 4)	327,710,000
	$2,817,591,897

GENERAL REFRACTORIES COMPANY

Revenues:	
Net sales	$121,740,478
Other income, principally dividends, interest and royalties	2,656,281
	124,396,759
Costs, Expenses and Other Deductions:	
Materials, supplies, production labor and expenses	83,908,929
Selling, administrative and general expenses	18,183,696
Depreciation and depletion	7,904,000
Interest and other debt expense	1,772,606
Taxes other than income taxes	6,169,516
Federal, foreign and state income taxes	2,048,000
Minority interests	25,092
	$120,011,839

ACME MARKETS, INC.

Sales	$1,200,749,822
Cost of Sales and Operating Expenses:	
Cost of merchandise sold, including warehousing and transportation expenses	957,507,426
Wages, rents, advertising, administrative and other operating expenses	211,612,787
Depreciation and amortization	12,744,227
	$1,181,864,440

ATLANTIC RICHFIELD COMPANY

Revenues:	
Sales and other operating revenues (including excise taxes)	$1,348,759,000
Gain on sales of Producing Department properties	1,594,000
Interest and other revenues	12,880,000
	1,363,233,000
Expenses:	
Costs, operating and general expenses	836,302,000
Taxes (Note 8)	312,214,000
Depreciation, depletion, amortization and retirements	93,526,000
Interest	7,707,000
	$1,249,749,000

MCA INC.

Revenues:	
Film rentals, record sales and related revenues (Note 2)	$214,394,245
Other income (Note 1)	3,743,506
	218,137,751
Costs and Expenses:	
Film and record costs, including amortization, participations and royalties (Note 2)	136,731,210
Operating, selling and administrative expenses	51,706,536
Interest expense	3,130,811
Federal and foreign income taxes	12,950,000
	$204,518,557

NORTH AMERICAN AVIATION, INC.

Costs and Expenses:	
Cost of sales and other operating charges	$1,936,188,000
Interest	609,000
United States and foreign income taxes	40,800,000

Manufacturing Cost of Goods Sold

THE PARKER PEN COMPANY

Net Sales	$48,984,130
Manufacturing cost of products sold	22,491,190
Gross income on sales	$26,492,940

SIMPLICITY PATTERN CO. INC.

Net Sales (and other income)	$36,749,756
Costs and Expenses:	
Manufacturing	15,472,434
Marketing, advertising, administrative and shipping	10,557,212
Depreciation	605,542
Taxes, other than income taxes	1,096,383
Company contributions to retirement plans	298,565
Provision for loss on Japanese subsidiary not consolidated	96,000
	$28,126,136

BROWN & SHARPE MANUFACTURING COMPANY

Net sales	$70,071,102
Manufacturing cost of goods sold	49,186,191
Selling, general and administrative expenses	10,025,833
Operating Profit	$10,859,078

DOUGLAS AIRCRAFT COMPANY, INC.

Net sales	$1,048,011,571
Interest income	5,619,330
Other income—net	5,222,305
	1,058,853,206
Costs and Expenses:	
Manufacturing costs	945,832,653
Administrative and general expenses	115,297,494
Research and development	29,170,818
Interest expense	16,444,466
Provision for possible future loss on investment in subsidiary—Note A	4,000,000
	$1,110,745,431

LEHIGH PORTLAND CEMENT COMPANY

Revenues:	
Sales, less discount	$104,884,000
Other (net)	667,000
	105,551,000
Deductions from Revenues:	
Manufacturing cost of goods sold and delivery costs	76,977,000
Depreciation and cost depletion	11,553,000
Selling and administrative expense	10,286,000
Interest expense	2,877,000
Federal income tax (Note 4)	450,000
	$102,143,000

LONE STAR CEMENT CORPORATION

Income:	
Billings, less discounts	$198,472,585
Dividends from Latin American subsidiaries realized in U.S. dollars	4,352,886
Miscellaneous income and expense (net)	2,439,681
	205,265,152
Costs and Expenses:	
Manufacturing, packing and loading costs, exclusive of depreciation and depletion	114,827,524
Freight on shipments	26,517,329
Provision for depreciation and depletion	13,922,699
Selling and administrative expenses	18,233,425
Tax expense, other than income taxes shown below and taxes which are charged directly to costs or other accounts	1,621,674
Interest expense	3,989,041
Retirement pension and group insurance expense	4,723,955
	$183,835,647

Cost of Goods Sold Shown in Separate Elements of Cost

RIEGEL PAPER CORPORATION

Net Sales	$146,614,869
Costs and Expenses:	
Salaries, wages and employees' benefits	45,442,110
Depreciation and depletion	6,050,984
Raw materials, supplies and other operating expenses	79,725,077
	$131,218,171

ALLEGHENY LUDLUM STEEL CORPORATION

Sales and Revenues:	
Sales	$380,833,664
Interest, dividends, royalties and other—net	1,388,076
	382,221,740
Costs:	
Employee costs (Note 7):	
Wages and salaries	115,194,290
Social security taxes	5,447,708
Pensions and other (Note 6)	15,936,721
	136,578,719
Materials, services and other costs (Note 7)	180,854,959
Depreciation and amortization	12,318,507
Interest and amortization of debenture expense	2,909,104
State, local and miscellaneous taxes	4,337,568
Federal taxes on income (Note 7)	20,116,000
Total Costs and Income Taxes	$357,114,857

WALT DISNEY PRODUCTIONS

Income—(Note 7):	
Theatrical films	$ 55,756,000
Television	7,902,000
Disneyland Park and other entertainment activities	41,466,000
Other—publications, merchandising, music and records	11,419,000
Total Income	116,543,000
Costs and Expenses:	
Amortization of theatrical and television production costs—(Note 2)	10,692,000
Distribution costs — prints, advertising, etc.	21,869,000
Costs of Disneyland Park and other entertainment activities	38,079,000
Costs applicable to other income	7,977,000
General, administrative and selling expenses	12,805,000
Interest	1,067,000
Stories and pre-production costs abandoned	1,562,000
Estimated federal income taxes—(Note 4)	10,100,000
Total Costs and Expenses	$104,151,000

INLAND STEEL COMPANY

	(In thousands)
Sales and Other Revenues:	
Sales after deducting cash discounts, returns and allowances	$1,054,492
Interest, dividends, etc.	5,810
Gain on sale of coal properties, before deducting federal income tax of $1,303,000	3,598
	1,063,900
Costs and Other Expenses:	
Employment Costs:	
Wages and salaries	257,342
Pensions and other employee benefits	39,968
	297,310
Materials, services and other expenses	552,139
Total (1)	849,449
Depreciation, amortization and depletion	76,616
State, local and miscellaneous taxes	14,303
Interest and expenses on long-term debt	6,546
	$ 946,914

PHOENIX STEEL CORPORATION

Net Sales	$56,705,627
Costs and Other Expenses:	
Employment costs:	
Wages and salaries	17,891,034
Pensions, social insurance and other employment benefits (Note 1)	3,562,248
Materials, service and other expenses	29,030,748
Provision for depreciation	2,444,520
Interest and debt expense, net (Note 5)	469,861
Total Costs and Other Expenses	$53,398,411

Cost of Goods Sold Shown in Detail in Section Therefor

UNITED STATES GYPSUM COMPANY

Costs and Expenses:	
Cost of products sold—	
Plant wages and salaries	$ 59,145,068
Materials, services and other costs	125,520,516
Provision for depletion and plant depreciation	11,164,724
Total	195,830,308
Selling, general and administrative expenses	44,450,755
Total Costs and Expenses	$240,281,063

Gross Profit Presented with a Single Total Amount Identifiable as "Gross Profit"

AMERICAN HOSPITAL SUPPLY CORPORATION

Net sales	$230,711,935
Cost of products sold	153,045,806
	$ 77,666,129

CONSOLIDATED ELECTRONICS INDUSTRIES CORP.

Net sales and operating revenues	$309,601,484
Cost of sales and operating revenue deductions	224,394,011
	$ 85,207,473

DREXEL ENTERPRISES, INC.

Net sales	$80,554,148
Cost of goods sold	60,191,757
	$20,362,391

MELVILLE SHOE CORPORATION

Net sales	$234,313,064
Cost of goods sold, buying and warehousing costs	138,092,532
	96,220,532
Store operating, selling, general and administrative expenses	74,754,115
Depreciation and amortization	3,292,439
Interest charges	661,833
	$ 78,708,387

SERVEL, INC.

Net sales	$24,460,493
Cost of sales	19,023,794
	5,436,699
Engineering service fees	123,560
	5,560,259
Selling, general and administrative expenses	4,043,382
	$ 1,516,877

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.

Of the 600 companies covered by this survey, 157 referred to the cost of materials in their 1966 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. Two companies presented the opening and closing inventory figures on the income statement and one company 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 presentations, etc.

Single Amount for Materials and Services Purchased

ALAN WOOD STEEL COMPANY

Revenues:	
Net sales and operating revenues	$88,248,128
Other	282,472
	88,530,600
Costs and Expenses (Note 1):	
Employment costs:	
Wages and salaries	27,836,699
Pensions, group insurance and other employee benefits (Note 7)	3,496,722
Social security taxes	1,444,357
	32,777,778
Materials and services	45,199,361
Depreciation (Note 2)	5,969,130
Gain on property sold or retired	(9,928)
Miscellaneous taxes	599,614
Interest, bond discount and debt expense (Notes 2 and 4)	1,862,128
	$86,398,083

STANDARD OIL COMPANY (NEW JERSEY)

Revenue:	
Sales and other operating revenue	$13,270,721,000
Dividends, interest, and other revenue	310,868,000
	13,581,589,000
Costs and Other Deductions:	
Crude oil, products, materials, and services	5,806,192,000
Taxes and other payments to governments	4,720,129,000
Wages, salaries, and employee benefits	1,124,572,000
Depreciation, depletion, and retirements	699,792,000
Interest and other financial charges	95,956,000
Income applicable to minority interests	44,004,000
	$12,490,645,000

JONES & LAUGHLIN STEEL CORPORATION

Revenues:	
Net sales and other operating revenues	$1,010,020,000
Interest and other income	9,085,000
	1,019,105,000
Costs and Expenses (Note 1):	
Employment costs:	
Wages and salaries	317,041,000
Employee benefits (Note F)	60,291,000
	377,332,000
Materials, supplies, freight and other services	443,879,000
Depreciation and depletion	63,934,000
Interest and long-term debt expense	9,855,000
State, local and miscellaneous taxes	19,973,000
Federal income taxes, less investment tax credit of $4,543,000 in 1966 and $3,360,000 in 1965 (Note G)	39,051,000
	$ 954,024,000

Single Amount for Materials Purchased

SHELL OIL COMPANY

Revenues:	
Sales and other operating revenue	$3,349,693,000
Dividends, interest and other income	16,348,000
	3,366,041,000
Costs and Expenses:	
Purchased oils and chemicals	1,169,760,000
Costs and operating expenses	660,189,000
Selling, general and administrative expenses	281,371,000
Income, operating and consumer taxes	709,917,000
Depreciation, depletion, amortization and retirements, including dry holes	266,504,000
Interest on long term debt	23,100,000
	$3,110,841,000

SKELLY OIL COMPANY

Revenue:	
Sales and operating revenue (excluding excise taxes of $31,946,769 in 1966; $29,880,948 in 1965)	$332,368,989
Dividends, interest, and other income	4,346,139
	336,715,128
Costs and Expenses:	
Purchased crude oil, natural gas, and products	152,496,713
Operating expenses, including taxes other than taxes on income	47,306,254
Selling, general, and administrative expenses	42,077,441
Exploratory costs, including dry holes and lease rentals	10,096,367
Depletion, depreciation, and amortization	40,700,315
Interest expense	1,275,768
Provision for taxes on income	5,800,000
	$299,752,858

Single Amount for Materials, Together with Other Costs

ABEX CORPORATION

Income:	
Shipments	$277,398,557
Other income—net (Note 2)	2,295,402
Total	279,693,959

TABLE 3: COST OF MATERIALS

Presentation in Income Statement*	1966	1965	1960	1950
With single total amount for:				
A: Materials and services purchased	7	6	13	15
B: Materials purchased	5	7	5	6
Materials used	—	—	3	3
C: Materials, together with other costs	26	30	31	22
	38	43	52	46
Disclosed Elsewhere in Report*				
In letter to stockholders	—	2	1	2
D: In supplementary statements or schedules	46	50	53	91
	46	52	54	93
In Graphic Presentation*				
E: With dollar amount shown therein	9	11	13	18
F: With dollar amount not shown therein	64	54	58	66
	73	65	71	84
Number of Companies				
Referring to material costs	157	160	177	223
Not referring to material costs	443	440	423	377
Total	600	600	600	600

*Refer to Company Appendix Section—A: 178, 277, 368, 570; B: 273, 355, 533; C: 51, 83, 126, 247, 272, 519; D: 113, 202, 223, 421, 447, 590; E: 49, 62, 65, 74, 233, 250; F: 26, 132, 203, 343, 439, 525.

Costs and Expenses:	
Materials, wages, and other costs	194,341,980
Selling, administrative, and research expense	34,827,222
Depreciation and amortization of intangibles	11,113,521
Repairs and maintenance of plant and equipment	8,917,501
Property, excise, and miscellaneous taxes	2,536,921
Interest	1,629,767
Total	$253,366,912

GENERAL REFRACTORIES COMPANY

Revenues:	
Net sales	$121,740,478
Other income, principally dividends, interest and royalties	2,656,281
	124,396,759
Costs, Expenses and Other Deductions:	
Materials, supplies, production labor and expenses	83,908,929
Selling, administrative and general expenses	18,183,696
Depreciation and depletion	7,904,000
Interest and other debt expense	1,772,606
Taxes other than income taxes	6,169,516
Federal, foreign and state income taxes	2,048,000
Minority interests	25,092
	$120,011,839

GRUMMAN AIRCRAFT ENGINEERING CORPORATION

Sales, including costs and fees under cost-reimbursement type contracts (Note 4)	$1,059,379,230
Other income	365,718
	1,059,744,948
Costs and Expenses:	
Wages, salaries, materials, and other costs and expenses	1,003,607,889
Interest	3,014,807
Provision for Federal taxes on income, and renegotiation (Note 4)	25,500,000
	$1,032,122,696

LUKENS STEEL COMPANY

Revenues:	
Net Sales	$137,070,962
Other	615,864
Total Revenues	137,686,826
Costs and Expenses:	
Employment—	
Wages and salaries	39,436,038
Vacation, holiday and shift pay	4,882,151
Insurance, pensions and other benefits (Note 1)	5,654,462
Payroll taxes	2,157,314
Total Employment Costs	52,129,965
Materials, services and other	63,979,736
Depreciation	4,960,923
State, local and miscellaneous taxes	886,780
Provision for income taxes less investment credit of $134,000 in 1966 and $746,000 in 1965	7,495,000
Total Costs and Expenses (Note 2)	$129,452,404

MOBIL OIL CORPORATION

Revenues:	
Sales and services (including excise and state gasoline taxes: 1966 — $516,701,000; 1965 — $504,306,000)	$5,770,610,000
Dividends and interest	115,905,000
	5,886,515,000
Costs and Expenses:	
Crude oil, products, materials, and operating expenses	2,764,054,000
Exploration expenses, including non-productive wells	96,457,000
Selling and general expenses	691,164,000
Depreciation, depletion, and amortization	301,731,000
Interest and debt discount expense	32,721,000
Taxes and other payments to governments	1,644,276,000
	$5,530,403,000

RIEGEL PAPER CORPORATION

Net Sales	$146,614,869
Costs and Expenses:	
Salaries, wages and employees' benefits	45,442,110
Depreciation and depletion	6,050,984
Raw materials, supplies and other operating expenses	79,725,077
	131,218,171
Interest and Other Financing Expenses, less interest income ($38,477 and $179,498, respectively)	1,626,913
Other expense, net	99,281
	$132,944,365

In Supplementary Statements or Schedules

ALUMINUM COMPANY OF AMERICA
Ten Year Summary

Earnings:	
Total Revenues	$1,384,782,467
Cost of Materials, Services, etc.	599,871,027
Wages, Salaries and Employee Benefits	487,240,529
Depreciation and Depletion	92,467,414
Taxes	99,132,478
Net Income	$ 106,071,019

ANCHOR HOCKING GLASS CORPORATION
Income Distribution and Statistics—Ten Year Summary

Net sales	$188,718,519
Employee compensation and benefits	80,641,203
Materials, supplies, services and expenses, net	76,736,726
Taxes:	
U.S. and Canadian income taxes	9,325,000
Social security, state and local taxes	5,500,689
Depreciation	5,022,688
Net Income	$ 11,492,213

CONTINENTAL BAKING COMPANY
Comparative Analysis of Operations

Net sales	$589,543	100.00%
Cost of ingredients and wrapping supplies	258,404	43.83
Wages and salaries (other than officers' and directors' salaries)	191,004	32.40
Contributions to pension, group insurance, and health and welfare plans	13,088	2.22
Salaries of all officers and directors	959	.16
Depreciation	9,755	1.65
Federal, state and local taxes	22,334	3.79
Repairs and renewals	5,192	.88
All other costs	78,041	13.24
Other income	(556)	(.09)
Sub-total	578,221	98.08
Net Income	$ 11,322	1.92%

LEHIGH PORTLAND CEMENT COMPANY
Ten Year Financial Summary

	(In thousands)
Operations:	
Revenues	$105,551
Deductions from revenues:	
Wages, salaries and employee benefits	29,199
Cost of materials, freight and other services	55,663
Depreciation, etc.	11,553
Interest	2,877
Taxes	2,851
Earnings	$ 3,408

NATIONAL GYPSUM COMPANY
Distribution of the Sales Dollar

Materials and Services	$120,470,113
Wages and Salaries	83,650,932
Depreciation	22,670,289
Cash Dividends	14,450,358
Income Taxes	9,400,000
Left in Business	2,375,678

EMPLOYMENT COSTS—PRESENTATION

Employment costs, including salaries and wages, were presented in the income statements by only 34 of the 600 survey companies in their annual reports for 1966. Ten companies, which indicated such costs in their income statements, also included pension or retirement costs.

Employment costs were presented by 220 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, additional compensation funds, contingent compensation plans, vacation and holiday plans, and deferred compensation plans. Fifteen companies referred to supplemental unemployment benefit plans.

The various methods of presentation of employment costs used by the survey companies in their 1966 annual reports are summarized in Table 4.

TABLE 4: EMPLOYMENT COSTS

Presentation in Income Statement*	1966	1965	1960	1950
With single total amount for:				
A: Wages and salaries	4	5	6	13
B: Wages, salaries, and employee benefits	9	8	19	13
C: Wages and salaries together with certain unrelated costs	11	13	13	10
D: In separate section detailing employee costs	10	11	10	6
	34	37	48	42
Disclosed Elsewhere in Report*				
E: In supplementary statements or schedules	154	150	154	154
F: In letter to stockholders	26	29	29	25
	180	179	183	179
In Graphic Presentation*				
G: With dollar amount shown	6	5	8	17
H: With dollar amount not shown	34	34	32	54
	40	39	40	71
Number of Companies				
Showing employment costs	254	255	271	292
Not showing employment costs	346	345	329	308
Total	600	600	600	600

*Refer to Company Appendix Section—A: 265, 564; B: 247, 262, 473, 518, 553; C: 2, 17, 83, 252, 266, 272; D: 10, 178, 319, 349; E: 197, 200, 388, 477, 533, 599; F: 56, 110, 172, 299, 465, 546; G: 49, 62, 65, 74, 134, 215; H: 63, 171, 306, 375, 423, 514.

Examples

The following examples illustrate the various presentations of employment costs found in the annual reports for 1966. Additional examples will be found immediately above, under the caption "Cost of Materials—Presentation."

Income Statement Presentation
Single Amount for Wages and Salaries

HARBISON-WALKER REFRACTORIES COMPANY

Costs:	
Employment (page 3):	
Wages and salaries	$ 38,749,308
Social security taxes	1,884,326
Pensions, insurance and other fringes	3,577,432
	44,211,066
Materials, supplies and services purchased (page 4)	59,608,827
Depreciation and depletion	6,856,836
Interest expensed	706,066
Minority shareholders' interest in subsidiaries' net income	965,523
Taxes, other than payroll and income taxes	1,759,351
Federal, foreign and state income taxes provided (page 3)	10,356,069
	$124,463,738

TECUMSEH PRODUCTS COMPANY

Cost of Sales and Administrative Expenses:	
Productive materials, supplies and other expenses	$205,086,450
Payrolls	55,205,518
Depreciation	1,888,284
Engineering, sales, research and development expenses	5,997,544
Total Cost of Operations	$268,177,796

AMSTED INDUSTRIES INCORPORATED

Costs:	
Inventories at beginning of year	$ 26,247,820
Add—Costs incurred during year:	
Materials, supplies, services purchased, etc.	93,740,583
Wages, salaries and company contributions for group insurance, retirement plans, unemployment insurance, old age benefits, etc.	79,731,617
Portion of cost of buildings, machinery and equipment allocated to current operations	7,139,865
Provision for Federal taxes on income	12,400,000
Total Costs incurred during the year	$193,012,065

McGRAW-EDISON COMPANY

Deductions:	
Materials and services purchased from others	$247,731,000
Wages, salaries, commissions and employee benefit costs	150,248,000
Provision for depreciation	8,629,000
Federal, State and Canadian taxes on income	24,665,000
Total Deductions (Note 3)	$431,273,000

THE STANDARD OIL COMPANY (AN OHIO CORPORATION)

Costs and Expenses:	
Materials, merchandise, operating and other expenses	$424,820,735
Salaries, wages, and employee benefits	87,989,251
Taxes and other payments to governments (See page 19)	43,841,649
Depreciation of facilities	26,735,952
Depletion of oil and gas producing properties	6,989,337
Nonproductive wells and surrendered mineral leases	3,052,582
Interest expense	4,785,137
	$598,214,643

With Single Amount for Wages, Salaries and Employment Benefits

CATERPILLAR TRACTOR CO.

	(In millions)
Costs:	
Inventories brought forward from previous year	$ 370.0
Materials, supplies, services purchased, etc.	784.8
Wages, salaries and contributions for employee benefits	473.4
Depreciation (portion of original cost of buildings, machinery and equipment allocated to operations)	51.7
Interest on borrowed funds	7.1
United States and foreign taxes based on income	109.7
	1,796.7
Deduct: Inventories carried forward to following year	422.4
Costs allocated to year (1)	1,374.3
	$ 149.7

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	$ 957,507,426
Wages, rents, advertising, administrative and other operating expenses	211,612,787
Depreciation and amortization	12,744,227
	$1,181,864,440

DIAMOND INTERNATIONAL CORPORATION

Costs and Expenses:	
Manufacturing wages, materials, and other costs	$264,836,000
Selling and administrative expenses	31,037,000
Depreciation and depletion	12,051,000
Taxes, other than income taxes	10,160,000
Interest	1,006,000
Total Costs and Expenses	$319,090,000

In Separate Section Detailing Employment Costs

CYCLOPS CORPORATION

Costs and Expenses:	
Employment Costs:	
Wages and salaries	$ 51,998,778
Employee benefits	9,076,075
	61,074,853
Materials, services and other costs	102,589,132
Depreciation	11,138,203
Taxes, other than payroll and income taxes	2,557,656
Interest expense	2,152,260
	$179,512,104

GEO. A. HORMEL & COMPANY

Costs, Expenses and Taxes ($440,245,111 applicable to costs of products sold):	
Cost of products sold, selling, delivery, administrative and general expenses, exclusive of items shown separately	$401,383,941
Wage costs:	
Wages and salaries including joint earnings	68,647,690
Pension trust contributions (unfunded past service costs estimated at $25,860,000 over the next 21 years)	3,695,000
Federal and state unemployment and old age contributions	2,340,651
Group life, hospitalization and sick leave	3,715,821
	$ 78,399,162

Set Forth in Supplementary Statements or Schedules

COMMERCIAL SOLVENTS CORPORATION
Ten Year Summary

Year	Wages & Salaries
1957	$11,222,595
1958	11,530,397
1959	11,680,749
1960	11,480,373
1961	11,771,310
1962(c)	13,615,773
1963	14,511,551
1964	15,340,986
1965	15,624,747
1966	16,067,664

LITTON INDUSTRIES, INC.
Operations in Perspective

Cost of Doing Business:	
Employment costs	$ 510,422,000
Salaries and wages paid to our 75,900 employees, including pension, group insurance, social security and other employee benefits	
Outside purchases	494,283,000
Payments to other companies for the purchase of materials and services; for insurance, interest and other expenses of doing business	
Facility costs	60,921,000
Maintenance, repairs, rents and that portion of original cost of facilities and equipment allocated to current year's operations	
	$1,065,626,000

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.

The 600 survey companies included 462 which indicated that there were pension or retirement plans in operation during 1966. The remaining 138 companies made no reference to the existence of such plans. Three of the survey companies stated in their 1966 reports that they had adopted new pension plans during the year, and 87 companies stated that they had amended existing plans.

Fifteen of the companies that had referred to pension plans in their 1965 reports made no reference to such plans in their 1966 reports. Approximately 75 per cent of the plans mentioned in the 1966 reports were described as being funded or partially funded. Approximately 7 per cent of the plans were stated to be unfunded; the remaining 18 per cent gave no descriptive information.

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

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 1966 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 1966 reports. Seventeen per cent of the companies referring to pension or retirement plans failed to disclose the related costs in their annual reports. Nine of the companies noted, in respect to one or more of their plans, that no provisions were deemed necessary in the current year due to actuarially determined estimates and/or past contributions to the funds.

Eighty-eight companies defined their basis of funding by stating that they ". . . fund pension costs accrued" or by using similar terminology. Where the survey company did not elaborate by referring to an accrual basis or by means of some other presentation, the basis of funding could not be further determined.

In November 1966 the accounting principles board of the American Institute of Certified Public Accountants issued *Opinion No. 8—Accounting for the Cost of Pension Plans* in order to clarify the accounting principles and to narrow the practices applicable to the accounting for pension plan costs. *Opinion No. 8* is effective for fiscal years beginning after December 31, 1966.

Eight of the 600 survey companies referred to *Opinion No. 8* as part of their disclosure on existing pension plans. Certain other companies, while not referring to *Opinion No. 8,* changed their accounting practices clearly for the purpose of conforming to that opinion.

Examples

The following examples illustrate the various presentations and data supplied by the survey companies in their 1966 annual reports concerning pension and retirement plans.

FUNDED OR PARTIALLY FUNDED PLANS

Current Funding of Current Service Costs with Installment Funding of Past Service Costs

ALAN WOOD STEEL COMPANY
Notes to Financial Statements

Note 7: Pension Plans—The Company's pension plans consist of non-contributory and contributory plans for salaried employees and a non-contributory plan for hourly employees. Total pension expense under the plans was $973,490 in 1966 and $783,806 in 1965, which includes amortization of prior service cost over a 40 year period. The Company's policy is to fund accrued pension cost. The unfunded prior service costs as of December 31, 1966 are estimated on a single premium basis at $11,600,000, increasing from $5,200,000 at December 31, 1965, as a result of changes in the plans effective August 1, 1966.

ALLIS-CHALMERS MANUFACTURING COMPANY
Notes to Financial Statements

Note 6: Pension Plans—The Company and its consolidated subsidiaries have several pension plans covering substantially all of their employes. The total pension expense charged to consolidated earnings for the year was $11,370,000, which includes, as to certain of the plans, amortization of prior service cost. The Company's policy is to fund pension cost accrued. At December 31, 1966, the Company had a contractual liability under certain hourly employe plans for unfunded prior service costs estimated by independent actuaries to be $90,000,000; the principal plans provide for funding over a 30-year period. The unfunded prior service cost for which the Company has no specific funding liability, arising principally from the salaried employe plan, was estimated by independent actuaries to be $66,600,000 at year-end. As a result of amendments to the principal pension plans, total expense and unfunded prior service cost increased in 1966.

CHICAGO PNEUMATIC TOOL COMPANY
Notes to Financial Statements

Pensions: The company and certain of its subsidiary companies have noncontributory retirement plans for their employees. Under these plans, costs and expenses for the year 1966 were charged with approximately $1,600,000, which includes as to substantially all of the plans, amortization of past service cost over approximately forty years or less. The company's policy, with minor exceptions, is to fund pension costs accrued. Vested benefits for all plans as of December 31, 1966 exceeded the total of the pension fund and accrued liabilities by approximately $4,000,000.

PITTSBURGH PLATE GLASS COMPANY
Notes to Financial Statements

Note 9: Pension and Retirement Plans—The Company has non-contributory pension plans covered by agreements with a number of labor unions, non-contributory retirement plans covered by group annuity contracts, and a voluntary plan under which the Company, in its sole discretion, grants pensions, retirement allowances or relief. With the exception of the voluntary plan, it is the Company's policy to insure or fund the costs as accrued. Total pension and retirement plan costs charged to income in 1966 amounted to $12,600,000, which includes, as to certain of the plans, amortization of prior service costs over a 30 year period. Costs charged to income in 1966 were approximately $3,000,000 higher than in 1965, principally because of labor contracts negotiated in February 1966 which provided for increased employee benefits under these plans.

H. H. ROBERTSON COMPANY
Notes to Financial Statements

Note 6: The Company and its domestic and Canadian subsidiaries have profit sharing plans for their salaried and certain hourly employees who have completed specified periods of continuous service. The Company also has an unfunded supplemental pension plan for persons who were employees prior to the adoption of the profit sharing plan. The Company and its Canadian subsidiaries have funded pension trusts for certain production and maintenance employees covered by bargaining units. Employees of most foreign subsidiaries are covered under government or state administered retirement plans or under insured annuity plans.

Contributions to the profit sharing plans are dependent upon net income of the particular company, and supplemental pension plan benefits are paid from the general funds of the Company on a current basis. Costs of retirement plans applicable to foreign subsidiaries are generally shared between employer and employee. The prior service costs applicable to the funded pension trusts are being amortized over periods ranging from ten to thirty years and it is the Company's policy to fund the pension costs accrued.

The unfunded past service liability at December 31, 1966 is estimated to be $6,500,000, substantially all of which applies to pension plans of the Company.

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 1966 Plans
A: Current funding of current service costs with installment funding of past service costs	145	37	—	—	4	12	198
B: Current funding of current service costs with interest on past service liability	34	3	—	—	—	—	37
C: Current funding of current service costs with funding completed for past service costs	—	—	17	12	—	5	34
D: Current funding of current service costs with past service costs not to be funded or not completely funded	—	—	4	—	—	—	4
E: Basis of funding not disclosed or disclosed only as "funding pension costs accrued"	14	—	10	77	5	28	134
	193	40	31	89	9	45	407
F: *Unfunded plans* with related costs to be absorbed or funded at time of retirements or as benefits are paid	6	—	—	29	—	5	40
Unidentified plans with no reference made to funding or nonfunding of related costs	—	—	—	57	13	30	100
	199	40	31	175	22	80	547
†Charge to Income Set Forth in*:							
G: Statement of income	15	4	1	27	6	—	53
H: Notes to financial statements	173	33	29	124	6	—	365
I: Supplementary schedules	—	1	—	3	5	—	9
J: Letter to stockholders or financial review	11	2	1	21	5	—	40
Charges Not Set Forth for:							
Funded pension or retirement plans	—	—	—	—	—	45	45
Unfunded pension or retirement plans	—	—	—	—	—	5	5
Unidentified pension or retirement plans	—	—	—	—	—	30	30
Total	199	40	31	175	22	80	547

Number of Companies	1966
Referring to pension or retirement plans:	
Disclosing related costs	382
Not disclosing related costs	73
Disclosing related costs of some, but not all	7
	462
Not referring to pension or retirement plans	138
Total	600

Number of Pension or Retirement Plans	1966
Adopted during year	3
Amended during year	87
Report refers to more than one plan	82
Continued as adopted in prior years	375
Total	547

*Refer to Company Appendix Section—A: 34, 50, 144, 191, 475, 551; B: 11, 93, 170, 278, 479, 599; C: 1, 72, 257, 407, 539, 552; D: 284, 440; E: 22, 150, 273, 290, 484, 545; F: 52, 191, 252, 336, 469, 573; G: 41, 68, 233, 262, 427, 545; H: 10, 40, 122, 238, 484, 528; I: 123, 165, 344, 363, 519; J: 141, 277, 310, 326, 416, 441.

**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.

SQUARE D COMPANY
Notes to Financial Statements

Note G: *Pension Plans*—The Company has non-contributory pension plans covering substantially all of its employees. The past service liability under these plans is being funded over a period of 30 years from the dates when the past service obligations were incurred. The cost of the plans for 1966 was approximately $2,003,000 including $289,000 for amortization of past service costs.

Current Funding of Current Service Costs with Interest on Past Service Liability

COPPERWELD STEEL COMPANY
Financial Review

Pensions: To provide pension benefits applicable to employees' service during 1966 and the interest on that portion of the liability for past service which has not been funded, the Company deposited $1,891,900 with the pension funds' Trustee. Also deposited was the sum of $147,345 representing contributions of employees participating in the supplemental pension plan. In addition, $12,297 has been transmitted to the I.A.M. Labor-Management Pension Fund on behalf of Flexo Wire Division bargaining unit employees.

CYCLOPS CORPORATION
Notes to Financial Statements

Pension Plans: The Company has noncontributory pension plans covering all of its employees. Pension expense for all plans for the year 1966 was $2,092,795, which includes current service cost plus interest on the unfunded prior service cost. The Company's policy is to fund accrued pension costs.

GRANITE CITY STEEL COMPANY
Notes to Financial Statements

Note 4: *Pensions*—The company has noncontributory pension plans for all of its employees. The total pension expense for 1966 was $2,586,000, representing current service cost and interest on the unfunded past service liability. The company's policy is to fund pension costs accrued. As of December 31, 1966 the total of the pension funds and balance sheet accruals were sufficient to cover the actuarially computed value of vested benefits.

ELI LILLY AND COMPANY
Notes to Financial Statements

Note H: *Employee Retirement Plans*—Costs and expenses include provisions of $5,623,000 for 1966 and $5,275,000 for 1965, representing payments to a noncontributory trusteed retirement plan covering all United States employees. The annual payments are computed actuarially to include normal costs and interest on unfunded prior service cost. In addition to this plan, certain subsidiaries outside the United States have plans, the effect of which is not significant.

SOLA BASIC INDUSTRIES, INC.
Notes to Financial Statements

Note 7: Contributions to employee pension plans which, based on determination of independent actuaries, provide for funding of current service costs and interest on unfunded past service costs amounted to $509,449 and $639,469 in 1966 and 1965, respectively. Unfunded past service cost approximated $3,200,000 and $5,300,000 at the respective year-ends. The reduction in unfunded past service cost during 1966 is primarily attributable to the reduction in covered employees resulting from the sale of malt and grain operations.

Current Funding of Current Service Costs with Funding Completed for Past Service Costs

BRIGGS & STRATTON CORPORATION
Notes to Financial Statements

Note 2: The company has a non-contributory pension plan covering substantially all employees. The total pension expense for the year, which includes only normal costs, was $1,652,000. The company's policy is to fund the pension costs accrued. As of December 31, 1966, all past service costs were fully funded.

CANNON MILLS COMPANY
Notes to Financial Statements

Note 1: The Company and its subsidiaries have a pension plan covering substantially all permanent full-time employees. Total pension expense for 1966 and 1965 was $2,036,278 and $2,548,825, respectively. The Company's policy is to fund pension cost accrued. There was no unfunded past service cost at December 31, 1966.

GARLOCK INC.
Notes to Financial Statements

Note 6: The major portion of pension benefits for the majority of employees is provided through a profit-sharing retirement plan, the contributions to which are based generally on a percentage of consolidated income as defined by the plan.

In addition, minor benefits are provided for these employees through pension plans. The total pension expense charged to 1966 was $70,000. This expense was based on the provisions of Opinion No. 8 of the Accounting Principles Board, the adoption of which had no material effect on net income. Past service cost has been fully provided and funded in previous years. The Company's policy is to fund pension cost based on the advice of its consulting actuaries.

JONES & LAUGHLIN STEEL CORPORATION
Notes to Financial Statements

Note F: *Pensions*—Pensions are granted by the Corporation to salaried employees under a contributory plan and to hourly and salaried employees under noncontributory plans. Past service costs of the contributory plan became fully funded in 1955. The Corporation's practice is to fund pension costs accrued. Effective January 1, 1966 the Corporation changed the method of providing for amortization of past service cost on the noncontributory plans from a level of activity formula which had been adopted in 1960 to amortization of past service costs over a 40-year period. In addition, certain actuarial assumptions were revised to more nearly approximate current experience. Pension expense for all plans amounted to $16,647,000 for the year and was not affected significantly by the aforementioned changes.

MINNESOTA MINING AND MANUFACTURING COMPANY
Notes to Financial Statements

The Company has retirement plans, some of which provide for contributions by employees to obtain increased retirement benefits, covering substantially all United States employees and certain employees outside the United States. Retirement costs, as actuarially computed each year, are funded currently and there is no significant unfunded past service liability. Certain subsidiaries in other countries have retirement plans for their employees consistent with practices in the country of operation. The cost to the companies of all plans in 1966 was approximately $6,900,000.

G. C. MURPHY COMPANY
Notes to Financial Statements

The cost for current service of the Company's pension plan established in 1944, which covers all employees as they meet the requirements of age and length of service, is being funded annually. There is no unfunded prior service cost.

Current Funding of Current Service Costs with Past Service Costs Not to Be Funded or Not Completely Funded

UNITED MERCHANTS AND MANUFACTURERS, INC.
Notes to Financial Statements

Note 4: The Company has non-contributory trusteed pension plans for salaried and certain hourly wage employees. The Company's contributions to the plans, which amounted to $1,340,000 for the current year, have been based on calculations by the Company's consulting actuaries. These calculations have given effect to such factors as gains realized from sales of securities, and variances from assumed investment yield, turnover and mortality; actuarial gains have been applied in reduction of the amount necessary to fund the plans. It is the policy of the Company to make contributions under the plans to cover the cost of currently accruing benefits, to the extent such costs are not reduced or offset by actuarial gains, and to keep the unfunded costs from increasing beyond the past service base of approximately $14,600,000 heretofore established, or as it may be adjusted in the future for changes in the plans or in actuarial assumptions.

The consulting actuaries have advised the Company that, upon the assumption of the continuation of the present level of participation, the maintenance of these plans on a sound actuarial basis does not require payments to fund past service costs under the plans. Accordingly, the Company presently does not contemplate the funding of such costs, which aggregate approximately $13,200,000. The most recent actuarial study indicates that estimated net normal costs for current service during the latest plan year aggregate approximately $1,000,000.

Effective July 1, 1966, the Company amended the salaried plan to provide, among other matters, for more liberalized benefits. The amount by which such revisions may effect current or past service costs has not as yet been computed by the Company's consulting actuaries.

Unfunded Plans

CITY STORES COMPANY
Notes to Financial Statements

Note J: *Pension Plans*—The Company's non-contributory pension plans (as amended) cover, generally, employees with 20 years of service who are not participants in any other plan to which the Company contributes. The plans provide for retirement at age 65 with no vesting of rights. Although the Company does not presently contemplate funding these plans, it may do so in the future. The Company may amend, modify or terminate the plans in whole or in part at any time. The benefits paid under these plans, which are charged to operations as paid, approximated $299,000 and will increase to an annual amount of approximately $750,000 in 1976. Payments under informal arrangements to presently retired employees were $353,000 this year and will gradually decline, based on mortality factors. The amount which would have been necessary to fund these plans at January 29, 1966, with respect to past services as related to employees 55 years of age and over and retired employees, has been estimated by the Company's consulting actuary at approximately $3,300,000 after taxes. The past service cost for other eligible employees has not been computed.

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, 1966 was $225,000 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, 1966 with respect to past services is estimated at $11,500,000, and the estimated cost for current services for the year ended January 31, 1966 would have been, on an actuarial basis, $415,000 net of taxes. The Company reserves the right to amend, modify or terminate the plan.

THE PITTSTON COMPANY
Notes to Financial Statements

Pension-Retirement Plan: A Pension-Retirement Plan for Regular Full-Time Salaried Employees of the Company and participating subsidiaries provides that eligible employees would receive a monthly benefit commencing with retirement. The Plan is voluntary on the part of the Company and all costs are paid by the Company or its subsidiaries. The Company has the right to modify or discontinue the Plan or payments under it and no employee has any interest, vested or otherwise, in the Plan or any payments. Only the amounts actually paid to former employees ($223,503 in 1966) are reflected in the consolidated statements.

RAYBESTOS-MANHATTAN, INC.
Notes to Financial Statements

Note: Payments to retired employees charged against income on a pay-as-you-go basis amounted to $1,277,739 in 1966 and $1,169,015 in 1965. Noncontributory, unfunded retirement plans in effect are subject to termination, and do not establish any vested rights. The Canadian subsidiary has funded plans under which the company's contributions amounted to $58,821 in 1966 and $36,883 in 1965. On an actuarial basis and allowing for the estimated tax reduction, an amount of approximately $25,022,000 would be necessary to fund the plans at December 31, 1966.

No Provision Deemed Necessary in the Current Year

ENDICOTT JOHNSON CORPORATION
Notes to Financial Statements

Note 1: The following amounts have been charged to earnings:

	1966	1965
Depreciation	$2,635,441	$2,521,196
Maintenance and repairs	2,645,471	3,044,102
Rents, substantially all for retail stores, under leases, the majority of which have original terms of from three to ten years	4,708,461	3,713,303
Retirement plan costs	— (a)	—

(a) Using the unit credit method of funding contributions to its retirement plan, which method, in the opinion of the consulting actuary, maintains the fund on a sound actuarial basis, no contributions have been required since the fiscal year ended December 1, 1961.

Under the opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants issued in November, 1966, as the retirement plan is now constituted, no charge against income is required for 1966.

Reference to Opinion No. 8

AMERICAN SAINT GOBAIN CORPORATION
Notes to Financial Statements

Note 2: *Pensions*—The Company has pension plans covering all full time employees of the Company. The aggregate pension expense before tax benefit for the year 1966, based on normal cost and amortization of prior service costs over varying periods ranging to 40 years, amounts to $935,000 as compared to $659,000 for the year 1965. This change represents an increase in benefits under contractual arrangements with certain hourly employees and a change in the method of accounting for pensions under these plans. In prior years, the Company had followed the policy of providing in its account for the present worth actuarially calculated of contractual pension commitments to employees who retired under these plans. In 1966, the Company changed its method of accounting with respect to these contractual pension plans to recognize normal costs and amortization of prior service cost as recommended by Accounting Principles Board Release 8. If this change had been made in 1965, the effect would have been to increase pension expense by approximately $330,000 before tax benefit.

Actuarial estimates of unaccrued past service costs for all pension plans at December 31, 1966 amounts to $13,500,000 before tax benefit. Estimated pension expense for 1967 will approximate $1,390,000.

THE KROGER CO.
President's Letter

After-tax earnings benefited from the investment credit, equal to 24¢ per share, and from tax losses of certain subsidiaries carried forward from prior years. On the other hand, net income was reduced by a large number of early retirements. The Employees' Benefit Fund was increased by $3,576,737. In 1967 and subsequent years your company will account for retirement expense in accordance with the provisions of Bulletin No. 8 issued by the American Institute of Certified Public Accountants in November, 1966. The new accounting rules require that a charge be made in each year for the estimated future retirement expense of all eligible employees on the payroll instead of providing only for employees who have actually retired, as Kroger has done heretofore. Had the new rules been in effect during 1966, we estimate that an additional provision in the area of $1 million would have been required.

PITTSBURGH STEEL COMPANY
Notes to Financial Statements

Note 4: *Pension Plan*—The company and its subsidiaries have pension plans, which provide generally that employees are eligible for retirement on regular pension at age 65 or at the completion of 30 years of continuous service, the amount of such pensions being based on compensation and length of service. Total pension costs under all the plans were $3,628,000 for 1966 and $3,124,000 for 1965. The amounts provided and funded in 1966 and prior years were based on actuarial estimates which have been revised from time to time to give recognition to changing conditions. Actuarial studies to determine future pension provisions as prescribed recently by the American Institute of Certified Public Accountants have not been completed; however, preliminary estimates indicate that the annual cost of pensions to be charged to income in 1967 and future years under present plans will range from $4,500,000 to $5,000,000. The increased pension provisions will result, in part, from improved employee benefits which became effective August 1, 1966 and, in part, from conforming to the newly prescribed accounting procedures.

The aggregate amount provided and funded is greater than the cost of all pensions granted to December 31, 1966.

Change in Accounting Procedure of Pension Plans for Conformity with, but without Reference to, Opinion No. 8

CF&I STEEL CORPORATION
Notes to Financial Statements

Pensions: The Corporation has two trusteed, noncontributory pension plans covering substantially all of its employees. Effective October 1, 1966, a change from previous methods of funding, principally terminal funding, to an actuarial cost method had the effect of reducing net income for the year by approximately $139,000. The actuarial cost method which was adopted provides for funding of current service cost, plus interest on and amortization of past service cost over periods from twenty to thirty years.

The total pension cost funded during the year was $8,654,000 of which $6,983,000 was charged to operations and $1,671,000 was charged against pension costs accrued in prior years. The actuarially computed value of vested benefits as of December 31, 1966, exclusive of the total of the pension funds and balance sheet accrual, was approximately $31,000,000.

STANDARD PACKAGING CORPORATION
President's Letter

. . . In addition, pension costs which amounted to $592,000 in 1966 will increase importantly due to changes in accounting requirements.

DEPLETION

Annual Charge

An annual charge for depletion was disclosed by 111 of the survey companies in their 1966 reports. An additional 5 companies presented accumulated depletion accounts in their balance sheets but made no reference to an annual depletion charge in the income statements. 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.

Method

Of the companies which disclosed either an annual charge for depletion or accumulated depletion, 100 companies made no reference to the method or basis used in the determination of the amount provided. Eight companies disclosed both basis and method used for computing depletion, of which five companies indicated use of the unit-of-production method, while two companies indicated use of the cost method, and one used the cost method on properties located in one area and the unit-of-production method on all other productive properties.

Eleven companies indicated use of the percentage method for tax purposes.

TABLE 6: DEPLETION—ANNUAL CHARGE

Presentation in Income Statement*	1966	1965	1960	1950
Listed among other costs with single total amount for:				
A: Depletion	6	9	13	24
B: Depletion and depreciation	44	44	39	35
C: Depletion, amortization, and depreciation	22	23	30	12
Depletion and amortization	—	—	1	4
D: *Combined with other costs or expenses*	10	11	6	—
E: *Disclosed within income statement in note or schedule*	2	3	7	2
F: *Disclosed at foot of income statement* in note or schedule	7	10	13	14
	91	100	109	91
Disclosed Elsewhere in Annual Report*				
G: In notes to financial statements**	7	6	9	12
H: In letter to stockholders, financial review, or supplementary schedules	11	8	—	1
I: *Depletion not deducted from net income*	2	2	2	2
	20	16	11	15
Number of Companies Referring to				
Annual depletion charge	111	116	120	106
Accumulated depletion but not referring to annual depletion charge	5	4	6	8
Not referring to depletion	484	480	474	486
Total	600	600	600	600

*Refer to Company Appendix Section—A: 43, 117, 434, 480, 519; B: 46, 191, 270, 322, 373, 455; C: 13, 382, 416, 469, 503, 553; D: 21, 69, 273, 494, 518, 532; E: 399; F: 177, 261, 435, 481, 484; G: 52, 100, 299, 317, 329; H: 92, 359, 420, 543; I: 326.

**Includes one company with depletion of timberlands and phosphate and gravel deposits, but no depletion of metal mines.

Three companies 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 referred to by approximately 7 per cent of the survey companies in their 1966 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

CROWN CENTRAL PETROLEUM CORPORATION

Costs and Expenses:	
Costs and operating expenses	$65,906,303
Selling and administrative expenses	7,692,885
Depreciation	2,019,626
Depletion	400,625
Employees' Pension Trust, Savings Plan and security expense	526,914
Interest, discounts, exchange, etc.	789,982
Abandonments and sales of property, plant and equipment—net	336,612
Bad debts	93,383
	$77,766,330

HOLLY SUGAR CORPORATION

Income before Income Taxes	$6,917,338
Provision for Income Taxes:	
Federal:	
Current (less investment tax credit, 1966, $84,000; 1965, $1,354,000)	2,201,000
Deferred	998,000
State	175,000
Total	3,374,000
Net Income (provisions for depreciation and depletion, 1966, $2,363,418; 1965, $2,380,-425)	$3,543,338

INLAND STEEL COMPANY

	(In thousands)
Costs and Other Expenses:	
Employment Costs:	
Wages and salaries	$257,342
Pensions and other employee benefits	39,968
	297,310
Materials, services and other expenses	552,139
Total (1)	849,449
Depreciation, amortization and depletion	76,616
State, local and miscellaneous taxes	14,303
Interest and expenses on long-term debt	6,546
	$946,914

STANDARD OIL COMPANY (INDIANA)

Costs, Expenses, and Taxes:	
Purchased crude oil, petroleum products, merchandise, and operating expenses	$1,471,998,000
Exploration expenses, including dry hole costs	145,531,000
Selling and administrative expenses	438,313,000
Taxes	731,543,000
Depreciation, depletion, amortization, retirements, and abandonments	282,943,000
Interest expense	19,284,000
Income applicable to minority interest	5,543,000
Total Costs, Expenses, and Taxes	$3,095,155,000

TIDEWATER OIL COMPANY

Costs and Expenses:	
Crude oil, products, merchandise and operating expenses	$441,025,000
Exploration costs, dry-hole losses and undeveloped lease amortization	22,996,000
Selling, general and administrative expenses	74,505,000
Taxes, including income taxes	135,481,000
Depreciation and depletion	60,332,000
Interest on indebtedness	5,952,000
Total	$740,291,000

UNITED STATES SMELTING REFINING AND MINING COMPANY

Cost of sales, production, and operating expense	$106,455,480
Selling, administration and general	7,683,142
Exploration, dry holes and delay rentals	1,339,138
Interest expense	2,192,498
Depreciation, depletion and amortization	4,143,616
	$121,813,874

Presentation at Foot of Income Statement

THE FLINTKOTE COMPANY

Provision for depreciation and depletion amounted to $14,288,000 for 1966 and $13,240,000 for 1965.

RAYONIER INCORPORATED

Depreciation and depletion charged against income amounted to $14,017,401 in 1966 and $15,328,442 in 1965.

Set Forth in Notes to Financial Statements

AMERICAN CAN COMPANY

Note 9: Costs and expenses include selling and administrative expenses of $139,196,000 in 1966 and $124,973,000 in 1965. Provision for depreciation and depletion was $51,762,000 in 1966 and $50,811,000 in 1965.

GENERAL DYNAMICS CORPORATION

Note 6: *Properties*—Property, plant and equipment at December 31, 1966, includes land of $29,720,986. Provisions for depreciation, amortization and depletion aggregated $32,661,725 in 1966 and $30,711,981 in 1965.

The Corporation leases from the United States Government substantial portions of plant facilities used in the operation of certain divisions.

Set Forth in Financial Review or Elsewhere in Report

ALAN WOOD STEEL COMPANY
Source and Application of Funds

Funds Provided:	(In thousands)
Net income (loss)	$ 2,148
Depreciation and depletion	5,969
Mine development	51
Property disposals	178
Other	(1,252)
Cash flow	$ 7,094

FMC CORPORATION
Financial Review

Depreciation, depletion, and amortization amounted to $37.1 million, compared with $37.3 million in 1965. 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.

Depletion on Certain Properties Not Deducted from Net Income

UNITED PARK CITY MINES COMPANY
Notes to Financial Statements

Note A (in part): The company and its predecessors have consistently followed the practice of presenting their financial statements without deduction for depletion of metal mines, and no such deduction is included in these financial statements. Statutory depletion is recognized for tax purposes.

DEPRECIATION

Annual Charge

Depreciation was disclosed by all 600 survey companies. However, two companies 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 598 companies, 433 presented the annual charge for depreciation in the income statement, and 165 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 1966 published reports.

TABLE 7: DEPRECIATION—ANNUAL CHARGE

Presentation in Income Statement*	1966	1965	1960	1950
Listed among other costs with single total amount for:				
A: Depreciation	138	140	145	237
B: Depreciation and amortization	73	79	105	68
C: Depreciation, amortization, and depletion	22	23	30	12
D: Depreciation and depletion	44	44	39	35
E: Depreciation and related costs	15	16	7	2
F: *Segregated within income statement* in note or schedule	45	50	57	18
G: *Presented at foot of income statement* in note or schedule	96	101	107	114
	433	453	490	486
Disclosed Elsewhere in Annual Report*				
H: In notes to financial statements or in supplementary schedules	155	136	89	66
I: In letter to stockholders	10	8	9	17
	165	144	98	83
Number of Companies Referring to				
Annual depreciation charge	598	597	588	569
Accumulated depreciation but not referring to annual depreciation charge	2	3	12	31
Total	600	600	600	600

*Refer to Company Appendix Section—A: 9, 111, 217, 448, 519, 574; B: 2, 41, 140, 232, 352, 423; C: 13, 308, 382, 469, 503, 569; D: 76, 191, 256, 330, 492, 599; E: 21, 139, 273, 437, 510, 532; F: 50, 150, 213, 286, 381, 528; G: 105, 157, 225, 334, 408, 575; H: 58, 97, 188, 342, 451, 583; I: 87, 310, 442, 504, 597.

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 ⅔rds 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, 181 described in their 1966 reports the method of depreciation used, either in whole or in part, including, after 1961, the use of guideline lives. This information is presented in the tabulation on page 186. A company's method has often been included arbitrarily under one of the main headings in the tabulation, A, B, C, D, etc., although it might just as well have been included under other headings.

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

DEPRECIATION METHODS

Method Adopted*	Number of Companies
A: Straight-line methods (62 companies):	
1: Straight-line method for book purposes—other methods for tax purposes	5
2: Straight-line year-of-acquisition method used for book purposes—straight-line composite method used for tax purposes	1
3: Straight-line method used for book purposes—guideline lives and sum-of-the-years digits method used for tax purposes.	1
4: Straight-line method for book purposes—accelerated methods (not disclosed) used for tax purposes	23
5: Straight-line method used for book purposes—guideline lives and accelerated methods used for tax purposes	11
6: Straight-line method used for book and tax purposes	2
7: Straight-line method for book purposes for some assets—declining-balance method and guideline lives used for tax purposes	2
8: Straight-line method for book purposes reported for some assets—accelerated methods for tax purposes for same or other assets	2
9: Principally straight-line method used for book purposes—accelerated methods (not disclosed) used for tax purposes	3
10: Straight-line method for 1966 additions for book purposes—accelerated methods used for book and tax purposes prior to 1966	2
11: Accelerated methods used for tax purposes on certain assets—straight-line method for some or all assets for financial purposes	3
12: Straight-line methods used for book purposes—accelerated methods used for tax purposes—guideline lives used for book and tax purposes	3
13: Straight-line method for certain classes of assets acquired new since 1954—accelerated methods used for tax purposes for same assets	1
14: Changed to straight-line method in 1966 for depreciating current year additions to machinery and equipment for book purposes—sum-of-the-years digits method continued for tax purposes	1
15: Straight-line method for book purposes—for federal income tax purposes, certified portion of defense facilities amortized over five-year period, and depreciation on all other facilities either at straight-line or accelerated rates utilizing guideline lives	1
16: Partly straight-line method for book purposes—declining-balance method for tax purposes for same assets	1
B: Unit-of-production method (2 companies):	
1: Unit-of-production method used for book and tax purposes	1
2: Buildings, machinery and equipment depreciated over their estimated useful lives, using unit-of-production and other methods appropriate to various operations	1
C: Guideline lives used for book and tax purposes	3
D: Accelerated methods (9 companies):	
1: Accelerated methods not disclosed and guideline lives used for book and tax purposes	2
2: Accelerated methods not disclosed used for book and tax purposes	5
3: Accelerated rates since 1953 and guideline lives beginning in 1962 for both book and tax purposes	2
4: Used guideline lives on assets acquired during 1962 and subsequent years and accelerated methods for property additions since 1954 and straight-line method on sliding scale based on rate of production for assets acquired prior to 1954; all for both book and tax purposes	1
E: Sum-of-the-years digits method (5 companies):	
1: Sum-of-the-years digits method used in conjunction with guideline lives for book and tax purposes	2
2: Sum-of-the-years digits method used on assets acquired after January 1, 1954, straight-line method used on assets acquired earlier, for both book and tax purposes	1
3: Sum-of-the-years digits method used on most new assets since 1954 for book and tax purposes—guidelines used for tax purposes only since 1962	1
4: Sum-of-the-years digits method effective with major portions of machinery and equipment additions in the current year additions previously depreciated on declining-balance method	1
F: Declining-balance method (2 companies):	
1: Depreciation on new assets acquired since December 31, 1953 is primarily on the double-declining-balance method—guideline rates and rules used for tax purposes but not for book purposes	1
2: Effective January 1, 1966, depreciation method on Tappers was changed from straight-line method to the trip method using a double-declining rate—accelerated depreciation used for tax purposes	1
G: More than one predominant method (11 companies):	
1: Straight-line or one of accelerated methods used for book purposes—same methods used for tax purposes except for certain assets for which the straight-line method is used for book purposes whereas accelerated methods are used for tax purposes	1
2: Sinking fund method for certain class of assets, straight-line, sum-of-the-years digits or double-declining-balance methods for other assets—accelerated methods and 1962 guideline lives used for tax purposes	1
3: Double-declining-balance method for qualifying assets acquired by domestic companies after December 31, 1953; all other domestic assets on straight-line basis—guidelines adopted for tax purposes	1
4: Straight-line and 150% declining-balance methods used for book purposes—accelerated basis under guideline methods for tax purposes	1
5: Double-declining-balance and straight-line methods for book purposes—other methods for tax purposes	1
6: 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
7: Unit-of-production basis for mining; straight-line method generally based on guideline lives for other operations	1
8: Unit-of-production basis for mining equipment and related facilities, economic life basis for magnesium-producing facilities, straight-line method for other assets, all for book purposes—method for tax purposes not disclosed, but differs, and results in deferred income taxes	1
9: Straight-line method for recreational resort assets and unit-of-production basis for mine and other assets	1
10: Unit-of-production basis for equipment used on producing wells and straight-line method for all other assets	1
11: Unit-of-production basis for costs of producing facilities and straight-line method for all other assets—accelerated depreciation for tax purposes	1
H: Book method not disclosed (85 companies):	
1: Accelerated methods and shorter lives used for tax purposes	3
2: Accelerated methods (not disclosed) and guideline lives used for tax purposes	15
3: Accelerated methods used for tax purposes	44
4: Guideline lives used for tax purposes only	22
5. Class-composite method used for tax purposes	1
6: Extra depreciation or obsolescence charges in addition to normal depreciation charge	1
Total number of disclosures of depreciation methods in 1966 annual reports	181

*Refer to Company Appendix Section—A-1: 469; A-4: 41, 210, 420, 567; A-5: 18, 124, 451, 467, 477, 588; A-6: 532; A-7: 365; A-8: 121; A-9: 70; A-10: 394; A-11: 44; A-12: 590; C: 131; D-2: 432; E-1: 126; H-1: 306; H-2: 9, 108, 244, 292, 575, 584; H-3: 68, 133, 225, 374, 412, 562; H-4: 203, 247, 250, 410, 425.

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

CONTAINER CORPORATION OF AMERICA
Notes to Financial Statements

Property and Depreciation (in part): Depreciation for corporate reporting purposes is determined on a straight-line basis at rates adequate to depreciate the applicable assets over their expected average useful lives.

Deferred Federal Taxes: For federal income tax purposes, depreciation is claimed using maximum allowable methods. Since these methods differ from those used for corporate reporting purposes, a provision for deferred federal taxes is made annually to provide for the taxes which will be payable in future years.

Straight-Line Method Used for Book Purposes, Accelerated Methods Not Disclosed Used for Tax Purposes

INTERNATIONAL PAPER COMPANY
Notes to Financial Statements

Note 3: *Plants and Properties* (in part)— Effective January 1, 1966, the Companies have computed depreciation on a straight-line method for financial reporting purposes. This change had the effect of increasing net income for 1966 by $5,122,000 (12 cents a common share), after the related income tax effect. For tax purposes, the Companies continue to compute depreciation using accelerated methods. The use of accelerated depreciation for tax purposes has resulted in additional tax deferrals in 1966 which have been included in deferred income taxes.

RAYONIER INCORPORATED
Notes to Financial Statements

Depreciation: Effective January 1, 1966, for accounting purposes, the company changed from an accelerated method to the straight-line method of computing depreciation on its United States facilities. This change reduced the 1966 provision for depreciation by about $2,700,000 and increased net income by approximately $1,400,000. The company continues to use accelerated depreciation methods for income tax purposes and provides for related deferred income taxes. Also in 1966, the depreciation rate applicable to Canadian mill facilities was conformed to that used for comparable United States facilities, resulting in a further reduction in the provision for depreciation of about $600,000 and an increase in net income of approximately $300,000.

TRIANGLE CONDUIT & CABLE CO. INC.
Notes to Financial Statements

Deferred Federal Income Tax: The company, in its financial statements, provides for depreciation computed by the straight-line method; for income tax purposes, depreciation is computed by accelerated methods. The resulting reduction in current Federal income taxes payable has been credited to deferred Federal income taxes.

Straight-Line Method Used for Book Purposes, Guideline Lives and Accelerated Methods Used for Tax Purposes

CONTINENTAL CAN COMPANY, INC.
Financial and Operating Review

Depreciation and Income Taxes: Depreciation and depletion charges in 1966 were $46,535,000, compared with $45,192,000 in 1965. For financial statement purposes, depreciation is calculated on a straight-line basis, while for income tax purposes accelerated methods and useful life guidelines permitted by the Internal Revenue Service are used. This resulted in a lesser amount of income tax ($6,303,000) being currently payable. This amount has been added to the reserve for deferred income taxes and does not affect net earnings reported in the financial statements.

Principally Straight-Line Method Used for Book Purposes, Accelerated Methods (Not Disclosed) Used for Tax Purposes

ACME MARKETS, INC.
Notes to Financial Statements

Note 2 (in part): *Deferred Income Taxes and Investment Credit* —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 ($1,122,000 in 1966 and $1,786,400 in 1965) which will be payable when depreciation for financial statement purposes exceeds depreciation deductible for income tax purposes.

Guideline Lives Used for Book and Tax Purposes

WESTINGHOUSE ELECTRIC CORPORATION
Financial Review

Maximum guideline depreciation is charged against income for financial statement and for Federal income tax purposes. The reduction in current year depreciation results from changing from item accounting to multiple asset accounting when the Internal Revenue Service guidelines were adopted in 1962. The major straight line multiple asset accounts became fully depreciated by mid-1966.

Accelerated Methods Used for Book and Tax Purposes

SCREW AND BOLT CORPORATION OF AMERICA
Financial Review

Depreciation, which is taken on an accelerated basis for both book and tax purposes, amounted to $2,183,131 in 1966 compared to $1,837,420 in 1965.

Accelerated Methods and Shorter Lives Used for Tax Purposes, Methods Used for Book Purposes Not Disclosed

W. F. HALL PRINTING COMPANY
Letter to Stockholders

Depreciation: During the year depreciation charged to income totaled $4,138,000 compared with $3,713,000 during the year ended March 31, 1965. The Company continued its policy of claiming additional depreciation based upon shorter lives and accelerated methods for federal income tax purposes.

Accelerated Methods (Not Disclosed) and Guideline Lives Used for Tax Purposes, Method Not Disclosed Used for Book Purposes

FOREMOST DAIRIES, INC.
Notes to Financial Statements

Note 3: Federal Income Tax—Deferred Federal income tax of $3,800,000 as of December 31, 1966 results primarily from the use for tax purposes of accelerated and guideline depreciation; taxes deferred for 1966 and 1965 were not material.

THE MAY DEPARTMENT STORES COMPANY
Notes to Financial Statements

Note E: Federal Income Taxes—Deferred federal income taxes result from the use, for tax purposes, of guideline depreciation lives and accelerated depreciation methods and the installment method of accounting for deferred payment sales.

Accelerated Methods for Tax Purposes, Methods Used for Book Purposes Not Disclosed

ALLIED MILLS, INC.
Balance Sheet Liabilities

Deferred Federal Taxes on Income Due to Accelerated Depreciation $713,000

Notes to Financial Statements

Depreciation: Provision for depreciation aggregated $2,920,402 in 1966 and $2,646,215 in 1965.

HERCULES INCORPORATED
Notes to Financial Statements

Note 4: U. S. Income Taxes—The company has adopted for income tax purposes accelerated depreciation methods with respect to certain fixed assets. The income taxes deferred to future years applicable to the differences between depreciation taken for book and tax purposes are provided for in the reserve for deferred income taxes.

Guideline Lives Used for Tax Purposes Only, Methods Used for Book Purposes Not Disclosed

ANHEUSER-BUSCH, INCORPORATED
Review of the Year

Property: The Company uses guideline rates permitted by the Treasury Department in computing depreciation for tax purposes. The resultant tax reduction has been credited to deferred income taxes. There was no effect on income for the year.

CONSOLIDATED LAUNDRIES CORPORATION
Notes to Financial Statements

Federal Income Taxes: For financial accounting purposes depreciation has been provided generally at rates calculated to absorb the cost of the physical properties over their estimated useful service lives, whereas for income tax purposes the Corporation has adopted the more liberal "guideline" rates and rules. The resulting reduction of $134,305 in 1966 Federal income taxes has no effect on net income since an equivalent amount has been provided for income taxes which will be payable in future years.

INTERSTATE BAKERIES CORPORATION
Notes to Financial Statements

Note 2: Property, Plant and Equipment—Depreciation for 1966 for financial accounting purposes, computed under the Company's regular methods, exceeds depreciation for income tax purposes, which has been computed in accordance with guidelines issued by the U. S. Internal Revenue Service. As a result, taxes aggregating $335,000 are payable at December 31, 1966 which were charged against operations of prior years, when deductions allowable for income tax purposes were greater than amounts then chargeable to operations.

Certain plant and warehouse facilities are leased under agreements which expire at various dates after December 31, 1969 and until 1988 at aggregate annual rentals of $540,000.

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.

Examples

Examples illustrating the various presentations of depreciation guidelines taken from the 1966 annual reports may be found under the immediately preceding subject, "Depreciation."

The following tabulation shows that 72 of the 600 survey companies indicated in their 1966 reports the adoption (in part or in full) of the new guideline rules. An additional 19 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	58
B: For both book and tax purposes	14
Total	72
C: Guidelines referred to in prior year's report but not in current year's report	19
Not referring to Guidelines rules	509
Total	600

*Refer to Company Appendix Section—A: 77, 112, 178, 365, 416, 456; B: 200, 267, 305, 427, 551, 590; C: 23, 46, 342, 435, 489, 520.

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 1965 made no mention of such foundations in their 1966 reports nor did they indicate whether such foundations had been dissolved.

Presentations of information were made by 69 companies in their 1966 annual reports which are summarized as follows:

		Number of Companies
A: Contributions to charitable foundations:*		
1. Disclosed in notes to financial statements	3	
2. Disclosed in letter to stockholders	10	13
B: Financial aid to education* disclosed in president's letter:		
1. Scholarships and fellowships and corporate matching of employees' gifts to educational institutions	29	
2. Direct assistance to students	18	47
C: Contributions to hospital and other community organizations* — disclosed in president's letter		9
Total number of disclosures in company reports concerning charitable foundations and corporate contributions		69

*Refer to Company Appendix Section—A-1: 448; A-2: 142, 305, 375, 570, 597; B-1: 43, 94, 369, 455, 516, 551, 567; B-2: 37, 60, 233, 250, 503, 584; C: 26, 60, 522, 570.

Examples

Examples from the 1966 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

HUDSON PULP & PAPER CORP.
Notes to Financial Statements

Note E: The Company contributes for eleemosynary purposes approximately 5% of its net taxable income. During the year, contributions amounted to approximately $293,000 of which approximately $280,000 was made to The Abraham Mazer Family Fund, Inc., a non-profit philanthropic corporation.

In President's Letter or Financial or Operations Review

CARRIER CORPORATION
Financial Data

In 1966 the Corporation provided $500,000 to be given to The Carrier Foundation, Inc. whose contributions totaled $333,000 during its 1966 fiscal year. Of the latter, approximately 38% was to educational institutions, 45% to health and social welfare organizations and the balance to other qualified recipients.

CUMMINS ENGINE COMPANY, INC.
Operations Review

Community: The Company has an obligation and interest in the various communities in which it operates. It fulfills this obligation through participation by Cummins' people in civic affairs and through corporate donations for education, religious and civic activities. The Company allocates approximately 5% of its taxable income for philanthropic programs, most of them conducted by Cummins Engine Foundation. More than $500,000 was given to education in 1966 for direct college and university grants, scholarships and fellowships and the placing of engines in educational institutions offering technical training.

PITNEY-BOWES, INC.
Operations Review

Pitney-Bowes encourages its employees to be active in public affairs and community projects and to give support to institutions for health, welfare and education. Last year many PB people again gave time, effort and talent to public service and generously contributed to community campaigns.

The company also directly supports health, welfare and education and matches the gifts of employees to universities, colleges and schools of their choice. Our corporate contributions in the U.S. and Canada last year totaled $407,000. Of this, educational grants were $115,000 and gifts to health and welfare organizations, mainly through United Funds and Community Chests, were $292,000.

SUN OIL COMPANY
Operations Review

In the Spring, 12 more National Merit scholarships were awarded to children of employees. This brought to 52 the number granted since Sun began sponsoring such scholarships in 1961. The Company also provided assistance to 41 colleges and universities during the 1966-67 school year, including 10 fellowships, 37 grants of money or equipment and 35 scholarships.

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 1966 survey reports. Of the 600 survey companies, 574 presented estimated income taxes. Of these, 161 included the estimates among other costs, while 413 companies presented such estimates in a separate last section of their income statements.

Ten 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

UNION OIL COMPANY OF CALIFORNIA

Costs and Other Deductions:	
Raw materials, products, services, and supplies	$ 835,097,000
Taxes	338,986,000
Salaries, wages, and employee benefits	157,921,000
Depletion, depreciation, and amortization	98,157,000
Dry hole and lands relinquished losses	60,400,000
Interest expense	19,122,000
Earnings applicable to minority interests in subsidiaries consolidated	778,000
Total Costs and Other Deductions	$1,510,461,000

Note: *Taxes*—Taxes in the statement of consolidated earnings, excluding taxes on gains on sales of assets, are as follows:

Excise and sales taxes	$264,831,000
Property, franchise, and other operating taxes	38,737,000
Federal and other taxes on income	35,418,000
	$338,986,000

THE AMERICAN DISTILLING COMPANY

Cost of Goods Sold, Expenses and Other Deductions:	
Cost of goods sold	$17,897,101
Selling, advertising, distribution, administrative and general expenses	4,836,904
Interest and loan expenses	575,909
Miscellaneous net	(96,416)
Provision for doubtful accounts	72,000
Provision for federal taxes on current year's earnings	2,535,000
	$25,820,498

THE B. F. GOODRICH COMPANY

Deduct:	
Cost of products sold	$734,313,282
Selling and general administrative expenses	173,420,536
Depreciation and leasehold amortization	41,717,796
Interest expense	7,577,163
Minority interests	2,152,286
Federal and foreign income taxes	37,816,000
	996,997,063
Net Income	$ 48,600,504

WALTER KIDDE & COMPANY, INC.

Costs and Expenses:	
Cost of sales	$214,153,827
Selling, general and administrative	43,978,879
Interest	2,472,596
Other—net	(277,218)
Federal and foreign income taxes (Note)	5,364,126
	265,692,210
Net Income	$ 8,005,373

Federal Income Taxes: The provisions for Federal income taxes in 1966 and 1965 have been reduced by the application of net operating losses carried forward from prior years. Without the benefit of the carry-forward of these losses, the provision for Federal income taxes in 1966 and 1965 would have been increased and net income reduced by approximately $1,030,000 and $470,000, respectively.

PITTSBURGH STEEL COMPANY

Costs and Expenses:	
Cost of products sold	$145,759,000
Depreciation	11,029,000
Selling and administrative	7,171,000
Pensions and social insurance	7,138,000
Interest	2,524,000
Estimated federal and state income taxes	2,405,000
	$176,026,000

SCHENLEY INDUSTRIES, INC.

Income Deductions:	
Cost of goods sold	$372,321,531
Selling, advertising and administrative expenses	59,544,392
Interest charges	8,874,944
Provision for Federal taxes on income, less investment credit of $717,311 in 1966 and $724,640 in 1965	16,630,000
Minority interest in net income of The Buckingham Corporation	2,953,831
	$460,324,698

TABLE 8: CURRENT ESTIMATE FOR FEDERAL AND OTHER INCOME TAXES

	Income Statement Designation*	Listed among Other Costs	Set forth in Last Section	1966 Total
	Shown with single amount for:			
A:	Federal income taxes	45	121	166
B:	Federal and state income taxes	7	28	35
C:	Federal and foreign income taxes	39	95	134
D:	Federal, state, and foreign income taxes	8	21	29
E:	Federal, state, and other income taxes	—	3	3
F:	Federal, foreign, and other income taxes	1	2	3
G:	Federal income and various other income taxes	6	8	14
H:	Income taxes not further designated	38	84	122
I:	Other	7	4	11
		151	366	517
	Shown with separate amounts for:			
J:	Federal and state income taxes	1	11	12
	(Federal and state combined) and foreign income taxes	—	1	1
K:	Federal and foreign income taxes	3	19	22
L:	Federal and various other income taxes	6	16	22
		10	47	57
		161	413	574
	Not shown or not required:			
	No provision for income taxes although income statement shows profit			2
M:	Operating loss carry-forward or carry-back eliminates estimate			10
N:	Operating loss shown in statement			13
	Operating loss for tax purposes only			1
	Total			600

*Refer to Company Appendix Section—A: 11, 44, 130, 327, 466, 583; B: 30, 184, 206, 387, 492, 585; C: 9, 107, 273, 312, 364, 485; D: 60, 111, 248, 329, 424, 501; E: 429; F: 207; G: 45, 127, 199, 526; H: 69, 146, 215, 311, 379, 518; I: 247, 534; J: 10, 296, 381, 440, 525, 551; K: 395; L: 91, 123, 347, 373, 449, 544; M: 182, 212, 237; N: 36, 167, 291, 396, 561, 590.

Set Forth in Last Section

ALLEN INDUSTRIES, INC.

Earnings Before Federal Income Taxes	$5,879,949
Federal income taxes	2,960,000
Net Earnings	$2,919,949

AMERICAN SAINT GOBAIN CORPORATION

Earnings Before Federal and State Taxes on Income	$2,253,074
Federal and state income taxes (Note 5)	729,539
Net Earnings	$1,523,535

Note 5: Federal Income Taxes—The provision for Federal income taxes was reduced by all available prior year's operating loss carry-over of approximately $131,000; foreign income taxes of $168,543; investment credits in the amount of $264,881 and estimated future income tax benefits relating to provisions for pensions and furnace repairs in the amount of $183,165. In addition, investment credits of $1,040,000 are available to reduce Federal income taxes within the next two to seven years.

ARDEN-MAYFAIR, INC.

Income Before Federal Income Taxes	$7,148,194
Federal income taxes	2,900,000
Net Income	$4,248,194

WOODALL INDUSTRIES, INCORPORATED

Earnings Before Income Taxes	$1,576,238
Federal Income Taxes	725,000
Net Earnings	$ 851,238

INTERCHEMICAL CORPORATION

Income Before Income Taxes	$28,263,000
United States and foreign income taxes (Note 4)	12,895,000
Net Income	$15,368,000

Note 4 (in part): *Taxes*—Taxes on income charged against earnings are as follows:

United States Income Taxes		
Current	$ 9,974,000	
Deferred	1,091,000	
	11,065,000	
Foreign Income Taxes		
Current	1,749,000	
Deferred	81,000	
	1,830,000	
Total	$12,895,000	

U.S. investment tax credits, which were temporarily suspended effective October 10, 1966, have been taken into income currently, resulting in additions to income of $258,000 in 1966 and $364,000 in 1965.

THE RYAN AERONAUTICAL CO.

Income before items shown below	$17,692,654
Provision for federal income tax	8,740,000
	$ 8,952,654

THE TORRINGTON COMPANY

Income Before Taxes	$22,823,205
U.S. and Foreign Income Taxes	10,797,139
Net Income	$12,026,066

BEAUNIT CORPORATION

Income Before Provision for Taxes on Income	$12,530,329
Provision for taxes on income:	
Federal (Notes 3 and 6)	3,880,000
State and foreign	778,278
	4,658,278
Net Income	$ 7,872,051

Note 3: The Company provides deferred federal taxes on income in amounts equivalent to reductions in taxes currently payable which result principally from the net excess of tax depreciation over book depreciation.

Note 6: The Company accounts for the investment credit as a reduction of federal income tax expense in the year in which it is obtained. The credits for the 1966 and 1965 fiscal years amounted to approximately $1,560,000 and $570,000, respectively.

THE FLINTKOTE COMPANY

Income Before Federal and Foreign Taxes on Income	$20,222,876
Federal and foreign taxes on income:	
Currently payable:	
United States	5,344,181
Foreign	1,195,414
Deferred (Note 4)	1,165,946
Charge equivalent to investment tax credit, net (Note 5)	162,844
	7,868,385
Net Income	$12,354,491

Note 4: 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.

Note 5: Investment tax credits are being amortized ratably over ten-year periods.

Presentation of Income Taxes Other than Federal Income Taxes

Listed Among Other Costs

J. I. CASE COMPANY

Income from Operations	$31,213,248
Other (charges) and credits:	
Finance and other charges—J. I. Case Credit Corporation	(13,897,441)
Interest expense	(5,816,942)
Income of J. I. Case Credit Corporation before taxes on income	6,208,299
Interest income	894,034
Provision for state and foreign taxes on income, including $722,000 and $230,000, respectively, applicable to J. I. Case Credit Corporation (Note 9)	(1,355,553)
Miscellaneous—net	66,569

Note 9: *Federal Taxes on Income*—Because of the net operating loss carry-overs from 1961 and 1962 no federal taxes on income are payable for the year ended October 31, 1966. Remaining loss carry-overs of approximately $1,000,000 are available to reduce 1967 taxable income.

Subject to certain limitations imposed by the Investment Credit Suspension Act of 1966, federal income taxes in the years 1967 through 1973 may be reduced by investment credit carry-overs of approximately $1,800,000. The effects of such credits will not be included in results of operations until realized as a reduction of federal taxes on income.

THE FIRESTONE TIRE & RUBBER COMPANY

Less:	
Cost of Goods Sold	$1,269,749,140
Depreciation	62,025,477
Selling, Administrative and General Expenses	290,797,163
Interest and Debenture Discount and Expense	12,157,968
Miscellaneous Deductions	1,214,364
Minority Interests in Income of Subsidiary Companies	1,288,253
Domestic and Foreign Taxes on Income	82,300,000
	$1,719,532,365

WARD FOODS, INC.

Costs and Expenses:	
Cost of sales	$149,153,756
Selling, delivery and general expenses	56,384,148
Depreciation and amortization	3,330,391
Interest on debt	2,478,312
Other expense	485,293
Foreign income taxes, less federal income tax credits (net)	338,324
Minority interest	73,388
Total	212,243,612
Net Income	$ 3,336,599

Set Forth in Last Section

ADDRESSOGRAPH MULTIGRAPH CORPORATION

Income Before Income Taxes	$52,043,568
Provision for Income Taxes:	
United States—current and future	22,967,732
Foreign	2,453,910
	25,421,642
Net Income	$26,621,926

ERIE FORGE & STEEL CORPORATION

Income Before Taxes on Income	$975,965.58
Taxes on income—estimated:	
State income taxes	69,000.00
Adjustment of prior year's tax provision	1,829.38
	70,829.38
Net Income—Note H	$905,136.20

Note H: *Federal Income Tax*—No provision for federal taxes on income is necessary because of an operating loss carry-forward.

PUROLATOR PRODUCTS, INC.

Earnings Before Taxes on Income	$13,318,346
Taxes on Income:	
Federal income tax:	
Currently payable	5,815,555
Deferred	101,000
Foreign taxes	480,445
	6,397,000
Net Earnings	$ 6,921,346

TWENTIETH CENTURY-FOX FILM CORPORATION

Net Earnings Before Taxes on Income	$23,762,527
Taxes on income:	
Federal (Note 4)	7,600,000
Foreign	3,658,541
	11,258,541
Net Earnings	$12,503,986

Note 4: *Federal Taxes on Income*—Consolidated Federal income tax returns are filed.

The manner in which the company reports certain income and amortization for financial statement purposes differs from that used for income tax purposes. As a result of such differences, none of the 1966 provision for Federal income taxes included in the Statement of Consolidated Earnings, amounting to $7,600,000, is payable currently. Of these deferred taxes, $3,620,000 related to Accounts Receivable and Inventories is included in the Consolidated Balance Sheet in Accrued Domestic and Foreign Taxes; the balance of $3,980,000 is classified as Deferred Taxes on Income.

Federal income tax returns for all years through 1962 have been examined by the Internal Revenue Service. The Revenue Agent has submitted his report covering years 1957 through 1962, proposing adjustments which have the effect of increasing taxes payable for these years and reducing taxes in later years. The company has filed a protest with the Appellate Division of the Internal Revenue Service contesting the proposed adjustments. Management believes that there is adequate provision in the accounts for any liability payable with respect to all open years.

Income Taxes Not Further Designated

APCO OIL CORPORATION

Costs, Expenses and Taxes:	
Cost of sales	$48,755,466
Selling and general expenses	6,271,645
Taxes other than taxes on income	624,361
Interest and debt expense	1,049,682
Depreciation and depletion	1,927,527
Retirements, nonproductive wells, other exploratory costs	252,721
Taxes on income—net of investment tax credit	2,900,000
	61,781,402
Net Income	$ 4,066,103

BLISS & LAUGHLIN INDUSTRIES INCORPORATED

Net Income Before Income Taxes	$9,626,549
Provision for Income Taxes	4,750,000
Net Income	$4,876,549

CROWN CORK & SEAL COMPANY, INC.

Profit from Operations Before Taxes on Income	$30,611,000
Estimated Taxes on Income	12,680,000
Profit from Operations After Taxes on Income	$17,931,000

JOY MANUFACTURING COMPANY

Expenses:	
Cost of sales, excluding depreciation	$110,986,744
Depreciation	4,082,394
Selling, development, administrative and general	33,652,644
Interest	1,169,224
Provision for income taxes	10,073,000
Total Expenses	159,964,006
Net Income	$ 11,718,490

WEST POINT-PEPPERELL, INC.

Income Before Income Taxes	$41,416,700
Provision for Income Taxes	19,700,000
Net Income	$21,716,700

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."

In December 1966 the accounting principles board of the American Institute of Certified Public Accountants issued *Opinion No. 9—Reporting the Results of Operations. Opinion No. 9,* as it relates to prior period adjustments, modifies the handling of and reporting on adjustments to provisions for income taxes of prior periods. Effective for all fiscal years beginning after December 31, 1966, material adjustments, ". . . should, in single period statements, be reflected as adjustments of the opening balance of retained earnings. When comparative statements are presented, corresponding adjustments should be made of the amounts of net income (and the components thereof) and retained earnings balances (as well as of other affected balances) for all of the periods reported therein, to reflect the retroactive application of the prior period adjustments. . . ."

Presentation of Income Tax Adjustments

Fifty-two of the 600 survey companies presented a total of 65 income tax adjustment items in their 1966 annual reports. Table 9 summarizes the various methods of presentation of the tax adjustments as shown by the survey companies. Of the 65 income tax adjustments, 9 items were set forth in the income statement; 39 were disclosed either in the footnotes, president's letter to the stockholders, in the "funds" statement, or parenthetically in the balance sheet; the remaining 17 items were shown in the retained earnings statement. The table 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 1965 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

TABLE 9: INCOME TAX ADJUSTMENTS, ALLOCATIONS, AND DEFERMENTS—1966

	Presentation in Reports**								
	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	1966 Total Items
DEBITS									
A: Prior year tax accrual adjustment	—	—	—	2	—	2	—	2	4
B: Additional tax assessment or payment	—	—	—	—	1	1	1	2	4
Interest expense on assessments	—	—	—	—	1	1	—	1	2
Adjustments—Total Debits	—	—	—	2	2	4	1	5	10
CREDITS									
C: Prior year tax accrual adjustment	—	1	—	1	1	3	1	3	7
D: Carry-back: Operating loss	—	—	1	1	—	2	—	—	2
E: Carry-forward: Operating loss	—	—	—	2	28	30	1	—	31
F: Interest received on tax refund	—	—	—	—	2	2	—	1	3
G: Tax adjustments—other items	—	—	—	—	3	3	1	4	8
H: Prior year investment credit returned to income	—	1	—	—	3	4	—	—	4
Adjustments—Total Credits	—	2	1	4	37	44	3	8	55
Adjustments—Total Debits and Credits	—	2	1	6	39	48	4	13	65
Allocation of Current Income Taxes, with:*									
DEBITS									
I: Extraordinary items shown net of related tax	—	2	—	7	2	11	10	19	40
J: Extraordinary items shown in full amount	—	6	—	6	3	15	2	3	20
Allocations—Total Debits	—	8	—	13	5	26	12	22	60
CREDITS									
K: Extraordinary items shown net of related tax	—	—	—	23	1	24	15	8	47
L: Extraordinary items shown in full amount	—	11	—	7	3	21	4	3	28
Only tax effect of extraordinary items shown	—	—	—	—	1	1	—	1	2
Allocations—Total Credits	—	11	—	30	5	46	19	12	77
Allocations—Total Debits and Credits	—	19	—	43	10	72	31	34	137
Deferments:*									
DEBITS									
M: Deferment of income taxes	8	10	22	53	126	219	—	—	219
CREDITS									
N: Reduction of deferred income taxes	—	—	4	10	19	33	—	1	34
Deferments—Total Debits and Credits	8	10	26	63	145	252	—	1	253
Total	8	31	27	112	194	372	35	48	455

Number of Companies Presenting:	1966
Income tax adjustment items only	23
Income tax allocation items only	57
Deferment items only	199
Both adjustment and allocation items	13
Both adjustment and deferment items	12
Both allocation and deferment items	36
Adjustment, allocation, and deferment items	4
	344
Number of Companies Not Presenting Special Items	256
Total	600

**See Table 10 for Percentage of Materiality.
See Tables 11 and 12 for Extraordinary Items.
*Refer to Company Appendix Section—A: 7, 217; B: 119, 574; C: 426; D: 196; E: 40, 251, 328, 346, 404; F: 189, 326, G: 119, 426; H: 504; I: 98, 134, 215, 337, 533, 573; J: 2, 91, 98, 284, 459, 582; K: 64, 230, 339, 370, 409, 427; L: 43, 216, 271, 326, 565, 586; M: 38, 170, 261, 457, 567, 575; N: 10, 128, 335, 385, 469, 597.

included under "Nature of Income Tax Adjustments."

Examples of similar adjustments reflected by the survey companies in their surplus accounts during 1966 are set forth in Section 4 under "Appropriations 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 52 of the 600 survey companies in their 1966 reports, the percentages of materiality and the accounts adjusted for such items are summarized in Table 10. The percentage of materiality of income tax adjustments was determined by the ratio of such items to 1966 net income, computed without regard for either income tax adjustments or extraordinary items.

Examples

The following examples, taken from the 1966 reports, illustrate the presentation and treatment of adjustments in connection with prior year income taxes.

Adjustments for Prior Year Income Taxes

AMERICAN MOTORS CORPORATION

Loss—Earnings Before Taxes on Income and Special Credit	$30,918,170
Taxes on income—credit (Note D)	15,200,000
Loss—Earnings Before Special Credit	15,718,170
Special credit—tax provisions of prior years no longer required (Note D)	3,070,000
Net Loss	$12,648,170

Note D (in part): *Taxes on Income*—Deferred income taxes at September 30, 1966, relate to depreciation of plant and equipment for tax purposes which is in excess of the amount recognized for financial reporting purposes. At September 30, 1965, this caption also included taxes of $3,070,000 relating to undistributed earnings of subsidiaries. The tax liability for undistributed earnings of subsidiaries was established over a period of years prior to 1963. Under present circumstances this provision for taxes is no longer required and has been included as a special item of income in the current year.

CONSOLIDATED LAUNDRIES CORPORATION

Net Income for the Year	$1,345,167
Earned surplus at beginning of the year	8,234,620
Total	9,579,787
Deduct:	
Cash dividends on common stock ($1.30 a share for both years)	786,871
Adjustment of prior years' Federal income taxes	235,163
Total	1,022,034
Earned Surplus at End of Year	$8,557,753

Notes to Financial Statements

Federal Income Taxes (*in part*): In 1966 the Corporation and the Internal Revenue Service reached agreement as to deficiencies in Federal income taxes for the years 1959 through 1963, based upon the disallowance of amortization of purchased service routes. The adjustment of prior years' income taxes of $235,163 charged to earned surplus represents the excess of (1) such deficiencies, (2) estimated additional income taxes for 1964 and 1965, and (3) related interest (net of income taxes), over amounts accrued in prior years.

KENNECOTT COPPER CORPORATION

Net Income	$125,375,300
Earned surplus at beginning of year	568,982,446
Net gain on sale of securities (Note 6)	20,350,000
Refund of prior years' U. S. income taxes, including interest less $1,700,000 of related taxes	5,726,381
	720,434,127

Tax Assessments, Refunds, and Refundable Taxes

HAT CORPORATION OF AMERICA

Net Income	$ 959,612
Special Item—(Charge)/Credit:	
Assessment of Federal income tax for fiscal year ended October 31, 1962—Note C	(155,946)
Net Income and Special Item	803,666
Earned Surplus—beginning of year	9,244,584
	$10,048,250

Note C: Assessment of Federal income tax resulted from partial disallowance on tax audit of a net operating loss of an acquired subsidiary carried forward to fiscal year ended October 31, 1962, in which a special item of $283,000 was credited to earned surplus.

PITNEY-BOWES, INC.
Financial Review

Tax Settlement: An agreement was reached early in 1967 with the Internal Revenue Service regarding tax deficiencies pertaining to the years 1960, 1961 and 1962. These deficiencies relate to the period during which tax deductions for depreciation and other costs may be claimed. The income statement for 1966 includes interest expense on the agreed-upon deficiency. As a result, 1966 net income has been reduced $211,000. Tax reserves presently provided, together with additional tax deductions to be allowed in years subsequent to 1962, will adequately cover the amount of the tax deficiency.

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. The claims, for which no amounts had been included in financial statements of prior years, were settled in 1966 for approximately $728,000 plus accrued interest of $306,000 and have been reflected in 1966 net earnings.

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 1966 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 1966 reports of the survey companies.

Carry-back of Operating Loss

THE DUPLAN CORPORATION

Income (Loss) Before U.S. Federal Income Tax, exclusive of Canadian subsidiaries in 1965	$135,009
Refund of U.S. federal income taxes (Note 2)	107,000
Income (loss) exclusive of Canadian subsidiaries	242,009
Net Income (Loss)	$242,009

Note 2: Because of losses taken in 1966 for tax purposes, for which provisions had been deducted for statement purposes in prior years, no charge for federal income taxes is required in 1966. The amount credited to income representing refunds of U.S. federal income taxes arises from the carryback of operating losses (for tax purposes) from 1966 and investment tax credits of $80,000.

Carry-foward of Operating Loss

ELGIN NATIONAL WATCH COMPANY

Costs and Expenses:	
Cost of goods sold	$30,949,873
Advertising, selling, general and administrative expenses	9,905,142
Interest expense	924,259
Total Costs and Expenses	$41,779,274
Earnings (loss) before taxes and special charge—	
Continuing operations	$ 625,226
Discontinued operations	(15,362)
Total	$ 609,864
Federal income taxes of about $300,000 have been eliminated in 1966 as a result of carry-forward of prior year's loss	—
Net earnings including Federal income tax reduction in 1966	$ 609,864

GRUEN INDUSTRIES, INC.

Operating profit	$1,536,436
Interest expense, net	335,298
Income before provision for income taxes	1,201,138
Provision for income taxes (Note 4)	203,730
Net Income	$ 997,408

Note 4: *Federal Income Taxes*—Provisions for federal income taxes were reduced in 1966 and not required in 1965 because of prior years' net operating losses carried forward in accordance with provisions of the Internal Revenue Code. Had such carry-overs not been available, provisions in the amounts of $585,600 and $458,600, respectively, would have been required.

WALTER KIDDE & COMPANY, INC.

Costs and Expenses:	
Cost of sales	$214,153,827
Selling, general and administrative	43,978,879
Interest	2,472,596
Other—net	(277,218)
Federal and foreign income taxes (Note)	5,364,126
	265,692,210
Net Income	$ 8,005,373

Note: *Federal Income Taxes*—The provisions for Federal income taxes in 1966 and 1965 have been reduced by the application of net operating losses carried forward from prior years. Without the benefit of the carry-forward of these losses, the provision for Federal income taxes in 1966 and 1965 would have been increased and net income reduced by approximately $1,030,000 and $470,000, respectively.

MAREMONT CORPORATION

Income before Federal and foreign income taxes	$8,842,162
Provision for Federal and foreign income taxes (Note 7)	3,600,000
Net Income for the Year (Note 7)	$5,242,162

Note 7 (*in part*): *Income Taxes*—In both 1966 and 1965 the provision for Federal income taxes was reduced because of loss carry-forwards from previous years. Without these carry-forward adjustments, consolidated net income would have been $5,006,355 for 1966 and $4,457,596 for 1965.

Availability of Operating Loss Carry-forward Disclosed in Notes to Financial Statements

BELDING HEMINWAY COMPANY, INC.

Note C: The provision for Federal income taxes has been reduced by approximately $95,000, resulting from the utilization of operating loss carryovers of a subsidiary arising prior to its merger into the Company during the year. At December 31, 1966, remaining unused operating loss carryovers aggregated approximately $190,000.

Deferred Federal income taxes result from depreciation computed for income tax purposes in an amount greater than that computed for financial accounting purposes.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

GENERAL PLYWOOD CORPORATION

Note 6: No provision for Federal taxes on income was required in 1966 and 1965 because of prior years' losses. Federal income tax expense otherwise would have been approximately $230,000 (1966) and $295,000 (1965). As of October 31, 1966, there remained approximately $3,500,000 of prior years' losses available to reduce taxable income in 1967-1969. Any future tax benefits that may be realized on approximately $2,200,000 of such prior years' losses will not be included in income but instead will be applied as an increase to capital surplus because such $2,200,000 was charged direct to retained earnings (deficit) in 1963 (which deficit subsequently was eliminated by transfer to capital surplus).

LOFT CANDY CORPORATION

Note D: *Federal Income Tax*—The federal income tax return of Loft Candy Corporation for the year ended June 30, 1962 is being examined by the Treasury Department and a deficiency in income taxes of approximately $76,000 has been proposed. The Company contends that the position of the Treasury Department is not justified; therefore, no provision has been made in the attached statements for this assessment, interest thereon or expense which may be incurred in connection therewith. The returns of the subsidiaries have not been examined in recent years.

No provision has been made for federal income tax on earnings for the fiscal year ended July 2, 1966, because of prior years' operating loss carryforwards. Net operating losses of approximately $100,000 are available against future earnings through 1970; substantially all of the unused investment credits of approximately $58,000 are available through 1968 against future income tax liabilities.

THE NATIONAL SUGAR REFINING COMPANY

Note 5: *Federal Taxes on Income*—The Federal taxes on income included in the accompanying statement of earnings for 1966 and 1965 relate entirely to Krim-Ko and subsidiaries for the period from January 1, 1965 to January 31, 1966.

At January 1, 1967, the Company had a tax loss carry-forward of $14,341,000 available to offset income for Federal income tax purposes in future years; this total amount expires in 1969 and 1970 in amounts of $9,902,000 and $4,439,000, respectively. The income tax benefits resulting from the tax loss carry-forward are being accounted for on a basis consistent with the treatment of the charges which resulted in the tax loss. The portion of the tax loss carry-forward attributable to the 1964 loss from operations ($632,000 remaining at January 1, 1967) is being applied to eliminate the income tax provisions otherwise required; thereafter, the future tax benefits resulting from utilization of the portion of the tax loss carry-forward attributable to the losses and costs relating to the closing of plants, which were treated as a 1964 direct charge to earned surplus, will be accounted for by the inclusion in applicable future statements of earnings of a charge equivalent to the amount of such tax benefits, with an offsetting credit to capital surplus (the accumulated deficit in earned surplus as of January 1, 1965 was transferred to capital surplus).

TABLE 10: INCOME TAX ADJUSTMENTS, ALLOCATIONS, AND DEFERMENTS—1966

	Percentage of Materiality*														
	Income Account							Retained Earnings Account							1966
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	2	—	2	—	1	—	5	4	1	—	—	—	1	6	11
Additional tax assessment or payment	1	—	—	—	—	—	1	1	—	1	—	—	1	3	4
Carry-back: Operating loss	—	—	1	—	1	—	2	—	—	—	—	—	—	—	2
Carry-forward: Operating loss	2	2	3	3	3	17	30	—	—	—	1	—	—	1	31
Interest expense on assessments	1	—	—	—	—	—	1	—	—	—	—	—	1	1	2
Interest received on tax refund	2	—	—	—	—	—	2	1	—	—	—	—	—	1	3
Tax adjustment—other items	—	—	—	—	2	1	3	2	—	2	—	1	—	5	8
Prior year investment credit returned to income	3	1	—	—	—	—	4	—	—	—	—	—	—	—	4
Adjustments—Total	11	3	6	3	7	18	48	8	1	3	1	1	3	17	65
Allocation of Current Income Taxes, with:															
Extraordinary items shown net of related tax	11	7	8	5	4	—	35	4	11	4	14	17	2	52	87
Extraordinary items shown in full amount	4	11	11	3	6	1	36	3	3	1	1	4	—	12	48
Only tax effect of extraordinary items shown	—	—	1	—	—	—	1	1	—	—	—	—	—	1	2
Allocations—Total	15	18	20	8	10	1	72	8	14	5	15	21	2	65	137
Deferments:															
Deferment of income taxes	97	56	35	17	3	11	219	—	—	—	—	—	—	—	219
Reduction of deferred income taxes	20	5	1	2	5	—	33	—	—	—	—	1	—	1	34
Deferments—Total	117	61	36	19	8	11	252	—	—	—	—	1	—	1	253
Total	143	82	62	30	25	30	372	16	15	8	16	23	5	83	455

	Accounts Adjusted for Special Items:		
Number of income tax adjustments	Income	Retained Earnings	1966 Total
For prior year accruals, etc.	48	17	65
From allocations arising from special items	72	65	137
For deferments	252	1	253
Total	372	83	455

*See Table 9 for Presentation of Income Tax Adjustments.
See Tables 11 and 12 for Extraordinary Items.
N—Percentage of Materiality not determinable.

Tax Adjustments—Other Items

AMERICAN SAINT GOBAIN CORPORATION

Special Item:	
Future income tax benefits relating to provisions for furnace repairs and pensions through January 1, 1966 (Note 6)	$ 895,612
Net Earnings and Special Item	$2,419,147

Note 6: *Future Income Tax Benefits*—For financial statement purposes, the Company recognizes as a current expense during the production cycle of a furnace the estimated repair costs which will be incurred during the period of furnace shut down. For income tax purposes, these repairs are a deductible expense in the year incurred. With respect to pensions, the Company does not completely fund its pension expense each year. For income tax purposes, the unfunded amount becomes a deductible expense in the year of payment.

Prior to 1963, it had been the practice of the Company, to recognize, on a current basis, the future income tax benefit resulting from these items. During the years 1963 through 1965, the net operating losses available for income tax purposes exceeded the income of the Company. Accordingly, the Company made no provision for future income tax benefits during these years. In 1966, the Company's income exceeded the operating loss carry-over for income tax purposes and, as of January 1, 1966, the Company recognized through an adjustment of $895,612 the full future income tax benefit applicable to the reserves for furnace repairs and pensions.

SERVEL, INC.

Earnings before provision for federal and Canadian income taxes and equity in earnings of Sonotone Corporation		$1,390,156
Provision for Federal and Canadian income taxes (Note 10):		
Current	555,439	
Deferred (credit)	2,254	
		557,693
		$832,463

Note 10: Federal income taxes for 1966 were reduced $86,000 by a foreign tax credit carry-forward and by expenses deductible for tax purposes recognized in the books in prior years. During 1965 the federal income taxes were reduced $165,000 by United States tax loss, investment credit, and foreign tax credit carryforwards.

Since federal income taxes only become payable by a stockholder when dividends are paid to it, the Company has adopted the practice of recognizing federal income taxes on its equity in Sonotone's net earnings only when and to the extent dividends are received by the Company. The amounts of federal income taxes which would have been payable, if Servel had received dividends equal to all its equity in Sonotone's 1966 and 1965 fiscal year earnings, were $31,400 and $23,700, respectively.

Prior Year Investment Credit Returned to Income

Set Forth in Notes to Financial Statements

THE AMERICAN TOBACCO COMPANY

Note 6: The Company and its wholly-owned subsidiaries have adopted a uniform 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, an aggregate of $3,628,000, are included in the 1966 income statement. The amount of these credits applicable to any one individual year is not material.

JOY MANUFACTURING COMPANY

Note 6: Prior to 1966 the company followed the practice of deferring the reduction in federal income taxes payable resulting from the investment credit and reflecting it in income over the estimated useful lives of the related qualified assets. In 1966 the entire investment credit for the current year of $188,118 has been credited to the provision for income taxes and the portion ($358,356) of the credit deferred in prior years through the reserve for depreciation has been restored to income by a reduction of the depreciation provision. This change in accounting for the investment credit had the effect of increasing net income for 1966 by $468,052 above that which would have been reported on the former basis.

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 137 items of income tax allocation for extraordinary items disclosed by the survey companies in their 1966 annual reports. In 87 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 48 cases. The percentage of materiality (Table 10) was not determinable for two of the adjustments shown *net of the related tax effect* and for one shown *in full amount.* 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

BELL & HOWELL COMPANY

	(In thousands)
Net Earnings Before Special Gain ...	9,335
Gain on sale of investments, net of tax	85
Net Earnings	$ 9,420

CORN PRODUCTS COMPANY

Income before extraordinary items	$58,229,550
Extraordinary items, net of applicable income tax of $616,262	569,810
Net income for the year	$58,799,360

FOOTE MINERAL COMPANY

Earnings Before Extraordinary Item ..	$1,500,837
Extraordinary item, net of applicable income taxes and related expenses, $156,215 (Note 2)	106,486
Net Earnings	$1,607,323

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 was deferred in the accounts and was being taken into income as a predetermined number of units of lithium oxide were shipped. During 1966 a portion of the advance payment deferred at the beginning of the year was included in net sales proportionately as product was shipped to the customer. During the latter part of 1966 the customer's forward requirements were clarified and its product mix was substantially altered from previous patterns. As a result it was determined to take the balance of the advance payment into income as an extraordinary item after applicable income taxes and related expenses.

MONSANTO COMPANY

	(In thousands)
Income Before Extraordinary Items	$112,351
Extraordinary Items:	
Write-off of goodwill	6,075
Less—Gain on sale of investments, less applicable income tax of $2,010,000	6,030
	45
Net Income	$112,306

SINCLAIR OIL CORPORATION

Income Before Extraordinary Items	$93,867,817
Extraordinary Items:	
Gain on liquidation of investment in Great Lakes Pipe Line Company (after applicable federal income tax of $2,750,320)	8,379,180
Provision for major program to divest certain uneconomic service stations (after applicable federal income tax of $4,600,000)	(5,500,000)
Provision for disputed royalty claims (after applicable federal income tax of $1,282,772)	(2,403,354)
	475,826
Net Income	$94,343,643

Disclosed in Retained Earnings Statement

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION

Net Income	$ 10,347,000
Earned surplus:	
Balance at beginning of year	187,642,000
	197,989,000
Less:	
Estimated expenses (net of related taxes) resulting from revaluation of certain product lines and facilities	15,000,000
Estimated loss (net of related taxes) on discontinuance of a substantial portion of the operations of Gulfstan Corporation (a consolidated subsidiary)	2,900,000
	17,900,000
Cash dividends:	
Preferred	286,000
Common	10,000,000
	10,286,000
Balance at End of Year	$169,803,000

EAGLE-PICHER INDUSTRIES, INC.
Consolidated Statement of Retained Earnings

Other charges, net	$159,692

Notes to Financial Statements

A provision for estimated loss on the disposition of certain plant facilities has been provided, net of income taxes, by a charge to retained earnings. This provision was partially offset by an adjustment of the recorded value of certain fixed assets to conform to their tax basis. The net effect is shown in the consolidated statement of retained earnings.

KOPPERS COMPANY, INC.
Statement of Income and Earnings Retained

Special charge, net of applicable income taxes (Note 6)	$ 1,848,213
	8,929,101
Earnings retained in the business at the end of period	$88,745,648

Note 6: Special Charge and Contingency—In 1964, the Company entered into a contract with Malan Construction Corp. under which it incurred costs for certain assets to be acquired in the future. The Company rescinded the contract in 1966 on the grounds of alleged misconduct by Malan and its principals.

The Company is defendant in a civil action brought by Malan in which the plaintiff alleges breach of a management assistance contract and seeks damages in a substantial amount. The Company and its legal advisors believe the claim by Malan to be without merit. The Company has filed a counterclaim in this suit to recover the amount of the 1964 purchase, but the collection of any judgment rendered on the counterclaim is not certain. As a conservative action, in 1966, the 1964 purchase, less applicable income tax benefit of $1,885,787, was written off as a special charge to earned surplus.

SEABOARD ALLIED MILLING CORPORATION
Statement of Retained Earnings

Balance at beginning of year	$11,928,171
Net earnings for the year	282,070
Loss on liquidation of certain grain storage, bakery, and cattle operations less Federal income taxes of $102,000 and $100,000, respectively	(109,381)
	12,100,860
Less dividends on common stock	405,449
Balance at end of year	$11,695,411

Extraordinary Items Shown in Full Amount

Disclosed in Income Statement

CONSOLIDATED LAUNDRIES CORPORATION
Income Statement

Profit from operations	$2,759,769
Income credits:	
Gain on liquidation of Canadian subsidiary	130,525
Other—net	65,517
Total	$2,955,811

Notes to Financial Statements

Principles of Consolidation: All subsidiaries, each of which is wholly-owned, are included in the financial statements. During 1966 the business and assets of the Corporation's majority-owned unconsolidated subsidiary, Affiliated Answer Phone Service Co. Ltd., Montreal, Canada, were sold and upon liquidation of this subsidiary the Corporation realized a gain of $130,525 (before applicable taxes) which is included in income credits.

DRAVO CORPORATION
Income Statement

Profit from operations	$6,921,174
Other income:	
Dividends and interest	438,411
Profit on disposal of capital assets	384,518
	$7,744,103

FIRST NATIONAL STORES INC.

Income:	
Retail store sales	$684,492,243
Dividends received from wholly-owned subsidiary companies (net earnings for the year—$23,698 in 1966, $37,083 in 1965)	5,000
Net gain on disposal of fixed assets	257,844
Other income	469,106
	$685,224,193

HAZELTINE CORPORATION

Costs and Expenses:	
Costs applied to income from contracts	$40,199,453
Expenses applicable to income from patents	460,402
Litigation expenses in connection with counterclaim in Hazeltine Research, Inc. v. Zenith Radio Corporation	200,580
General and administrative expenses	2,617,812
Total	$43,478,247

THE MAYTAG COMPANY

Costs and Expenses—Including provisions for depreciation (1966 — $2,659,195; 1965 — $2,982,818)	
Cost of products sold	$ 79,482,963
Selling, administrative and general expenses	20,499,860
Provision for loss on investments in foreign subsidiaries	1,650,000
	$101,632,823

NATIONAL COMPANY, INC.

Net income (loss) before extraordinary item	$(1,359,607)
Gain on sale of marketable securities	686,511
Income (loss)	$ (673,096)

Disclosed in Retained Earnings Statement

HYGRADE FOOD PRODUCTS CORPORATION
Statement of Consolidated Retained Earnings

Balance at October 30, 1965	$19,054,966
Net loss for year	5,825,291
Closed plant expenses and revaluation of fixed assets—Note 4	10,986,060
	16,811,351
	$ 2,243,615

Notes to Financial Statements

Note 4 (in part): During the year ended October 29, 1966 the company closed certain plants which proved to be unprofitable, and intends to dispose of the properties at the earliest opportunity. Recognition has been given to related expenses incurred after the closings, to estimated future expenses related to closing plants, and to estimated losses on their disposition by a charge against retained earnings of $10,986,060. Details of the charge are as follows:

Separation pay	$ 5,943,345
Payrolls, taxes, insurance, utilities, etc. of closed plants	1,856,597
Provision for estimated future expenses of closed plant properties and estimated losses on their disposition	5,876,466
Less credits related to closed plants:	
Unamortized excess of equity in net assets (at book value) of former subsidiary at date of acquisition over cost of the investment	(1,110,641)
Deferred Federal income taxes	(1,579,707)
	$10,986,060

WARD FOODS, INC.
Statement of Income and Retained Earnings

Net Income	$3,336,599
Retained Earnings, Beginning of Year	4,055,748
	7,392,347
Less: Losses on termination of unprofitable operations	856,702
	856,702
Retained Earnings, End of Year	$6,535,645

Only Tax Effect of Extraordinary Items Shown

FREEPORT SULPHUR COMPANY
Statement of Earnings Retained

Earnings retained in the business at beginning of year	$ 92,151,542
Net income for the year, as above	32,173,512
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 4)	1,100,000

Notes to Financial Statements

Note 4 (in part): For the years 1959 through 1963, Freeport's Federal income taxes were determined on the basis of filing with the Internal Revenue Service returns which consolidated Cuban American Nickel Company and its subsidiary, Moa Bay Mining Company. These companies, however, were not consolidated in Freeport's 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 $1,100,000 in 1966 compared with $2,300,000 in 1965 and were credited to retained earnings in those years. As a result of the deductions mentioned above—as well as other deductions—the Company has an unused tax-loss carry-forward available to it at December 31, 1966. The Company expects that this carry-forward, the exact amount of which cannot be determined until audits by the Internal Revenue Service have been completed, will be fully utilized in 1967. Accordingly, a final charge to income and credit to retained earnings will be made in 1967.

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" or other 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' 1966 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 and 1965 statements of the survey companies, some of the adjustments were made in 1966.

As noted in Tables 9 and 10 there were 253 income tax deferment items presented in the 1966 reports of 251 survey companies, which consisted of 219 deferred items applicable to 1966 income tax provisions and 34 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

THE INTERNATIONAL SILVER COMPANY

Costs:	
Cost of products sold, exclusive of expenses separately classified	$ 95,140,344
Selling, general and administrative expenses	21,129,313
Maintenance and repairs, and replacement of tools and dies	6,390,714
Depreciation and amortization of buildings, machinery and equipment	3,412,993
Taxes (other than federal income)	4,087,891
Interest	794,276
Estimated federal income taxes, including deferred income taxes in 1966—$158,000; 1965—$627,000	7,581,000
	$138,536,531

UNITED STATES TOBACCO COMPANY

Costs and Expenses:	
Cost of products sold	$32,087,080
Other operating costs	13,119,042
Interest	456,078
Federal, Canadian, and state income taxes (including deferred Federal taxes, 1966, $115,000 and 1965, $247,000)	4,215,900
Total Costs and Expenses	$49,878,100

As Special Item

CONTINENTAL STEEL CORPORATION

Cost of Sales and Expenses:	
Cost of sales	$41,541,281
Administrative and selling expenses	2,433,627
Provision for depreciation (Note A)	1,810,000
Provision for federal tax on income:	
Current	3,017,500
Deferred (Note A)	62,500
	$48,864,908

Note A: *Depreciation and Deferred Taxes*—For improvements and additions completed in 1966 and later, the company has adopted the straight-line method of computing depreciation instead of the accelerated method used for previous additions. Provision has been made for deferred income taxes which will be payable when depreciation for financial statement purposes exceeds depreciation deductible for income tax purposes. As a result of the change, net income in 1966 was increased $67,700 or $.07 per share.

KIMBERLY-CLARK CORPORATION

Cost of sales	$451,264,000
Distribution, marketing, and general expense	101,789,000
Provisions for Federal, state, and foreign income taxes:	
Current	27,700,000
Deferred	3,175,000
Interest	3,519,000
Other charges	483,000
Portion of earnings applicable to minority interests	163,000
Total	$588,093,000

Presented in Last Section of Income Statement With Tax Estimate

THE CLEVELAND-CLIFFS IRON COMPANY

Income Before Federal Income Taxes	$21,039,659
Federal income taxes — including deferred taxes of $1,387,029 in 1966 and $856,842 in 1965	5,543,203
Net Income	$15,496,456

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

Earnings Before Income Taxes	$30,327,295
Provision for Income Taxes, including deferred taxes of $1,457,000 in 1966 and $1,841,000 in 1965 (Note 2)	5,700,000
Net Earnings ($3.83 per share in 1966; $3.19 per share in 1965)	$24,627,295

Note 2: *Income Taxes*—The provision for income taxes includes taxes on income earned from the Canadian potash mine since January 1, 1966, the expiration date of the three year tax exemption period granted to the Canadian subsidiary under the Income Tax Act of Canada. 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 federal income tax returns have been examined by the Internal Revenue Service for fiscal years ended June 30, 1959 to 1963 and substantial deficiency assessments have been proposed. Returns filed for years after 1963 are presently under examination. The issues relate principally to the Corporation's foreign operations and its method of computing percentage depletion. The ultimate tax liability on these issues cannot be determined at this time. However, based upon management's appraisal of the issues after discussion with legal counsel, the Corporation believes that the ultimate resolution of these issues through fiscal year 1966 will not have a material adverse effect on the consolidated financial position of the Corporation, or on its consolidated results of operations.

Deferred income taxes have been provided principally in recognition of the excess of accelerated depreciation claimed for tax purposes over book depreciation and of the differences between book and tax deductions for pension and royalty expenses.

As Special Item

DAN RIVER MILLS, INCORPORATED

Earnings before taxes on income and equity in earnings of subsidiary company, not consolidated		$25,255,171
Provision for taxes on income (Note 3):		
Federal	7,445,000	
State and local	905,000	
Deferred	2,497,000	
		10,847,000
		$14,408,171

Note 3 (in part): *Income Taxes*—(b) Deferred income taxes represent provisions for estimated future taxes on income of the Corporation and its manufacturing subsidiary companies which use accelerated depreciation methods for tax purposes only; the resulting tax deferral will be utilized when book depreciation exceeds tax depreciation.

THE FLINTKOTE COMPANY

Income Before Federal and Foreign Taxes on Income	$20,222,876
Federal and foreign taxes on income:	
Currently payable:	
United States	5,344,181
Foreign	1,195,414
Deferred (Note 4)	1,165,946
Charge equivalent to investment tax credit, net	162,844
	7,868,385
Net Income	$12,354,491

Note 4: 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.

Details Set Forth in Notes to Financial Statements, Financial Review, etc.

ALLIED STORES CORPORATION
Notes to Financial Statements

Note C: As a result of the use of accelerated depreciation for tax purposes, the provision for federal income taxes of Allied Stores Corporation and subsidiaries includes amounts which will not be paid until future years: $657,000 for the year ended January 31, 1966, and $546,000 for the previous year. The use of accelerated depreciation for tax purposes does not affect net earnings.

The 7% investment credit had the effect of reducing the provision for federal income taxes and increasing net earnings of Allied Stores Corporation and subsidiaries by $743,000 for the year ended January 31, 1966 ($834,000 for the previous year). Included therein are $187,000 and $32,000, respectively, for Alstores Realty Corporation and subsidiaries.

As of February 1, 1965, the Corporation adopted for tax purposes the instalment method of accounting for deferred payment sales. As a result, the January 31, 1966, current liability for federal income taxes includes $19,408,000 for taxes, the payment of which will be deferred to periods subsequent to January 31, 1967.

AMERICAN SEATING COMPANY
Source and Application of Funds Statement

Source of Funds:	
Earnings for the year	$2,765,587
Depreciation and amortization	973,304
Deferred Federal income taxes	177,000
Funds derived from operations	3,915,891
Stock options exercised	317,742
Notes issued in connection with acquisition of Universal Bleacher Company	378,048
Total	$4,611,681

HOWMET CORPORATION
Notes to Financial Statements

Note 3: *Income Taxes*—The provision for Federal income taxes for 1966 includes deferred income taxes of $1,460,000 related to accelerated depreciation and differences in the reporting of income and expenses of the Intalco project for Federal income tax purposes.

HUPP CORPORATION
Notes to Financial Statements

Note A: *Federal Income Tax*—In connection with the examination of federal income tax returns for the years 1955 through 1960, the Internal Revenue Service has proposed certain adjustments, the most significant of which relates to an alleged change of accounting for research and experimental expenditures for tax purposes. If sustained, such adjustments would result in significant tax deficiencies. Management is contesting these adjustments and, together with counsel for the Corporation, believes that any additional tax liability has been adequately provided for in the financial statements.

The federal income tax provision includes a charge of $255,000 for future federal income taxes.

Reduction of Deferred Income Taxes

AMERICAN MOTORS CORPORATION

Loss Before Special Credit	$15,718,170
Special credit—tax provisions of prior years no longer required (Note D)	3,070,000
Net Loss	$12,648,170

Note D: *Taxes on Income*—Deferred income taxes at September 30, 1966, relate to depreciation of plant and equipment for tax purposes which is in excess of the amount recognized for financial reporting purposes. At September 30, 1965, this caption also included taxes of $3,070,000 relating to undistributed earnings of subsidiaries. The tax liability for undistributed earnings of subsidiaries was established over a period of years prior to 1963. Under present circumstances this provision for taxes is no longer required and has been included as a special item of income in the current year.

The difference between refundable taxes on income of $22,568,848 and the credit for taxes on income of $15,200,000 in the statement of net loss is due primarily to differences in the time certain deductions may be taken for tax purposes and the time they are recognized for financial reporting purposes.

During the year, the Corporation satisfactorily reached agreement with the Internal Revenue Service with respect to adjustments proposed in connection with the examination of tax returns filed by the Corporation and its predecessors for the years prior to 1961. The additional taxes assessed were not in excess of the amount provided therefor in the financial statements.

THE KROGER CO.
Source and Use of Funds Statement

Sources of Funds:	
From current operations:	
Net income for the year	$28,516,694
Charges to income not requiring funds:	
Depreciation and amortization	26,426,311
Provision for employees' benefit fund—net	3,576,737
Provision for deferred income taxes	(705,000)
Capital stock issued under stock option plans	309,737
Sale of capital assets subsequently leased back	4,587,496
Net book value of capital asset disposals	2,650,793
Total Sources	$65,362,768

NATIONAL TEA CO.
Source and Disposition of Funds Statement

Source of Funds:	
Net income	$10,861,775
Non-cash items deducted in arriving at net income:	
Depreciation and amortization	13,826,694
Deferred Federal income taxes	(221,500)
Total Funds from Earnings	$24,466,969
Proceeds from sale of common shares to optionees	59,316
Proceeds from 5¼% note issued (net of retirement of 4¾% note in the amount of $5,000,000)	5,000,000
Proceeds from sale of fixtures and equipment in 62 Detroit area stores	3,034,157
Decrease (increase) in working capital	5,354,239
Total	$37,914,681

EXTRAORDINARY ITEMS

Opinion No. 9—Reporting the Results of Operations, published in December 1966 by the accounting principles board of the American Institute of Certified Public Accountants supersedes Chapter 8, as well as other parts, of the *Accounting Research and Terminology Bulletins, Final Edition,* issued in 1961 by the committees on accounting procedure and accounting terminology. The board, in the "Introduction," summarizes the recommended application of *Opinion No. 9* to determination and disclosure of extraordinary items in financial statements:

> This Opinion (a) concludes that net income should reflect all items of profit and loss recognized during the period except for prior period adjustments, with extraordinary items to be shown separately as an element of net income of the period, (b) specifies the criteria to be used in determining which items, if any, recognized during the current period are to be considered extraordinary items, (c) specifies the criteria to be used in determining which items, if any, recognized during the current period are to be considered prior period adjustments and excluded from net income for the current period and (d) specifies the statement format and terminology to be used and the disclosures to be made when extraordinary items or prior period adjustments are present.
>
> This Opinion also specifies the method of treating extraordinary items and prior period adjustments in comparative statements for two or more periods, specifies the disclosures required when previously issued statements of income are restated and recommends methods of presentation of historical, statistical-type financial summaries which include extraordinary items or are affected by prior period adjustments. In Part II, this Opinion specifies how earnings per share and dividends per share should be computed and reported.

The committee, in the *Opinion* itself states:

> 17. . . . *Extraordinary Items* should . . . be segregated from the results of ordinary operations and shown separately in the income statement, with disclosure of the nature and amounts thereof . . .
>
> 18. With respect to *prior period adjustments,* the Board has concluded that those rare items which relate directly to the operations of a specific prior period or periods, which are material and which qualify under the criteria described in paragraphs 23 and 25 below should, in single period statements, be reflected as adjustments of the opening balance of retained earnings. When comparative statements are presented, corresponding adjustments should be made of the amounts of net income (and the components thereof) and retained earnings balances (as well as of other affected balances) for all of the periods reported therein, to reflect the retroactive application of the prior period adjustments. (See paragraph 26 for required disclosures of prior period adjustments.)
>
> 21. The segregation in the income statement of the effects of events and transactions which have occurred during the current period, which are of an extraordinary nature and whose effects are material requires the exercise of judgment. (In determining materiality, items of a similar nature should be considered in the aggregate. Dissimilar items should be considered individually; however, if they are few in number, they should be considered in the aggregate.) Such events and transactions are identified primarily by the nature of the underlying occurrence. They will be of a character significantly different from the typical or customary business activities of the entity. Accordingly, they will be events and transactions of material effect which would not be expected to recur frequently and which would not be considered as recurring factors in any evaluation of the ordinary operating processes of the business. Examples of extraordinary items, assuming that each case qualifies under the criteria outlined above, include material gains or losses (or provisions for losses) from (a) the sale or abandonment of a plant or a significant segment of the business,[2] (b) the sale of an investment not acquired for resale, (c) the write-off of goodwill due to unusual events or developments within the period, (d) the condemnation or expropriation of properties and (e) a major devaluation of a foreign currency. As indicated above, such material items, less applicable income tax effect, should be segregated, but reflected in the determination of net income.
>
> 22. Certain gains or losses (or provisions for losses), regardless of size, do not constitute extraordinary items (or prior period adjustments) because they are of a character typical of the customary business activities of the entity. Examples include (a) write-downs of receivables, inventories and research and development costs, (b) adjustments of accrued contract prices and (c) gains or losses from fluctuations of foreign exchange. The effects of items of this nature should be reflected in the determination of income before extraordinary items. If such effects are material, disclosure is recommended.
>
> 23. Adjustments related to prior periods—and thus excluded in the determination of net income for the current period—are limited to those material adjustments which (a) can be specifically identified with and directly related to the business activities of particular prior periods, and (b) are not attributable to economic events occurring subsequent to the date of the financial statements for the prior period, and (c) depend primarily on determinations by persons other

[2] Operating results prior to the decision as to sale or abandonment should not be considered an element of the extraordinary gain or loss.

than management and (d) were not susceptible of reasonable estimation prior to such determination. Such adjustments are rare in modern financial accounting. They relate to events or transactions which occurred in a prior period, the accounting effects of which could not be determined with reasonable assurance at that time, usually because of some major uncertainty then existing. Evidence of such an uncertainty would be disclosure thereof in the financial statements of the applicable period, or of an intervening period in those cases in which the uncertainty became apparent during a subsequent period. Further, it would be expected that, in most cases, the opinion of the reporting independent auditor on such prior period would have contained a qualification because of the uncertainty. Examples are material, nonrecurring adjustments or settlements of income taxes, of renegotiation proceedings or of utility revenue under rate processes. Settlements of significant amounts resulting from litigation or similar claims may also constitute prior period adjustments.

24. Treatment as prior period adjustments should not be applied to the normal, recurring corrections and adjustments which are the natural result of the use of estimates inherent in the accounting process. For example, changes in the estimated remaining lives of fixed assets affect the computed amounts of depreciation, but these changes should be considered prospective in nature and not prior period adjustments. Similarly, relatively immaterial adjustments of provisions for liabilities (including income taxes) made in prior periods should be considered recurring items to be reflected in operations of the current period. Some uncertainties, for example those relating to the realization of assets (collectibility of accounts receivable, ultimate recovery of deferred costs or realizability of inventories or other assets), would not qualify for prior period adjustment treatment, since economic events subsequent to the date of the financial statements must of necessity enter into the elimination of any previously-existing uncertainty. Therefore, the effects of such matters are considered to be elements in the determination of net income for the period in which the uncertainty is eliminated. Thus, the Board believes that prior period adjustments will be rare.

26. When prior period adjustments are recorded, the resulting effects (both gross and net of applicable income tax) on the net income of prior periods should be disclosed in the annual report for the year in which the adjustments are made.[3] When financial statements for a single period only are presented, this disclosure should indicate the effects of such restatement on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period. When financial statements for more than one period are presented, which is ordinarily the preferable procedure,[4] the disclosure should include the effects for each of the periods included in the statements. Such disclosures should include the amounts of income tax applicable to the prior period adjustments. Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure would ordinarily not be required.

28. The Board reaffirms the conclusion of the former committee on accounting procedure that the following should be excluded from the determination of net income or the results of operations under all circumstances: (a) adjustments or charges or credits resulting from transactions in the company's own capital stock, (b) transfers to and from accounts properly designated as appropriated retained earnings (such as general purpose contingency reserves or provisions for replacement costs of fixed assets) and (c) adjustments made pursuant to a quasi-reorganization.

In the matter of presentation of extraordinary items, the following excerpt is pertinent:

20. . . . the income statement should disclose the following elements:

Income before extraordinary items
Extraordinary items
(less applicable income tax)
Net income

If the extraordinary items are few in number, descriptive captions may replace the caption *extraordinary items* and related notes. In such cases, the first and last captions shown above should nonetheless appear. Similarly, even though material extraordinary items may net to an immaterial amount, they should be positioned and disclosed as indicated above, and the first and last captions shown above should appear. If there are no extraordinary items, the caption *net income* should replace the three captions shown above. The amount of income tax applicable to the segregated items should be disclosed, either on the face of the income statement or in a note thereto. (The amount of prior period adjustments and the amount of income tax applicable thereto should also be disclosed, as outlined in paragraph 26.)

In the matter of historical summaries of financial data, the board, *in Opinion No. 9*:

27. . . . recommends that the format for reporting extraordinary items described in paragraph 20 be used in such summaries. The Board further recommends that, whenever prior period adjustments have been recorded during any of the periods included therein, the reported amounts of net income

[3] The Board recommends disclosure, in addition, in interim reports issued during that year subsequent to the date of recording the adjustments.
[4] See ARB No. 43, Chapter 2A, *Form of Statements—Comparative Financial Statements.*

(and the components thereof), as well as other affected items, be appropriately restated, with disclosure in the first summary published after the adjustments.

The board strongly recommends that, in comparative statements in which one or more periods are subject to *Opinion No. 9,* the provisions be applied to all periods appearing therein.

Although the provisions of *Opinion No. 9* are effective for fiscal periods beginning after December 31, 1966, the board recommends earlier compliance where feasible.

Presentation of Extraordinary Items

A total of 162 extraordinary items† were disclosed in the 1966 annual reports of 119 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 investments or other assets, and miscellaneous extraordinary expenses, losses, or gains.

For the 1966 annual reports the provisions of *Accounting Research and Terminology Bulletins, Final Edition,* issued in 1961, were applicable. Table 11 reflects the various methods of presentation of extraordinary items as shown in the reports of the 600 survey companies. Debits and credits are shown separately. Of the 162 extraordinary items, 71 were set forth in the income statement, 8 items were disclosed in either the footnotes or in the letter to stockholders. The balance, a majority of 83 items, were shown in the statement of retained earnings.

The 47 extraordinary items presented in column 2 of Table 11 were located in a separate last section of the income statement which is the method of disclosure required for fiscal years covered by *Opinion No. 9,* referred to above. The terminology used by a number of these companies varied from the captions set out by the board. For further information on captions used, see Table 13.

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.

†It is not always possible to determine from an annual report whether an item is of an extraordinary nature. In compiling the figures contained in Table 11, the criteria enumerated in *Opinion No. 9* have been followed as far as possible.

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 162 extraordinary items presented by the survey companies in their 1966 annual reports. The percentage of materiality of extraordinary items was determined by the ratio of such items to the 1966 earnings adjusted for both extraordinary items and prior income tax adjustment items. Table 12 shows that 68 of the extraordinary items did not exceed a materiality percentage of 10 per cent; 26 items were within an 11-20 per cent range of materiality; 22 items varied from 21-50 per cent, and 38 exceeded 50 per cent of materiality. In the case of 8 of the 162 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 79 extraordinary items and the retained earnings account for 83 extraordinary items. A combination of such accounts was frequently employed by the survey companies in recording the extraordinary items.

Examples

The use of the income account in connection with extraordinary items presented in a separate last section by the survey companies in their 1966 annual reports is illustrated in the following examples which show the presentation of extraordinary items and their varied nature. Also shown are examples of restatements of prior year figures to conform to *Opinion No. 9.*

THE ARUNDEL CORPORATION
Statement of Earnings

Earnings before extraordinary item	$1,288,664
Extraordinary item—Gain on sale of real estate, less applicable federal income taxes of $86,000	258,484
Net Earnings for the year	$1,547,148

CITIES SERVICE COMPANY
Consolidated Income

Income before extraordinary credits	$120,130,150
Extraordinary credits—gain on sales of assets, less applicable income taxes of $12,047,000	21,664,056
Net Income	$141,794,206

TABLE 11: EXTRAORDINARY ITEMS—1966

	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	1966 Total Items
DEBITS						
Disposal or sale of:						
A: Property, plant and equipment	2	—	—	1	4	7
B: Subsidiary, affiliate, or division	—	1	1	2	1	5
C: Other assets	—	—	—	—	1	1
Change in valuation bases:						
D: Inventory write-down to market	—	1	—	—	—	1
E: Change in investment valuation	1	1	—	—	2	4
F: Other property, plant and equipment adjustments	—	—	—	—	1	1
G: Miscellaneous adjustments	1	—	2	1	4	8
Expenses, losses, gains, etc.:						
H: Foreign exchange adjustments	—	1	—	—	—	1
I: Nonrecurring plant expense	1	2	1	1	1	6
J: Various other gains and losses	1	—	1	1	—	3
K: Discontinued operations	1	4	1	3	7	16
L: Miscellaneous expenses, losses, gains, etc.	3	2	—	4	2	11
Miscellaneous other items:						
M: Higher plant replacement costs or extraordinary depreciation	—	1	—	—	—	1
N: Transfer to reserves or reversal	1	2	—	4	2	9
O: Other	1	—	—	—	3	4
Total Debits	12	15	6	17	28	78
CREDITS						
Disposal or sale of:						
P: Property, plant and equipment	6	14	—	7	4	31
Q: Investments or securities	4	8	1	3	1	17
R: Subsidiary, affiliate, or division	2	5	1	5	2	15
S: Other assets	—	1	—	—	1	2
Change in valuation bases:						
T: "Lifo" liquidation or replacement	—	1	—	—	—	1
U: Miscellaneous adjustments	—	1	—	—	2	3
Expenses, losses, gains, etc.:						
V: Discontinued operations	—	1	—	—	1	2
W: Various prior year adjustments	—	1	—	1	—	2
Miscellaneous other items:						
X: Transfer to reserves or reversal	—	—	—	1	9	10
Other	—	—	—	1	—	1
Total Credits	12	32	2	18	20	84
Total Debits and Credits	24	47	8	35	48	162

1966 Extraordinary Items with Charges or Credits to:	Number of Companies	Number of Items
Income only	60	79
Retained earnings only	56	83
Both income and retained earnings	3	—
No extraordinary items	481	—
Total	600	162

See Table 12 for Percentage of Materiality.
See also Tables 9 and 10.
*Refer to Company Appendix Section—A: 67, 98, 175, 204, 302, 303; B: 197, 388; E: 134, 547; G: 39, 98, 146, 452; I: 61, 91, 237; J: 562, K: 39, 172, 249, 300, 391, 449; L: 159, 284, 341, 360, 569, 573; N: 196, 459, 501, 535; O: 333, 449; P: 21, 70, 135, 228, 320, 379; Q: 94, 139, 276, 326, 501, 503; R: 43, 86, 159, 165, 437, 533; S: 565; U: 370; X: 155, 249, 416, 563, 569.

TABLE 12: EXTRAORDINARY ITEMS—1966

Nature of Extraordinary Item	Before Net Income (including footnotes, etc.) 0—5%	6—10%	11—20%	21—50%	Over 50%	N	Total	After Net Income 0—5%	6—10%	11—20%	21—50%	Over 50%	N	Total	1966 Total Items
Disposal or sale of:															
Property, plant and equipment	3	8	9	1	—	1	22	3	4	—	1	7	1	16	38
Investments or securities	1	4	1	3	2	2	13	—	—	1	2	1	—	4	17
Subsidiary, affiliate, or division	4	1	—	3	1	1	10	1	4	1	2	2	—	10	20
Other assets	—	—	—	—	—	1	1	—	1	1	—	—	—	2	3
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	—	—	—	2	—	—	1	1	—	—	2	4
Other property, plant and equipment adjustments	—	—	—	—	—	—	—	—	—	—	—	1	—	1	1
Miscellaneous adjustments	1	2	1	—	—	—	4	1	—	—	—	5	1	7	11
Expenses, losses, gains, etc.:															
Foreign exchange adjustments	1	—	—	—	—	—	1	—	—	—	—	—	—	—	1
Nonrecurring plant expenses	—	2	—	1	1	—	4	—	—	—	—	2	—	2	6
Various other gains and losses	—	2	—	—	—	—	2	—	—	—	—	1	—	1	3
Various prior year adjustments	—	1	—	—	—	—	1	—	1	—	—	—	—	1	2
Discontinued operations	4	—	2	—	1	—	7	1	—	1	4	5	—	11	18
Miscellaneous expenses, losses, gains, etc.	—	1	2	1	1	—	5	1	3	—	1	1	—	6	11
Miscellaneous other items:															
Higher plant replacement costs or extraordinary depreciation	—	—	1	—	—	—	1	—	—	—	—	—	—	—	1
Transfer to reserves or reversal	1	1	—	—	1	—	3	4	3	3	2	4	—	16	19
Other	—	1	—	—	—	—	1	1	1	1	—	1	—	4	5
Total	15	24	17	9	9	5	79	12	17	9	13	30	2	83	162

Percentage of Materiality*

*Ratio of item to 1966 net income adjusted for extraordinary items and income tax adjustments.
N—Percentage of materiality not determinable.
See Table 11 for Presentation of Extraordinary Items.
See Tables 9 and 10 for Income Tax Adjustments.

ENDICOTT JOHNSON CORPORATION

Income Statement

Earnings before extraordinary items	$2,211,098
Extraordinary items—principally: gains on disposal of non-essential land, buildings and recreational facilities	753,249
Net earnings (Notes 4 and 5)	$2,964,347

Notes to Financial Statements

Note 5: Upon the recommendation of the Accounting Principles Board of the American Institute of Certified Public Accountants and the Company's auditors, the Company has elected to conform with a current pronouncement of such Board. As a result, gains on disposal of facilities, which in prior years' statements have been shown as credits following the determination of net earnings, are shown as extraordinary items but included in such net earnings. Figures for the fifty-three weeks ended December 3, 1965 have also been restated.

GAR WOOD INDUSTRIES, INC.

Income Statement

Earnings Before Special Charge	$815,103
Special charge—direct moving costs related to relocation of Wayne, Michigan, manufacturing facility	597,550
Net Earnings (Note H)	$217,553

GRANITE CITY STEEL COMPANY

Income Statement

Income before extraordinary obsolescence (per share: 1966 - $2.73; 1965 - $2.68)	$11,885,846
Provision for extraordinary obsolescence, net of federal income tax effect (Note 1) (per share: 1966 - $ .34; 1965 - $ .34)	1,500,000
Net income for the year (per share: 1966 - $2.39; 1965 - $2.34)	$10,385,846

Notes to Financial Statements

Note 1: *Extraordinary Obsolescence*—In connection with the current plant improvement program, a provision against income is being made for the retirement of certain properties upon the completion of the new facilities. This extraordinary provision, after approximate income tax effect of 50%, amounted to $1,500,000 in 1965 and 1966, and is expected to be $1,500,000 in 1967 and $500,000 in 1968.

THE McKAY MACHINE COMPANY

Income Statement

Earnings before Extraordinary Item	**$1,378,000**
Extraordinary item, net of applicable income tax (Note B)	221,000
Net Earnings	$1,599,000

Notes to Financial Statements

Note B: *Inventories*—Inventories of raw materials and supplies are priced at average cost not in excess of market. Work in process and finished material are priced at accumulated costs, not in excess of realizable values.

Commencing January 1, 1966, all direct design engineering costs applicable to specific contracts have been included as part of work in process. Previously these costs were treated as a period cost. This change decreased 1966 consolidated net earnings by $27,000 ($.11 per share). The balance of the adjustment, $221,000 ($.90 per share), has been shown less applicable income tax of $183,000 as an extraordinary income item in the 1966 Consolidated Statement of Earnings.

The consolidated inventories consist of:

Raw materials and supplies	$1,728,000
Work in process and finished material	4,268,000
	$5,996,000

SINCLAIR OIL CORPORATION
Statement of Income and Retained Earnings

Income Before Extraordinary Items	$93,867,817
Extraordinary Items:	
Gain on liquidation of investment in Great Lakes Pipe Line Company (after applicable federal income tax of $2,750,320)	8,379,180
Provision for major program to divest certain uneconomic service stations (after applicable federal income tax of $4,600,000)	(5,500,000)
Provision for disputed royalty claims (after applicable federal income tax of $1,282,772)	(2,403,354)
	475,826
Net Income	$94,343,643

UNIVERSAL AMERICAN CORPORATION
Income Statement

Net Income (before extraordinary charge in 1966)	$9,258,021
Extraordinary Charge—Liability for guarantees ($12,000,000) and write-off of investment ($384,885) in Paul Hardeman, Inc., less applicable income tax credits of $5,784,885	(6,600,000)
Net Income	$2,658,021

Notes to Financial Statements

Note 3 (in part): *Extraordinary Charge with Respect to Paul Hardeman, Inc.*—(a) In 1966, as a result of unforeseeable increased costs encountered in connection with completion of construction jobs by Paul Hardeman, Inc. ("Hardeman") and recoveries smaller than anticipated on claims on its construction contracts, the Company recognized its liability to make payments on its Hardeman guarantees. In anticipation thereof, the Company charged $12,000,000 ($6,215,115 after tax credits) against 1966 income, and wrote-off $384,885, the Company's total investment in 708,233 shares (42%) of the stock of Hardeman.

U. S. INDUSTRIES, INC.
Income Statement

Income Before Non-Recurring Items	$6,230,133
Non-Recurring Items:	
Losses of discontinued operations — Note H	($1,222,617)
Profit on sale of capital stock of a subsidiary and other assets	1,239,644
Provision for settlement of anti-trust litigation	(727,000)
Credit for tax benefits arising from loss carryovers	2,528,378
	1,818,405
Net Income	$8,048,538

Notes to Financial Statements

Note H: Discontinued Operations—Net sales ($707,250 in 1966 and $1,312,360 in 1965) and operating costs, losses and expenses incident to certain operations which it was decided in 1963 were to be disposed of have been excluded from the itemized amounts of revenue and deductions shown in the accompanying statements of consolidated income and summarized separately.

WAGNER ELECTRIC CORPORATION
Statement of Income and Retained Earnings

Income before extraordinary items (per share applicable to common stock: 1966, $4.99; 1965, $1.85)	$5,162,834
Extraordinary credit:	
Gain on sale of marketable securities, less applicable federal income taxes of $133,000 (per share: $.40)	398,870
Net Earnings (per share applicable to common stock: 1966, $5.39; 1965, $.62)	$5,561,704

Restatement of Prior Year Amounts

STUDEBAKER CORPORATION
Income Statement

	1966	1965
Income Before Extraordinary Items	$16,465,156	$10,700,868
Extraordinary Items—Note F:		
Provision for estimated losses in connection with discontinuance of operations of certain nonautomotive facilities (charge)	—	(7,500,000)
Gain on sale of net assets and business relating to Mercedes-Benz automobiles	—	3,027,326
	—	(4,472,674)
Net Income	$16,465,156	$ 6,228,194

Notes to Financial Statements

Note F: Prior Period Adjustments—In December, 1963, the Corporation discontinued manufacturing automobiles in South Bend and a special charge of $64,000,000 was made against income in 1963 for losses and costs relating to the liquidation of these operations. In consideration of the Corporation's decision to discontinue its remaining automotive manufacturing operations in Canada in March, 1966, the reserve requirements were reevaluated and adjusted as of December 31, 1965, to provide for estimated costs of final liquidation of all remaining automotive operations. It was determined at that time that unused portions of the reserves provided in 1963 exceeded the $8,000,000 estimated Canadian liquidation losses by $4,619,834, which net amount was shown in the 1965 income statement as a special credit. Incurred liquidation costs during 1966 have been less than original estimates to the extent that a further reduction of $7,000,000 in the reserves has been recorded in 1966.

In accordance with a recently issued opinion of the Accounting Principles Board, both the 1966 and 1965 adjustments have been treated as retroactive adjustments of the prior year (1963) provisions for automotive liquidation losses and have been credited directly to retained earnings rather than shown as special credits in the statement of income. In addition, the 1965 income statement presented herein for comparative purposes has been restated to eliminate the aforementioned $4,619,834 special credit and to include certain extraordinary items in the determination of net income which were previously reported as special items.

During 1966, losses and costs related to discontinued automotive and other operations aggregating $10,237,817 ($2,904,509 in 1965) were charged to reserves previously provided for these purposes, leaving a balance of $11,925,029 at December 31, 1966, of which $2,500,000 has been applied to inventories.

UNITED FRUIT COMPANY
Statement of Income and Retained Earnings

	1966	1965
	(In thousands)	
Earnings before Extraordinary Losses	$25,015	$18,519
Extraordinary losses from disposal of properties due to closing of divisions and relocation of operations, less applicable income tax of $2,048	—	3,465
Net Earnings for the year	$25,015	$15,054

Letter to Stockholders

The 1965 amounts reported in the 1965 Stockholders' Report have been restated as above to reflect the pooling of interests with J. Hungerford Smith Co. and to present 1965 extraordinary losses as charges against net earnings rather than retained earnings in accordance with a December 1966 opinion of the American Institute of Certified Public Accountants applicable to all companies whose financial statements are certified by members of the Institute. These 1965 extraordinary losses amounted to $3,465,000, net after taxes, or 43¢ per Common share and represented nonrecurring losses from disposal of certain properties due to closing of divisions and relocation of operations in 1965.

DESIGNATION OF FINAL FIGURE

Opinion No. 9—Reporting the Results of Operations, published in December 1966 by the accounting principles board of the American Institute of Certified Public Accountants, reflects a uniform method of disclosure for extraordinary items in financial statements covering fiscal years beginning after December 31, 1966. This uniform disclosure establishes placement of an extraordinary item within the income statement between a figure preceding it and designated *income before extraordinary items* and a figure following it and designated as *net income.* See also quotations from *Opinion No. 9* in this section, under "Extraordinary Items."

For the 1966 annual reports being surveyed, standards of terminology were discussed in *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 Chapter 8, Paragraph 13, in relation to the presentation of material extraordinary charges and credits in the income statement after the amount designated as net income, emphasis was placed on 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. . . .*

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 59 survey companies that presented such items in a separate last section of the 1966 income statements. Thirty-five companies indicated the *inclusion* of the extraordinary charges and credits in the figure of net income for the year, 23 companies clearly indicated the *exclusion* of such charges and credits from the figure of net income for the year. Opinion No. 9, referred to above, is expected to have considerable influence on the results to be reported in the 1968 edition of this publication.

Examples follow, illustrating the presentation of the final figure of the income statement as the income for the fiscal year where material extraordinary charges or credits are involved. Additional examples are given in this section under "Extraordinary Items."

TABLE 13: DESIGNATION OF FINAL FIGURE—1966

Number of Companies Presenting:*	1966
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*	23
Indicating "inclusion" in the net income for the year by:	
Designating figure preceding extraordinary item as:	
B: *Net income before special item* and final figure of the income statement as *net income for the year*	30
C: *Net operating income* and final figure of the income statement as *net income*	4
Setting forth an *undesignated* figure preceding extraordinary item and designating final figure of the income statement as *net income for the year*	1
Other:	
Designating figure preceding extraordinary item as: *Loss before special charges* and final figure of the income statement *as Loss after special charges*	1
Total	59

*Refer to Company Appendix Section—A: 43, 61, 135, 276, 300, 503; B: 64, 86, 396, 438, 565, 590; C: 215, 446.

Indicating Inclusion in Net Income

AMERADA PETROLEUM CORPORATION
Income Statement

Income before extraordinary items	$60,096,751
Extraordinary Items, after provision for income tax (Note 1)	14,764,740
Net Income	$74,861,491

Note 1: Extraordinary Items—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. As part of the transaction, Shell agreed to reimburse the Corporation $64,082,892, representing approximately one half of its applicable expenditures in Libya from the beginning of operations in 1955 to January 1, 1966. Because a portion of these expenditures was charged to earnings in the years previous to 1966, the reimbursement resulted in credits in 1966 constituting the major portion of the extraordinary items of $14,764,740 after provision for income taxes of $13,794,977. Other aspects of the effect of the Shell transaction on the Corporation's financial position and operating results for the year 1966 are discussed in the Financial section of this report.

CORN PRODUCTS COMPANY
Income Statement

Income before extraordinary items	$58,229,550
Extraordinary items, net of applicable income tax of $616,262	569,810
Net income for the Year	$58,799,360

Notes to Financial Statements

Extraordinary Items: Extraordinary items, net of applicable income tax of $616,262, consist of a gain on the sale of an investment of $2,024,810 and the write-down of $1,455,000 of certain closed plants.

EMHART CORPORATION
Income Statement

	1966	1965
Income of Continuing Operations	$13,989,000	$12,797,000
Income *loss* of discontinued domestic cordage operations (Note 4)	*84,000*	191,000
	13,905,000	12,988,000
Income Before Extraordinary Item		
Loss on sale of cordage assets, less related inventory adjustment (Note 4)		*757,000*
Net Income	$13,905,000	$12,231,000

Notes to Financial Statements

Note 4: Discontinued Cordage Operations—During 1965, Plymouth sold the business and substantially all the plant, equipment, and inventories of its domestic cordage division which resulted in a loss of $602,000 (net of a tax benefit of $577,000). A provision of $503,000 was made, during 1965, for Plymouth's expected loss on the disposal, in 1966, of Citadel Manufacturing Company S.A. A change in basis for valuation of cordage fiber inventories in 1965 resulted in an increase in inventories of $348,000. The net loss of $757,000 from the foregoing has been included as an extraordinary item in the statement of consolidated income.

The 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 $93,000 in 1966 and $192,000 in 1965.

FRUEHAUF CORPORATION
Income Statement

Earnings from Continuing Operations Before Taxes on Income	$39,996,714
United States and Canadian Taxes on Income (including deferred taxes on income of $10,370,000 in 1966 and $9,430,000 in 1965) (Note E)	18,520,000
Net Earnings from Continuing Operations	21,476,714
Gain on Sale of Strick Division, less related taxes (Note J)	11,565,935
Net Earnings	$33,042,649

Notes to Financial Statements

Note J: Sale of the Strick Division—As of January 1, 1966, the net assets of the Strick Division, amounting to approximately $22,000,000, were sold for approximately $39,000,000 in cash. In order to provide comparable information, the consolidated statements of net earnings and working capital for 1965 have been restated to exclude transactions of this division and to report the net earnings of the division and the increase in working capital in 1965 as separate items.

McCALL CORPORATION
Statement of Income and Retained Earnings

Income before extraordinary items	$6,554,000
Extraordinary Items, Net of Federal Income Taxes:	
Gain on sales of securities	1,448,000
Provision for losses and expenses related to obsolescence of production facilities	(1,393,000)
	55,000
Net Income	$6,609,000

Notes to Financial Statements

Extraordinary Items: The provision for losses and expenses related to obsolescence of production facilities represents the extraordinary costs and losses which will result from moves into new modern plants. As a result of these moves certain items of equipment will be abandoned or replaced earlier than normally and, in addition, substantial expenses will be incurred to dismantle, move and reinstall major presses and other equipment in the new locations.

Extraordinary items in 1966 are stated net of federal income tax benefits of $803,000.

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.

Opinion No. 9—Reporting the Results of Operations, published in December 1966 by the accounting principles board of the American Institute of Certified Public Accountants deals with some of the problems which exist in the calculation and presentation of earnings per share in annual financial reports of corporations. The criteria set forth by the board in this opinion is in effect for all fiscal years beginning after December 31, 1966. *Opinion No. 9* supersedes Chapter 8 and other parts of 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 board in *Opinion No. 9* stated:

> 31. The Board believes that earnings per share data are most useful when furnished in conjunction with a statement of income. Accordingly, the Board strongly recommends that earnings per share be disclosed in the statement of income.
>
> 32. It is the Board's opinion that the reporting of per share data should disclose amounts for (a) income before extraordinary items, (b) extraordinary items, if any, (less applicable income tax) and (c) net income—the total of (a) and (b). The Board believes that not only will this reporting format increase the usefulness of the reports of results of operations of business entities, but that it will also help to eliminate the tendency of many users to place undue emphasis on one amount reported as earnings per share. . . .

Opinion No. 9 further states that the computation of earnings per share should be based on the weighted average number of common shares outstanding during the period excepting minor changes in the number of shares. The application of this principle extends to each year included in comparative formal financial statements and in the historical summaries covering a period of years and should usually be based on the capitalization structure existing during each period. However, material changes in the number of shares outstanding as a result of certain types of activities may require further calculations:

> 46. . . . The principal exception to this practice of avoiding retroactive recomputations for changes in the capitalization structure occurs when a pooling of interests has occurred. Since the earnings of the pooled entities are combined for all periods, the capital structure used to compute earnings per share for

all periods should reflect appropriate recognition of the securities issued in the pooling transaction. Other exceptions to this treatment are the result of (a) stock splits or reverse splits, and (b) stock dividends, including those in recurring small percentages which in the aggregate become material during the periods involved. . . .

47. In those cases in which net income of a prior period has been restated as a result of a prior period adjustment during the current period, any earnings per share data should be based on the restated amount of net income. The effect of the restatement, expressed in per share terms, should be disclosed.

The reader is referred to *Opinion No. 9* for more detailed information regarding this subject.

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

TABLE 14: EARNINGS PER SHARE—ALL YEARS REPORTED

	Based on Number of Shares Outstanding			
Comparative Earnings per share—	At end of current year	At end of each year or basis not disclosed	Average during each year	Total Items
*Adjusted retroactively for:**				
A: Stock dividends	20	95	42	157
B: Stock splits	13	171	66	250
C: Stock conversions	3	5	2	10
D: Stock options exercised	14	1	—	15
E: Treasury stock activity	6	—	—	6
F: Purchase, pooling, or merger**	5	34	19	58
G: Other	2	4	1	7
	63	310	130	503
*Not adjusted retroactively for:**				
H: Stock dividends	—	4	—	4
I: Stock conversions	—	37	36	73
J: Stock options exercised	—	174	98	272
K: Treasury stock activity	—	94	48	142
L: Purchase, pooling, or merger**	—	43	32	75
M: Other	—	11	12	23
	—	363	226	589
Total items per Table 15				1092
Adjustment not disclosed:				
Information not presented to indicate either existence of or basis for retroactive adjustment for material changes in shares outstanding	—	6	—	6
No retroactive adjustments necessary:				
No material change in number of shares outstanding during current year as to require adjustment	—	168	—	168
Total	63	847	356	1266

Number of Companies	
Disclosing comparative earnings per share	587
Disclosing earnings per share for current year only	1
Not disclosing earnings per share	12
Total	600

*Refer to Company Appendix Section—A: 49, 72, 109, 187, 196, 483; B: 22, 49, 66, 109, 170, 297, 366; C: 70, 213, 483, 516, 529; D: 7, 46, 90, 196, 205, 264; E: 252, 442, 532; F: 65, 109, 173, 258, 462, 483; G: 5, 196, 296; H: 54, 195; I: 94, 153, 224, 352, 462, 565; J: 109, 187, 238, 366, 462, 565; K: 99, 135, 242, 317, 366, 494; L: 11, 184, 352, 398, 531, 591; M: 127, 221, 333, 492, 540, 581.

**Includes one company which adjusted retroactively for pooling but not for purchase.

TABLE 15: EARNINGS PER SHARE—1966 ONLY

Comparative Earnings per Share—	Percentage of Materiality† 0-5%	6-10%	11-20%	21-50%	Over 50%	N	1966 Total Items
Adjusted retroactively for:							
Stock dividends	46	7	2	1	3	—	59
Stock splits	—	—	1	12	62	—	75
Stock conversions	2	3	—	—	—	2	7
Stock options exercised	15	—	—	—	—	—	15
Treasury stock activity	6	—	—	—	—	—	6
Purchase, pooling, or merger	26	7	7	4	1	1	46
Other	2	—	1	—	—	1	4
	97	17	11	17	66	4	212
Not adjusted retroactively for:							
Stock dividends	3	—	1	—	—	—	4
Stock conversions	55	9	2	1	1	5	73
Stock options exercised	270	1	—	—	—	1	272
Treasury stock activity	134	3	2	1	—	2	142
Purchase, pooling, or merger	62	3	2	—	—	8	75
Other	13	4	5	1	—	—	23
	537	20	12	3	1	16	589
Total	634	37	23	20	67	20	801
Adjustment made in a prior year; none required in current year							291
							1092

†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.

with companies which calculate earnings per share on shares outstanding at the end of each year.

Table 14 has been constructed to disclose *company policy* with respect to adjustments to earnings per share when there are changes in the number of shares outstanding during current and prior years. The details have been assembled, therefore, from all pertinent parts of the annual report, such as notes, financial and statistical summaries, etc.; and likewise the compilation has been limited by the absence of such information. The data has also been limited arbitrarily to share changes which exceed, in the aggregate, one per cent of the number of shares outstanding at the beginning of the company's fiscal year.

Table 15 has been constructed to disclose materiality for those items included in Table 14 which are identified with changes in the number of shares outstanding during the *current* year. Disclosure in current year reports of prior years' adjustments to earnings per share are too infrequent to be included in Table 15. The two tables should be considered in the light of the foregoing limitations.

Of the 600 companies included in the 1966 survey, 587 disclosed comparative earnings per share figures for two years or more. One company disclosed earnings per share for the current year only, and 12 companies made no such disclosures.

Examples

The following examples selected from the 1966 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 Dividends

THE NEW BRITAIN MACHINE COMPANY
Ten Year Review

	1966	1965	1964	1963
Net Sales	$69,436,335	$56,165,768	$42,756,532	$33,515,650
Income before Federal Income Tax	7,326,940	4,346,373	2,853,263	1,318,584
Net Income	3,703,331	2,403,889	1,598,304	833,584
Net Income per share[1]	5.27	3.48	2.48	1.33
Cash Dividends Paid	1,046,653	751,411	589,664	430,727
Cash Dividends per share[1]	$1.50	$1.10	$ .92	$ .68

[1] Based on the number of shares outstanding at the end of each year adjusted for 10% stock dividend in 1965 and 4/3 stock split in 1966.

BLUE BELL, INC.
Twenty-five Year Record of Growth

Year	Net Sales	Net Income	Per Share of Common Stock** Earnings
1962	$ 71,375,228	$1,668,598	$1.97
*1963	64,556,352	1,770,968	2.08
1964	97,218,478	3,346,859	2.64
1965	112,926,089	4,461,473	3.38
1966	137,075,997	5,725,423	4.28

*Ten months.
**Revised to give effect to 20% stock dividends issued in September, 1964.

EASTERN STAINLESS STEEL CORPORATION
Ten-Year Financial Summary and Comparative Statistics

	1966	1965	1959
Per share of common stock			
Net income (a)	$1.40	$1.02	$1.98

(a) Based on average number of shares outstanding during each individual year, adjusted for stock dividends and stock split of April 15, 1959.

Adjusted Retroactively for Stock Splits

COLUMBIA BROADCASTING SYSTEM, INC.
Ten-Year Financial Summary

	1966	1965	1964
Net Income (In thousands)	$64,116	$49,051	$49,656
Percent of net income to net sales	7.9%	7.0%	7.8%
Net Income Per Share (Note)	3.11	2.42	2.47
Cash dividends paid per share (Note)	$ 1.25	$ 1.18	$ 1.01

Note: Based on the average number of shares outstanding in each year, adjusted for stock dividends prior to 1966 and for the 2-for-1 stock split in 1963. Stock dividends were declared as follows: 3% in each year 1957 through 1963; 2% in each year 1964 through 1966.

DRESSER INDUSTRIES, INC.
Ten-Year Financial and Sales History

Financial
Per-share amounts in dollars; other dollar amounts in thousands

Income Fiscal Years Ended October 31:	1966	1965	1964
Net sales and service revenues	$401,039	$353,623	$259,467
Earnings before taxes	48,207	38,936	27,868
Income taxes	25,077	20,436	15,298
Net earnings	23,130	18,500	12,570
As a percent of net revenue	5.8%	5.2%	4.8%
As a percent of share-owners' equity	16.7%	15.2%	10.1%
Net earnings per share (Note *A*)	2.70(*B*)	2.07(*B*)	1.37

Notes: A: Adjusted for 2 for 1 stock split in November 1965 and acquisition of Elgin and Podbielniak. B: Based on weighted average number of shares outstanding.

PEOPLES DRUG STORES, INCORPORATED
Highlights

	1966	1965	1964
Sales for the Year	$154,195,920	$142,399,101	$130,763,403
Income Before Taxes	5,465,896	5,873,570	5,895,324
Taxes on Income	2,520,450	2,745,088	2,979,286
Net Income	2,945,446	3,128,482	2,916,038
Earnings Per Share*	2.42	2.57	2.42

*Based on shares outstanding at end of each year, adjusted for 2 for 1 stock split in 1965.

Adjusted Retroactively for Stock Conversions

CRUCIBLE STEEL COMPANY OF AMERICA
Ten-Year Statistical Summary

Net Income			
	Per Cent of		
(In thousands) Amount	Sales	Shareholders' Equity at January 1	Per Common Share[1]
$12,420	3.9%	8.7%	$2.92
10,694	3.4	7.8	2.53
$ 9,833	3.5	7.5	$2.34

Note: (1) Based on shares outstanding at the end of each year adjusted to reflect the conversion of preferred stock in 1966.

Facts in Brief	1966	1965
Net sales	$319,743,000	$313,471,000
Depreciation	12,921,000	12,839,000
Federal and foreign income taxes	12,110,000	10,060,000
Net income	12,420,000	10,694,000
Per common share	2.92	2.53*

*Revised to reflect the conversion of preferred stock.

Adjusted Retroactively for Purchase, Pooling or Merger

WILSON & CO., INC.
Financial Summary

	1966	1965	1964
	(000 omitted)		
Sales and Operating Revenues	$990,860	$833,411	$783,439
Net Earnings	12,905	9,272	12,788
Per share of common stock[(b)]	5.01	3.53	5.02

Note: (b) Based upon shares outstanding at end of respective fiscal years, adjusted in 1962-1965 for shares issued in 1966 pooling of interests. Giving effect to the 50% stock dividend declared January 6, 1967, per share earnings would be: 1966—$3.34; 1965—$2.35; 1964—$3.35; 1963—$1.87; 1962—$1.91.

Earnings Per Share in Relation to Extraordinary Items

Table 16 summarizes the treatment in the 1966 annual reports of earnings per share when extraordinary items are present. Per share figures were presented for extraordinary items by 35 companies. Ten 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.

TABLE 16: EARNINGS PER SHARE TREATMENT OF EXTRAORDINARY ITEM(S)—1966

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	3
C: Net income *and for* total of net income and extraordinary items	4
D: Net income, *and for* extraordinary items, *and for* total of net income and extraordinary items	6
Total number of companies	23

Inclusion of Material Extraordinary Items in Net Income

Earnings per Share shown for:*	
E: Net income *only;* no separate figure shown for extraordinary items	28
Net income which includes extraordinary items, *and for* extraordinary items	1
F: Net income before extraordinary items, *and for* extraordinary items, *and for* income which includes extraordinary items	24
G: Net income before extraordinary items, *and for* net income which includes extraordinary items	6
Net income before extraordinary items, *and for* extraordinary items	1
Total number of companies	60

	1966	1965
Reports disclosing *both* extraordinary item(s) *and* earnings per share	83	133
Report does not disclose extraordinary item(s)	505	447
Report does not disclose earnings per share	12	20
Total	600	600

*Refer to Company Appendix Section—A: 61, 276, 301, 503, 535; B: 432; C: 55, 388; D: 43, 158, 350, 506; E: 2, 197, 246, 339, 385, 449; F: 21, 215, 216, 236, 266, 337; G: 237, 365, 553.

Those 1966 survey companies which are included in item F, Table 16, present earnings per share data for all items for which such information has been deemed necessary by the accounting principles board as stated in *Opinion No. 9,* referred to earlier in the text. Since the board strongly recommended that earnings per share be disclosed in the statement of income, examples which follow have been limited to survey companies in this group which have made such presentations.

Certain of the examples appearing below have previously been included as examples in this section, under "Extraordinary Items." This was found necessary in order to display the best examples in each case and also to present variations in methods of presentation used in the income statement.

BEECH-NUT LIFE SAVERS, INC.
Statement of Earnings and Earnings Retained in the Business

Earnings before extraordinary items		$ 20,256,174
Sale of real estate and cattle (net of applicable income taxes of $380,998)		887,730
Net earnings for the year		21,143,904
Earnings retained in the business at the beginning of the year (Note 1)		82,622,102
		103,766,006
Cash dividends paid:		
Beech-Nut Life Savers, Inc.:		
Preferred stock		1,538,759
Common stock		8,942,628
Dobbs Houses, Inc. (prior to pooling of interests):		
Common stock		1,230,894
		11,712,281
Earnings retained in the business at the end of the year		$ 92,053,725
Per share of common stock:		
Earnings before extraordinary items	$2.59	
Extraordinary items, net of taxes	.14	
Net earnings for the year	$2.73	

BELL & HOWELL COMPANY
Consolidated Statement of Earnings

	(000 omitted)
Net Earnings Before Special Gain	$9,335
Gain on sale of investments, net of tax	85
Net Earnings	$9,420
Earnings per Common Share (Note D):	
From operations	$2.19
From sale of investment	.02
Total	$2.21

Note D (in part): *Capital Shares*—Per share earnings data are based on the average number of Common Shares outstanding during each year after recognition of preferred dividend requirements. If the outstanding 4½% Convertible Subordinated Debentures, the 25-Year 4¾% Subordinated Notes, and the 4¼% Cumulative Convertible Preferred Shares were converted into Common Shares at the conversion ratios in effect at December 31, 1966, pro forma earnings (reflecting the issuance of 519,324 Common Shares on conversion and eliminating the related interest and preferred dividends) for 1966 would be $2.05 per Common Share.

WAGNER ELECTRIC CORPORATION
Consolidated Statement of Earnings and Earnings Reinvested in the Business

	1966	1965
Income before extraordinary items (per share applicable to common stock: 1966, $4.99*; 1965, $1.85)	$5,162,834	$1,901,822
Extraordinary credit (charge):		
Gain on sale of marketable securities, less applicable federal income taxes of $133,000 (per share: $.40*)	398,870	—
Provision for discontinuance of certain products, less applicable federal income taxes of $1,056,000 (Note 8) (per share: ($1.23))	—	(1,144,000)
Net Earnings (per share applicable to common stock: 1966, $5.39*; 1965, $.62)	$5,561,704	$ 757,822

FAIRCHILD HILLER CORPORATION
Consolidated Statement of Earnings

Revenue:	
Sales	$210,042,982
Gain on partial liquidation of investment in RAC Corporation	2,173,632
Other income	4,008,008
	$216,224,622
Earnings Per Share of Common Stock[1]	
Gain on partial liquidation of investment in RAC Corporation	$ .37
Other	1.20
Net earnings per share	$1.57

[1] Based on average number of shares outstanding during the period.

GENERAL CIGAR CO., INC.
Statement of Consolidated Income and Retained Earnings

Income before extraordinary item (per share: 1966—$1.54; 1965—$1.60)	$ 2,354,000
Gain, net of tax, on sale of investment in associated company (per share—$.53) (Note 2)	813,000
Net income (per share: 1966—$2.07; 1965—$1.60)	3,167,000
Retained earnings at beginning of year	27,768,000
	30,935,000
Dividends, $1.20 per share in 1966 and 1965	1,836,000
Retained earnings at end of year (Note 6)	$29,099,000

THE McKAY MACHINE COMPANY
Consolidated Statements of Earnings

Earnings before extraordinary item	$1,378,000
Extraordinary item, net of applicable income tax (Note B)	221,000
Net Earnings	$1,599,000
Depreciation and amortization included in operating costs and expenses	$ 959,000
Per share of common stock (based upon shares outstanding at the end of each year after adjustment for 10% stock dividend in 1966)	
Earnings before extraordinary item	$ 5.62
Extraordinary item, net of applicable income tax (Note B)	$ .90
Net Earnings	$ 6.52

FRANK G. SHATTUCK COMPANY
Consolidated Statement of Loss

Net income (loss) before extraordinary item	$(2,576,201)
Extraordinary item—loss on sale of investment in former subsidiary, no current tax benefits (Note 1)	(362,614)
Net (Loss) (Note 3)	$(2,938,815)
Per share data:*	
Net income from continuing operations	$ .47
Net loss of former subsidiary	(2.75)
Net income (loss) before extraordinary item	(2.28)
Extraordinary item	(.32)
Net (loss)	$(2.60)

*Based on 1,132,365 shares outstanding, after giving effect to 2% stock dividend distributed in January 1967.

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 1966 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. (*31, 50, 115, 250, 375, 422)
- With no provision for related U.S. tax on unremitted earnings evident (*49, 156, 233, 311, 462, 506)
- With tax provided on dividends received (*161, 424, 467)

Foreign Subsidiaries—Not Consolidated

Income fully taken up:
- With U.S. tax provided for—by a reserve, or net after taxes, etc. (*585)
- With no provision for related U.S. tax on unremitted earnings evident (*134, 247, 285, 513)
- With tax provided on dividends received (*484)
- Income taken up only as dividends are received (*13, 110, 234, 325)

Foreign Subsidiaries—Consolidated With U. S. Tax Provided for All Income Including Unremitted Earnings

CHRYSLER CORPORATION
Notes to Financial Statements

Principles of Consolidation—The consolidated financial statements include the accounts of Chrysler Corporation and majority-owned and controlled subsidiaries except those engaged primarily in retail selling, leasing, financing and insurance of the Corporation's products. Investments in unconsolidated subsidiaries are carried at equity.

International Operations (in part):—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. Non-current 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.

U.S. INDUSTRIES, INC.
Notes to Financial Statements

Note A (in part): *Principles of Consolidation*—The financial statements include on a consolidated basis the accounts of all subsidiaries except a majority-owned British corporation and four companies engaged in finance businesses. The Company carries its investments in subsidiaries at cost plus its interest in undistributed earnings, less losses, of such subsidiaries.

*Refer to Company Appendix Section.

Review of Operations

The Impact of Taxes: The net income for 1966 of $8,048,538 is after providing for full income taxes on profits earned in countries other than the United States. Additionally, for companies acquired in 1966, net income on a fully taxed basis was included for the periods prior to the acquisition dates. No provision was made for further U.S.A. income taxes because of the tax loss carry forward which resulted from losses incurred prior to 1964.

With No Provision for U. S. Tax on Unremitted Earnings

ADMIRAL CORPORATION
Notes to Financial Statements

Note A: *Principles of Consolidation*—(1) The Company's policy is to include in consolidation all subsidiaries and to carry the investments in finance subsidiaries at underlying book equities.

(2) The accounts of the foreign subsidiaries were converted: (a) as to net current assets at the rates of exchange at December 31, 1966; (b) as to Capital Stock, investments and fixed assets at the rates at the time of acquisition; and (c) as to income and expenses (except depreciation) at the approximate average rates of exchange during the year and as to depreciation at the exchange rates applicable to the related fixed assets.

(3) The undistributed earnings of the subsidiary companies (after eliminating intercompany profits) included in the consolidated retained earnings at December 31, 1966 amounted to $27,786,995. Such amount may be subject to income taxes at rates of tax prevailing (less applicable offsetting credits) if and when transferred in the form of dividends to their respective parent companies; no provision for such taxes has been made in the accompanying consolidated financial statements.

(4) The underlying assets of the wholly-owned unconsolidated finance companies consist of current assets of $33,799,695, less current liabilities of $27,154,021, or net current assets of $6,645,674; plus other assets of $279,309 and less other liabilities of $477,279, resulting in $6,447,704, represented by Capital Stock and retained earnings. The net income of such companies amounted to $646,070 for 1966 and $501,547 for 1965 and is included under the item "Sundry income."

AMERICAN BILTRITE RUBBER CO., INC.
Notes to Financial Statements

Note A: *Principles of Consolidation*—The consolidated financial statements include the accounts of the Company and its subsidiaries. The accounts of the foreign subsidiaries have been included after reflecting appropriate foreign exchange adjustments at the prevailing rates.

Note C: *Deferred Federal Income Taxes*—Deferred federal income taxes include: (1) the amount ($569,892) of tax related to certain income recognized for book purposes, but not reported for tax purposes for years prior to 1963 which, pursuant to an agreement with the Internal Revenue Service, is being reported at the rate of 10% per year commencing in 1963; and (2) $58,166 representing the tax benefits derived by a Canadian subsidiary as a result of deducting depreciation for tax purposes in excess of the amount provided on the books.

Two of the foreign subsidiaries have not been subject to federal or foreign taxes on their income. Such income totalled $179,176 in 1966. No provision has been made by the Company for income taxes that would be payable in the event of transfer of such earnings to the Company (except for $61,193 of income taxable under Subpart F of the Revenue Act of 1962), as it is the intent of the Company to utilize the earnings of these subsidiaries to expand the Company's foreign operations.

VARIAN ASSOCIATES

Note 1 (in part): *Subsidiary and Affiliated Companies*—All domestic and foreign subsidiary companies have been included in the accompanying consolidated statements. The accounts of consolidated foreign subsidiaries have been converted at applicable rates of exchange. The Company's equity in consolidated foreign subsidiaries as at September 30, 1966, exceeded the carrying values of the Company's investment in such subsidiaries by $7,009,000. The consolidated net income for the year ended September 30, 1966, includes earnings of $1,393,000 from foreign consolidated subsidiaries. The undistributed earnings of subsidiaries may be subject to income and other taxes (reduced by tax paid credits, if any) if and when remitted to the parent Company.

Foreign Subsidiaries—Not Consolidated

With U. S. Tax Provided for All Income Including Unremitted Earnings

THE NATIONAL CASH REGISTER COMPANY
Notes to Financial Statements

Note 1: The results of operations include the income, costs and expenses of all subsidiary companies and branches; however, the net earnings of all foreign subsidiaries and branches except Canada which have not been remitted to the United States have been deducted in arriving at net income for the year.

Financial Review

Earnings: Net income was $27,219,000 compared with $24,725,000 in 1965, an increase of 10%. This amounts to $3.10 per share based on the 8,793,963 shares outstanding at year end and compares with $2.81 in 1965. Cash dividends were $1.20 per share in 1966.

Domestic Earnings	$13,579,000
Foreign Earnings Included in Net Income	13,640,000
Net Income	$27,219,000

Foreign earnings, including royalties, were $18,683,000 after taxes of $24,700,000 (including $2,700,000 in U.S. Tax).

Foreign Earnings after Tax	$18,683,000
Less:	
Unremitted Earnings	5,043,000
Foreign Earnings Included in Net Income	$13,640,000

Reported net income includes only those foreign earnings actually remitted to the United States plus the earnings of NCR's Canadian subsidiary.

NOPCO CHEMICAL COMPANY
Notes to Financial Statements

Note 2: *Investments*—Investments at December 31, 1966 and 1965 were as follows:

Investments in unconsolidated Swiss subsidiary and 50% owned foreign companies	$ 665,074
Other securities and investments	2,061,131
	$2,726,205

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.

Other securities and investments are stated at cost which approximates in the aggregate, the total of the market value of the securities and/or underlying equity in the net assets of such companies.

Income Taken Up Only as Dividends Are Received

COMMERCIAL SOLVENTS CORPORATION
Notes to Financial Statements

Principles of Consolidation and Investments in Subsidiaries: The consolidated financial statements include the accounts of all wholly-owned subsidiaries and Northwest Nitro-Chemicals Ltd. The Company's ownership of Northwest's common stock was approximately 95% on December 31, 1966.

The accounts of consolidated foreign subsidiaries are expressed in U.S. dollars at appropriate rates of exchange.

The investment in non-consolidated foreign subsidiaries represents a 51% interest in Italian pharmaceutical companies. The Company's equity in the 1966 net earnings of these subsidiaries was $115,016 and its equity in their net assets at December 31, 1966 was $2,955,079. During 1966 dividends totaling $129,350 were received from these subsidiaries and included in Other income (net).

UMC INDUSTRIES, INC.
Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements, from which intercompany items have been eliminated, include the accounts of all domestic subsidiaries. Foreign subsidiaries, not consolidated, are carried at cost which approximates equity. Dividends from foreign subsidiaries, approximating equity in earnings, have been included in the accompanying statement of operations.

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 1966, 1962, and 1960. The tabulation also discloses in what part of the report "cash flow" is mentioned or dealt with.

Number of Companies:	1966	1962	1960
Referring to "cash flow"	168	101	61
Not referring to "cash flow"	432	499	539
Total	600	600	600

Method of Presentation or Location in Reports			
Referred to in:			
President's letter or financial review	77	45	38
Operating summaries or statistics	56	29	4
Highlights	45	12	8
Separate statements	4	13	8
Funds statements	69	N/A	N/A
Chart form	57	9	12
Total	308	108	70

N/A—Not Available.

As indicated by the above tabulation, 168 companies referred to "cash flow," "cash flow earnings," or "internal cash generation," etc., in 1966, compared with 101 companies in 1962 and 61 companies in 1960. 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 168 companies referring to "cash flow," 95 presented the information in dollar amounts, 11 presented amounts per share, and 62 presented both the totals and amounts per share.

Examples of the manner of presentation follow.

Presented in Both Totals and Amounts Per Share

UNION CAMP CORPORATION
Financial Review

Cash Flow generated by net income, depreciation and depletion, and deferred federal income taxes was $50,675,526 or $6.54 a share. In 1965 similar amounts were $43,108,428 and $5.66.

Highlights

Cash flow	$50,675,526
Capital Expenditures	84,223,738
Per Share of Stock:	
Net Income	3.81
All Taxes	3.57
Dividends Paid	1.72
Cash Flow	6.54

Source and Disposition of Working Capital

Working Capital, at beginning of year	$52,186,626
Sources of Working Capital:	
Net income for year	29,573,417
Provision for depreciation and depletion	19,727,109
Deferred federal income taxes	1,375,000
Cash Flow from Operations	$50,675,526

Ten Year Financial Review

Additional Data:	
Shares of Capital Stock	7,753,248
Cash Flow	$50,675,526
Per Share of Stock	6.54

Cash flow also shown in chart.

THE CARBORUNDUM COMPANY
Five Year Comparison

Selected Operating Data:

	(In millions of dollars)
Sales	$230.6
Pre-tax income	29.5
Net income	15.3
Depreciation and amortization	7.8
Cash flow	23.1
Dividends paid	4.6
Spent for properties, plants and equipment	27.1
Increase in investments in and advances to non-consolidated subsidiaries and associated companies	$ 1.0
Selected Share Data*	
Common shares outstanding in thousands	3,639
On a per common share basis:	
Quarterly dividend rate at year end	$ .32½
Net income	4.21
Cash flow	6.35
Dividends paid	1.27½
Stockholders' equity	35.70

*Years 1962-1965 adjusted for 2 for 1 stock split in April 1966.

CYCLOPS CORPORATION
Letter to Stockholders

Cash Flow: Even though earnings declined in 1966, cash flow from operations (net income plus depreciation) continued to increase, as indicated in the following table:

	Net Income	Depreciation	Combined	Per Share of Common Stock
	(In thousands)			
1962	$ 5,040	$ 7,848	$12,888	$6.46
1963	6,017	8,507	14,524	7.28
1964	7,550	8,162	15,712	7.88
1965	10,134	9,445	19,579	9.81
1966	9,322	11,138	20,460	10.23

MIDLAND-ROSS CORPORATION
Financial Highlights

Net sales and contract revenue	$344,122,000
Income before federal income taxes	34,213,000
Net income	17,613,000
Working capital	70,229,000
Additions to plant and equipment	14,389,000
Depreciation of plant and equipment	7,325,000
Investment tax credit	504,000
Shareholders' equity	142,326,000
Per common share	
Net income	3.33
Cash flow	4.90

Ten-Year Summary

Operations:	
Sales:	(In thousands)
Automotive and transportation	$102,576
Capital goods	125,713
Building and construction	33,522
Railroad	42,698
Consumer goods	17,992
Aerospace and defense	21,621
Total	$344,122
Net income	17,613
Depreciation and amortization of intangibles	7,399
Cash funds generated (a)	24,060
Federal income taxes	16,600

(a) Net income and provisions for depreciation, amortization of intangibles, and deferred income taxes, less preferred dividends.

SKELLY OIL COMPANY
Statement of Funds

Source of Funds:	
Net income	$36,962,270
Depletion, depreciation, and amortization	40,700,315
Dry hole costs, etc.	6,470,047
Cash Flow	$84,132,632

Ten Year Comparisons

Financial*	1966
Total revenue	$336,715
Net income	36,962
Net income per share†	3.06
Cash flow per share†	6.97

*Dollar amounts (except per-share figures) are stated in thousands.
†Years prior to 1966 restated to reflect 2½ for 1 stock split.

Presented in Dollar Amount

ACF INDUSTRIES, INCORPORATED
Letter to Stockholders

The Company's strong financial position was fully maintained during fiscal 1966 with working capital increasing $12,068,000. Earnings, depreciation and deferred taxes generated a record cash flow of over $41,000,000. The sale of $24,000,000 of equipment trust certificates in April, 1966, in accordance with our usual practice, restored funds used to acquire rolling stock for the leasing fleet.

GRANITE CITY STEEL COMPANY
Financial Review

The following comparison of the principal items comprising the company's self-generated funds indicates their importance in helping provide for the heavy capital expenditures of the 1965-1967 expansion and modernization program.

Principal Items Comprising Self-Generated Funds	
Net income	$10,386,000
Depreciation	11,571,000
Provision for extraordinary obsolescence, net	1,500,000
Deferred income taxes, net	1,035,000
	$24,492,000

INTERLAKE STEEL CORPORATION
Highlights for the Year

	(In thousands)
Net sales	$268,804
Net income	16,481
Cash flow	29,448
Capital expenditures	17,905
Common stock dividends	7,842

Financial Review

Cash Flow (net income, depreciation charges, and future tax deferrals less, for 1965, Preferred stock dividends) was $29,448,000 up $670,000 from 1965.

Funds and Working Capital: Working capital decreased $1,135,000 during the year and at year end amounted to $63,621,000 compared to $64,756,000 a year ago. While cash flow of $29,448,000 for the year was approximately the same as last year, 1966 did not benefit from any substantial nonrecurring source of working capital such as the sale of the Enos Coal Mining Division's assets in 1965. As reflected in the Statement of Source and Application of Funds, page 18, the major calls on working capital during the year were capital expenditures, the investment in Metalcraft Products Company and dividend payments.

Presented in Amounts Per Share

CLEVITE CORPORATION
Financial Review

Cash Flow: Cash flow (earnings and depreciation) per share equaled $7.43 in 1966 compared with $7.00 per share in 1965.

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 together 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 503 companies including "funds" statements in their reports, 119 were one-year statements while 384 were for 2 or more years. The number of companies presenting statements of source and application of funds in 1966 increased to 503, or 84 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 1966	1964
With financial statements:		
A: As the first of the statements	29	21
B: As the last of the statements	203	130
C: Between balance sheet and income state-statement	8	12
D: Between balance sheet and retained earnings (deficit) statement	8	2
E: Between balance sheet and capital surplus statements	4	2
F: Between income and retained earnings or capital surplus statements	5	4
G: Between balance sheet or income statement and shareholders' equity statements	3	3
H: Between retained earnings and capital surplus statements	3	1
I: Elsewhere with the statements	12	3
Total	275	178
With president's letter, financial, or other textual review:		
J: Before president's letter	10	11
K: After president's letter	6	9
L: With president's letter	17	22
M: With financial review	94	114
N: Between notes and auditors' reports	44	N/C
O: After financial statements and auditors' report	57	53
Total	503	387
Companies not presenting "funds" statement	97	213
Total	600	600

*Refer to Company Appendix Section—A: 13, 83, 199, 337, 467, 570; B: 45, 148, 237, 352, 454, 553; C: 95, 245, 378, 575; D: 1, 357, 404, 580; E: 331, 547; F: 180, 320; G: 301; H: 369; I: 130, 222, 341, 459; J: 446, 555; K: 37, 330; L: 85, 209, 304, 388, 464, 526; M: 38, 117, 220, 358, 437, 519; N: 25, 111, 240, 321, 471, 552; O: 9, 163, 250, 342, 480, 544.
N/C—Not compiled.

WHERE REFERRED TO BY AUDITORS

The source and application of "funds" statement is referred to by the auditors of 354 of the 600 survey reports in 1966. In all of the 354 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	Number of Companies 1966	1964
Reference made in:*		
A: *Scope* paragraph	6	5
B: *Opinion* paragraph	42	82
C: Both *scope* and *opinion* paragraphs	211	86
D: Separate paragraph	16	18
E: Modified short-form report	79**	—
Total	354	191
Not referred to in auditors' report	149	196
	503	387
Not presenting "funds" statement	97	213
Total	600	600

*Refer to Company Appendix Section—A: 218, 334; B: 28, 190, 285, 376, 454, 531; C: 1, 160, 229, 383, 459, 538; D: 17, 45, 137, 230, 327, 496; E: 24, 115, 245, 321, 457, 515.
**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)	502
Depreciation, depletion, and amortization	498
Income taxes (deferred, adjusted, future, etc.)	204
Investment credit	24
Reduction in investment in unconsolidated subsidiaries, mortgages, etc.	27
Decrease or loss in investments	29

Amortization of deferred charges	21
Increase in minority interests	25
Sales of plant and equipment	215
Increase in long-term debt	238
Sales of stock including stock options	303
Other and miscellaneous	350

Application or Disposition (Funds Applied) Item in Statement	
Cash dividends paid	483
Repayment of short- or long-term debt	298
Expended for plant or equipment	500
Purchase of company's own stock	196
Investment in unconsolidated subsidiaries	133
Investments	88
Decrease in deferred Federal income taxes	32
Increase in deferred charges	28
Increase in intangibles	32
Other and miscellaneous	383

TITLE OF "FUNDS" STATEMENT

Many different titles were used in the reports of the 600 survey companies, for 1966, 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.* Frequent use was also made of the titles, *Source and Disposition of Working Capital and Analysis* or *Summary of Changes in Working Capital.*

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 "Funds" Statement*	Number of Companies with 1-year statements	2 years or more	Total
A: Source and application of funds	43	150	193
B: Source and disposition of funds	12	32	44
C: Source and use of funds	11	63	74
D: Funds statement	9	15	24
E: Working capital	12	12	24
F: Changes in working capital	13	29	42
G: Analysis or summary of changes in working capital	2	18	20
H: Source and application of working capital	2	13	15
I: Source and disposition of working capital	3	18	21
J: Source and use of working capital	4	9	13
Miscellaneous other titles	8	25	33
Total	119	384	503

*Refer to Company Appendix Section—A: 7, 125, 261, 335, 453, 532; B: 8, 50, 156, 330, 355, 485; C: 32, 170, 323, 418, 546, 592; D: 63, 114, 198, 264, 359, 456; E: 30, 178, 234, 363, 480, 502; F: 68, 110, 233, 373, 489, 500; G: 82, 89, 189, 324, 395, 599; H: 36, 138, 258, 413, 463, 478; I: 71, 151, 298, 311, 501, 594; J: 131, 275, 457.

Examples

The following examples, taken from the 1966 reports, illustrate source and application of funds statements. For treatment of the "funds" statement in auditors' reports, see Section 5. Although the following examples, for the purpose of conserving space, show only one year, the annual reports of the companies from which the examples are taken often display two years.

ABBOTT LABORATORIES
Statement of Consolidated Funds

Working Capital at Beginning of Year	$67,901,000
Funds provided:	
Operations:	
Net earnings	26,741,000
Less—dividends	13,202,000
Earnings Employed	13,539,000
Depreciation	6,874,000
Provisions for deferred taxes and international operations	1,117,000
Sale of option shares	502,000
Shares issued in connection with acquisition of The Faultless Rubber Company	4,422,000
Net increase in term borrowing by subsidiaries	2,275,000
Other items	749,000
Total Provided	29,478,000
Funds applied:	
Property additions	18,352,000
Property and equipment of acquired company, net	2,940,000
Purchase of treasury shares	1,490,000
Total Applied	22,782,000
Increase (Decrease) in Working Capital	6,696,000
Working Capital at End of Year	$74,597,000

AMERICAN POTASH & CHEMICAL CORPORATION
Changes in Consolidated Net Working Capital

Increases:	
Net income	$ 6,568,305
Depreciation and amortization	7,157,366
Revolving credit notes	3,250,000
Deferred income taxes	567,000
Net decrease (increase) in deferred charges	484,559
Net decrease (increase) in investments and other receivables	394,472
Stock options exercised	85,940
Minority interest in net income	34,991
Total Increases	$18,542,633
Decreases:	
Net additions to property, plant and equipment	$10,128,531
Retirement of long-term debt	723,081
$4 Preferred Stock purchases and retirements	30,597
Purchase of Company's Common Stock	47,018
Dividends—Common Stock	3,450,963
—Preferred stocks	138,602
Total Decreases	14,518,792
Net Increase (Decrease) in Working Capital	$ 4,023,841

AMERICAN SUGAR COMPANY
Statement of Changes in Working Capital

Working Capital Beginning of Year	$63,715,670
Working Capital End of Year	55,829,897
Decrease	7,885,773
Additions:	
Net income	14,041,710
Income charges not requiring cash disbursements	
Depreciation	9,822,607
Tax deferral from accelerated depreciation	1,541,748
	25,406,065
Deductions:	
Plant and equipment purchases	20,994,148
Dividends	6,192,982
Reduction in long-term debt	3,075,000
Treasury stock purchases	1,461,801
Liquidation of pension reserve	1,332,523
Other	235,384
	33,291,838
Decrease	$ 7,885,773

ARCHER DANIELS MIDLAND COMPANY
Consolidated Working Capital

Working Capital at Beginning of Year	$54,271,835
Additions:	
From earnings	
Net earnings for the year	4,945,464
Provision for depreciation	5,354,931
Provision for deferred income taxes	574,715
Total from earnings	10,875,110
Decrease (increase) in investments and other assets	330,787
Treasury stock sold (acquired)	93,266
	11,299,163
Deductions:	
Additions to property, plant and equipment	5,529,689
Less disposals	483,516
	5,046,173
Dividends paid in cash	2,512,970
Decrease (increase) in deferred liabilities	461,922
Other	68,113
	8,089,178
Working Capital at End of Year	$57,481,820

BOTANY INDUSTRIES, INC.
Statement of Funds

	(In thousands)
Working Capital—July 31, 1965	$21,407
Sources:	
Net income for the year	3,657
Depreciation and amortization	1,335
Increase in deferred Federal income taxes	228
	26,627
Applications:	
Capital expenditure for expansion and modernization of production and distribution facilities	6,569
Less: Long-term debt incurred	3,201
	3,368
Reduction of long-term debt	1,771
Other—net	128
	5,267
Working Capital—July 31, 1966	$21,360

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION
Consolidated Statement of Working Capital

Source:	
From Operations:	
Net income	$ 10,347,000
Depreciation	19,628,000
Deferred taxes on income	75,000
	30,050,000
Disposals of property	1,177,000
Borrowings	2,386,000
	33,613,000
Disposition:	
Capital expenditures	18,622,000
Cash dividends	10,286,000
Surplus charge	6,594,000
Purchase of capital stock	1,003,000
Investments in associated companies and unconsolidated subsidiaries	203,000
Other transactions	109,000
	36,817,000
Increase (decrease) in working capital	(3,204,000)
Working capital at beginning of year	157,596,000
Working capital at end of year	154,392,000
Represented by:	
Current assets	242,859,000
Current liabilities	88,467,000
	$154,392,000

THE BULLARD COMPANY
Source and Use of Funds

Source of Funds:	
Net income including income tax credit in 1965	$1,903,658
Depreciation and amortization	829,686
	2,733,344
Use of Funds:	
Reduction in long-term debt	307,692
Dividends declared on common stock	582,912
Machines and equipment, net	1,130,037
Deferred Federal income taxes currently payable with respect to guideline depreciation	80,588
Increase in net working capital	632,115
	$2,733,344

CF&I STEEL CORPORATION
Source and Use of Working Capital

Working Capital at December 31, 1965	$82,350,000
Source of working capital:	
Net income	15,552,000
Depreciation	6,437,000
Disposition of properties	1,353,000
Other—net	471,000
	23,813,000
Use of working capital:	
Reduction of long-term debt	6,539,000
Capital expenditures	5,958,000
Dividends	2,146,000
Retirement of preferred stock	2,137,000
Funding of pension costs accrued in prior years	1,671,000
	18,451,000
Net increase in working capital	5,362,000
Working Capital at December 31, 1966	$87,712,000

COLGATE-PALMOLIVE COMPANY
Source and Application of Funds
for the year 1966

	(In thousands)
Funds Provided by:	
Consolidated net income from operations	$30,475
Depreciation	16,339
Increase in deferred taxes	1,553
Proceeds from stock issued under Stock Option Plan	45
Increase in reserves, etc.	4,042
Decrease in other assets	3,130
Total	55,584
Funds Used for:	
Dividends declared	14,274
Expenditures for plant and equipment (net of retirements)	18,682
Decrease in long-term debt	4,651
Treasury stock acquired	5,254
Total	42,861
Increase in Working Capital	$12,723

CONTINENTAL BAKING COMPANY
Consolidated Statement of Source and Disposition of Working Capital
Fiscal year ended December 31, 1966

Source of Working Capital:	
Net income	$11,321,522
Depreciation	9,754,680
Increase in deferred federal income tax less decrease in deferred investment credit	2,080,705
Sale of common stock under employees' option plans	732,954
Working capital of company acquired	261,944
Disposition of property, plant and equipment	235,789
	24,387,594
Disposition of Working Capital:	
Purchase of property, plant and equipment	15,082,863
Reduction in long term debt	1,500,000
Purchase of common stock for treasury	1,751,389
Cash dividends:	
Preferred stock	704,000
Common stock	4,543,272
Net increase in deferred charges and other assets	564,969
	24,146,493
Increase in Working Capital	$ 241,101

STOKELY-VAN CAMP, INC.
Summary of Changes in Net Working Capital
for the year ended May 31, 1966

Balance at beginning of year	$67,342,281
Additions:	
Net income for the year	6,925,183
Provision for depreciation	4,104,709
Common stock sold under option plan	210,240
Other, Net	37,036
Total Additions	11,277,168
	78,619,449
Deductions:	
Property additions, net	8,297,993
Reduction of long-term indebtedness	1,314,931
Cash dividends paid	2,978,643
Total Deductions	12,591,567
Net Working Capital at End of Year	$66,027,882

CONTINENTAL MOTORS CORPORATION
Consolidated Statement of Source and Application of Working Capital

Working Capital at Beginning of Year	$45,818,696
Working capital was obtained from:	
Net earnings	5,544,590
Net earnings applicable to minority interests	219,532
Depreciation	1,746,200
Disposal of assets	123,953
	7,634,275
Working capital was used for:	
Dividends paid:	
Company stockholders	1,320,000
Minority stockholders	70,544
Payment of long-term debt	344,000
Additions to property, plant and equipment	3,502,175
Acquisition of Continental Aviation and Engineering Corporation Common Stock	764,973
Acquisition of Ronaldson Bros. & Tippett, Limited unsecured convertible notes	112,201
Acquisition of its Common Stock by Wisconsin Motor Corporation	14,000
	6,127,893
Resulting in an increase (decrease) in working capital	1,506,382
Working Capital at End of Year	$47,325,078

GENERAL MILLS, INC.
Sources and Uses of Working Capital

	(000 omitted)
Working Capital Provided by:	
Earnings for the year	$23,336
Add expenses not requiring cash outlays:	
Depreciation	10,114
Deferred Federal income taxes and other items	1,944
Total working capital provided from operations	35,394
Increase (decrease) in long-term debt	35,003
Sale of stock upon exercise of options	765
Other working capital provided	3,300
Total Working Capital Provided	74,462
Working Capital Used for:	
Net additions to plant and equipment	41,568
Dividends	10,631
Purchase of common stock for Treasury	1,293
Investments in partially owned companies	5,121
Other working capital used	3,566
Total Working Capital Used	62,179
Net Increase (Decrease) in Working Capital	12,283
Working Capital at Beginning of Year	57,759
Working Capital at End of Year	$70,042

Working Capital is the excess of current assets over current liabilities. It represents the "liquid" or "working" funds which support the regular operations of the business.

In August, 1965, the company received $35,000,000 from the sale of its 4⅝% sinking fund debentures. In addition, after deduction of dividends, the year's operations provided about $25,000,000 in working capital. During the year, net investment in new plant facilities amounted to about $42,000,000.

Overall, working capital increased about $12,000,000 during the year to over $70,000,000 on May 29, 1966. Of this total working capital, about $33,000,000 was in use in the form of inventories, amounts due from customers and operating cash requirements—after deduction of current liabilities. The balance of about $37,000,000 was invested in short-term securities and is available for plant expansion, acquisitions and for increases in inventories and receivables needed for higher sales.

CROWN CORK & SEAL COMPANY, INC.
Source and Application of Cash—Year 1966

Cash Obtained from:	
Net income from operations	$16,749,000
Depreciation	9,381,000
Deferred income taxes	3,456,000
Minority shareholders' equity in retained profits of subsidiaries	474,000
Total derived from operations	30,060,000
Proceeds from borrowings—Long term	11,305,000
Short term	5,885,000
Cash and other assets applicable to minority interests in new subsidiaries at dates of acquisition	2,533,000
Plant and equipment sold less accumulated depreciation	1,885,000
Proceeds from sale of common stock	1,907,000
Cash held by subsidiaries at dates of acquisition	111,000
	53,686,000
Cash Applied to:	
Plant and equipment expenditures	32,729,000
Investments in new subsidiaries	7,307,000
Investment in and advance to Crown Financial Corporation	1,827,000
Purchase of preferred stock	637,000
Inventories—Increase	3,937,000
Accounts receivable and other current assets—Increase	3,397,000
Accounts payable and accrued liabilities—Decrease	2,877,000
Preferred dividends	173,000
	52,884,000
Increase in Cash Resources	$ 802,000

M. H. FISHMAN CO., INC.
Statement of Source and Use of Funds

Funds Provided by:	
Earnings	$1,361,872
Depreciation	318,162
Proceeds from disposition of fixtures & improvements less net profit included above	8,208
Decrease in other assets	7,835
Increase in deferred taxes	6,950
Total Funds Provided	1,703,027
Funds Used for:	
Purchases of fixtures & improvements	228,851
Reduction of long term debt	185,269
Payments of dividends	277,661
Additions to working capital	1,011,246
Total Funds Used	$1,703,027

THE L. S. STARRETT COMPANY
Source and Use of Funds

Source of Funds:	
Net income	$3,010,000
Depreciation	658,000
Amortization of patents	59,000
Foreign operations provision	150,000
Collections—Employees' Option Plan	471,000
Other	151,000
	4,499,000
Use of Funds:	
Decrease in long-term debt	2,045,000
Increase in working capital	998,000
Payment of cash dividends	816,000
Plant and equipment	441,000
Purchase of company stock	199,000
	$4,499,000

SCHENLEY INDUSTRIES, INC.
Consolidated Statement of Changes in Working Capital

Additions:	
From operations—	
Net income for the year	$ 20,469,743
Add (Deduct)—	
Depreciation	3,330,006
Deferred Federal income taxes	1,614,439
Undistributed share of Seager Evans & Co. Ltd. earnings	(977,326)
	24,436,862
Proceeds from exercise of stock options	499,589
Total Additions	24,936,451
Deductions:	
Dividends paid—	
Regular dividends	6,996,454
Special dividend	2,000,274
Expenditures for plant and property—net	3,718,625
Reduction in long-term debt	1,250,000
Other—net	156,373
Total Deductions	14,121,726
Increase (Decrease) in Working Capital	10,814,725
Working Capital at End of Year	$308,646,515

STANDARD OIL COMPANY OF CALIFORNIA
1966 Sources and Disposition of Funds

Sources:	
Net income	$424,019,000
Depreciation, depletion and amortization	252,646,000
Exploratory expenditures charged to income	113,643,000
Increase in borrowings	63,725,000
Other	4,504,000
Total	858,537,000
Disposition:	
Capital and exploratory expenditures and investments	554,840,000
Less: Retirements, abandonments, sales, etc.	21,875,000
	532,965,000
Cash dividends to stockholders	192,206,000
Additions to working capital, excluding short-term borrowings	133,366,000
Total	$858,537,000

J. P. STEVENS & CO., INC.
Source and Disposition of Funds

	(In thousands)
Source of Funds:	
Net income	$32,661
Depreciation (including equipment abandonments) and amortization	26,226
Sales of investments and fixed assets	1,518
Miscellaneous (net)	(830)
	59,575
Disposition of Funds:	
Cash dividends to shareowners	10,895
Additions to plant and equipment	47,039
Reduction of long-term debt	4,666
Investments in affiliated and subsidiary companies	500
Purchase and sale of treasury stock (net)	(14)
	63,086
Increase (Decrease) in Working Capital	($ 3,511)

Section 4 RETAINED EARNINGS and CAPITAL SURPLUS

THIS SECTION OF THE SURVEY reviews and classifies the charges or credits to the retained earnings and capital surplus accounts in the 1966 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 1966, 1965, 1960, and 1950 are given for comparative purposes. Table 2 analyzes the types of cash dividend restrictions indicated by the survey companies. Examples of the various restrictions, taken from the 1966 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, 571 survey companies declared cash dividends. Of these companies, 266 displayed such dividends in the retained earnings statement, 270 companies disclosed the cash dividends in a combined income and retained earnings statement, and

TABLE 1: STATEMENT PRESENTATION OF CASH DIVIDENDS

Where Presented*	1966	1965	1960	1950
After the "Opening Balance of Retained Earnings" and the "Net Income for the Year" in:				
A. Retained earnings statement	263	268	283	325
B: Combined retained earnings and income statement	233	229	207	150
C: Stockholders' equity statement	26	21	20	11
Miscellaneous other presentations	2	4	9	47
	524	522	519	533
Between the "Net Income for the Year" and the "Opening Balance of Retained Earnings" in:				
D: Retained earnings statement	3	3	1	5
E: Combined retained earnings and income statement	37	34	37	33
F: Stockholders' equity statement	3	3	1	—
	43	40	39	38
At the foot of the income statement	3	3	4	10
Miscellaneous other presentations	1	3	1	4
	4	6	5	14
Number of Companies				
Declaring cash dividends	571	568	563	585
Not declaring cash dividends	29	32	37	15
Total	600	600	600	600

*Refer to Company Appendix Section—A: 67, 145, 255, 334, 404, 551; B: 77, 113, 230, 319, 428, 522; C: 32, 141, 202, 301, 423, 505; D: 249; E: 71, 115, 229, 310, 447, 536; F: 266.

the remainder used various other methods of presentation, as shown in Table 1.

In 524 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 43 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 1966, 1965, 1960, and 1950 is given in Table 1.

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 in each of the past three years to establish where in the annual report this information was disclosed.

The adjoining tabulation reveals the treatment accorded cash dividends per share by the 600 survey companies.

The 595 presentations were made by 547 companies. Fifty-three companies did not disclose cash dividends per share on common stock.

Examples of cash dividends per share of common stock, taken from the 1966 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.

Presentation of Cash Dividends per Share

Presented in	Number of Companies
Balance sheet	2
Income statement	4
Retained earnings statement	15
Retained earnings statement, and	
highlights, and financial summary	24
highlights, financial summary, and letter to stockholders or financial review	67
highlights, financial summary, letter to stockholders or financial review, and other	30
highlights, and letter to stockholders or financial review	24
financial summary, and letter to stockholders or financial review	21
letter to stockholders or financial review	13
miscellaneous other	9
Combined income and retained earnings statement	9
Combined income and retained earnings statement, and	
highlights	15
highlights, and financial summary	19
highlights, financial summary, and letter to stockholders or financial review	97
highlights, financial summary, letter to stockholders or financial review, and other	23
highlights, and letter to stockholders or financial review	14
letter to stockholders or financial review	21
financial summary	8
miscellaneous other	1
Highlights	8
Highlights, and	
financial summary	14
financial summary, and letter to stockholders or financial review	37
financial summary, letter to stockholders or financial review, and other	33
president's letter or financial review	13
miscellaneous other	1
Financial summary	20
Financial summary, and letter to stockholders or financial review	11
Financial summary, and miscellaneous other	3
Letter to stockholders or financial review	11
Letter to stockholders or financial review, and miscellaneous other	3
Notes and other	3
Miscellaneous other presentations	22
	595

Examples

Shown in the Balance Sheet

THE ARUNDEL CORPORATION
Balance Sheet

Stockholders Equity—Note C:	
Common stock — authorized, 1,500,000 shares without par value; issued, 495,426 shares stated at $10 per share	$ 4,954,260
Capital surplus:	
Balance at beginning of year	1,644,593
Balance at end of year	1,644,593
Earnings retained:	
Balance at beginning of year	13,713,141
Add net earnings for the year	1,547,148
	15,260,289
Deduct:	
Cash dividends — $1.55 per share in 1966; $1.40 per share in 1965	662,747
Balance at end of year	14,597,542

Shown in Retained Earnings

ACME MARKETS, INC.
Earnings Retained for Use in the Business

Balance at beginning of period	$50,170,861
Net earnings for the period	10,450,144
	60,621,005
Deduct:	
Cash dividends—$2 a share	5,347,883
Stock dividend—5%	6,809,300
	12,157,183
Balance at End of Period	$48,463,822

WM. WRIGLEY JR. COMPANY
Statement of Consolidated Accumulated Earnings Retained for Use in the Business

Balance at beginning of year	$71,454,387
Add:	
Net earnings for the year	14,671,279
Less—Dividends declared (1966—$5.50 per share; 1965—$5.00 per share)	10,826,662
	3,844,617
Balance at End of Year	$75,299,004

Shown in the Income Statement

GENERAL AMERICAN TRANSPORTATION CORPORATION
Statement of Consolidated Income

Net Income	$29,299,834
Per share:	
Net income	$2.57
Cash dividends	1.475

Shown in Combined Income and Retained Earnings Statement

CANNON MILLS COMPANY
Statement of Income and Retained Earnings

Net Income for the Year	$ 20,483,574
Retained Earnings at Beginning of Year	140,592,145
Total	161,075,719
Cash Dividends Declared — 1966: $4.60; 1965: $4.00	8,773,014
Retained Earnings at End of Year	$152,302,705

MAXSON ELECTRONICS CORPORATION
Statement of Income and Earned Surplus

Net income	$ 747,663
Earned surplus at beginning of year	5,263,209
	6,010,872
Cash dividends declared—20¢ per share (15¢ in 1965) (Note 9)	160,300
Earned surplus at end of year (Note 3)	$5,850,572

MOTOROLA, INC.
Statement of Earnings and Retained Earnings

Earnings (per share outstanding at end of year: 1966, $5.40; 1965, $5.23) (Note 3)	$ 32,952,843
Retained earnings at beginning of year	130,652,207
	163,605,050
Deduct:	
Cash dividends declared—$1.00 per share	6,101,087
Retained earnings at end of year (Note 1)	$157,503,963

Shown in Highlights

METRO-GOLDWYN-MAYER INC.
Financial Highlights

Operations:	
Gross Revenues	$184,918,000
Earnings Before Income Taxes	19,521,000
Income Taxes	9,300,000
Net Income	10,221,000
Earnings per Share	2.03
Dividends per Share	.8275

THE UNITED PIECE DYE WORKS
Financial Highlights for the Year

Total Income:	
Services to Customers and Other Income	$18,193,796
Net Income before Depreciation, Provision for Federal income tax and Special Item	1,077,888
Depreciation	692,962
Net Income before Provision for Federal income tax and Special Item	384,926
As a percentage of Total Income	2.1%
Net Income after Provision for Federal income tax and before Special Item	$ 200,226
As a percentage of Total Income	1.1%
Net Income before Special Item per Common Share	$(.08)
Net Income less Special Item	131,426
Dividends Paid	
Preferred Stock	135,693
Common Stock	89,802
Per Share	.10

Shown in Financial Summary

AMERICAN AIR FILTER COMPANY, INC.
Ten Years at a Glance (in part)

Fiscal Year	Sales (000)	Net Earnings (000)	Earnings Per Share*	Dividends Per Share*
1966	$69,702	$3,140	$1.72	$.70
1965	55,972	2,670	1.46	.70
1964	51,022	2,406	1.32	.625
1963	54,879	2,297	1.26	.60
1962	50,113	1,897	1.04	.55
1961	43,552	1,859	1.02	.55
1960	41,869	1,504	.82	.55
1959	44,103	1,857	1.00	.55
1958	43,836	2,435	1.35	.50
1957	45,015	2,799	1.64	.45

*Figures adjusted to reflect two-for-one splits in Common Stock in 1959 and 1966.

Shown in President's Letter or Financial Review

BOND STORES, INCORPORATED
Letter to Stockholders

Continuing our uninterrupted pattern of dividend payments since 1938, dividends at the rate of $1.00 per share were paid during the past fiscal year.

SUN OIL COMPANY
Financial Review

Cash dividends paid to stockholders rose to $19,646,000 from $15,923,000 in 1965. The increase reflected the larger number of shares outstanding as a result of the 4-for-3 stock split and the 1965 stock dividend. The split resulted in the distribution in June of 5,763,000 shares. In addition to the 25 cents per share quarterly cash payment and the split, stockholders also received 1,383,000 shares in December from a 6 per cent stock dividend.

Examples 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.

ADDRESSOGRAPH MULTIGRAPH CORPORATION
Financial Highlights

Results of Operations:	
Net sales, service billings and rentals	$327,114,000
Net income before taxes	52,044,000
Net income	$ 26,622,000
Per share	$3.33
Net income as a percentage of sales	8.1%
Cash dividends paid	$ 11,189,000
Per share	$1.40

Letter to Stockholders

Dividends: Cash dividends paid in the 1966 fiscal year amounted to $1.40 a share, compared to $1.30 a share in 1965. These payments in 1966 totalled $11,189,000—or 42% of net income.

Consecutive quarterly cash dividends have been paid for the past 31 years, and the amount of dividends distributed per year has increased in each of the past fourteen years.

Statements of Income and Retained Earnings

Net Income	$ 26,621,926
Per Share	$3.33
Retained Earnings at Beginning of Year	55,210,462
Net Income	26,621,926
	81,832,388
Dividends Paid:	
$1.40 for 1966, $1.30 for 1965	11,188,948
Retained Earnings at End of Year	$ 70,643,440

Ten-Year Summary

Results of Operations:	
Net sales, service billings and rentals	$327,114,000
Net income	$ 26,622,000
Net income per share*	$3.33
Net income as a percentage of sales	8.1%
Net income as a percentage of invested capital	17.6%
Dividends and Earnings Retained:	
Number of shares issued and outstanding*	7,992,106
Cash dividends paid	$ 11,189,000
Cash dividends per share*	$1.40

*Adjusted for all stock dividends and for stock splits (2 for 1 in fiscal 1960; 3 for 1 in fiscal 1959).

RESTRICTIONS ON RETAINED EARNINGS FOR DIVIDEND PURPOSES

Of the 600 survey companies 411 referred in their 1966 reports to the existence of restrictions on retained earnings limiting the declaration of cash dividends. This compares with 398 in 1961, and 313 in 1951. Table 2, summarizing the various kinds of restrictions, discloses long-term indebtedness as the most common source of restrictions.

Cash Dividends Restrictions—Examples

Typical examples of restrictions limiting the declaration of cash dividends, as presented in the 1966 reports, are as follows:

LONG-TERM INDEBTEDNESS

COLLINS & AIKMAN CORPORATION
Notes to Financial Statements

Note 3: 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 1966 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 26, 1966 the portion of the consolidated earned surplus not subject to these restrictions amounted to $14,565,092.

GRANITE CITY STEEL COMPANY
Changes in Common Stockholders' Equity

Common Stock (Note 3):		
Authorized, 7,500,000 shares, $6.25 par value		
Issued—		
Outstanding at beginning of year	4,345,383 shares	$ 27,158,644
Shares issued pursuant to stock option plan	6,895	43,094
Outsanding at end of year	4,352,278 shares	$ 27,201,738
Paid-in Surplus:		
Amount at beginning of year		$ 10,773,878
Excess of amount received over par value of stock issued pursuant to stock option plan		86,485
Amount at end of year		10,860,363
Earnings Reinvested in the Business:		
Net income for the year		10,385,846
Less—		
Cash dividends paid on common stock at $1.40 per share		6,092,246
Earnings reinvested in the business during year		4,293,600
Amount at beginning of year		79,271,508
Amount at end of year ($75,187,795 not available for cash dividends under applicable loan provisions)		83,565,108
Common Stockholders' Equity at December 31, 1966		$121,627,209

W. F. HALL PRINTING COMPANY
Balance Sheet

Capital Stock and Retained Earnings:	
Common stock, $5 par value (See page 5):	
Authorized—2,000,000 shares	
Issued and outstanding — 1,000,000 shares	$ 5,000,000
Capital in excess of par value	2,604,719
Retained earnings (approximately $20,000,000 is restricted as to payment of cash dividends under terms of loan agreements)	30,014,538
	$37,619,257

KUHLMAN ELECTRIC COMPANY
Notes to Financial Statements

Note 1: Long-Term Debt—The agreements relating to the notes payable provide that amounts expended after December 31, 1963, for dividends, net acquisition of the Company's stock and certain excess compensation payments shall not exceed $500,000 plus 70% of net earnings after January 1, 1964. Also, the Company is committed to maintain working capital of at least $3,400,000. Under these provisions, retained earnings of $1,977,100 were free of restriction at December 31, 1966.

TABLE 2: CASH DIVIDEND RESTRICTIONS

Source of Restriction*	1966	1965	1961	1951
A: Long-term indebtedness	379	365	358	258
B: Preferred stock requirements	23	20	34	43
C: Credit agreements	51	33	34	21
Treasury stock	2	4	5	7
Dividend arrearage	3	3	4	4
D: Articles of incorporation	11	11	23	27
E: Restriction not described	5	4	1	8
F: Foreign statutory limitation	4	2	5	2
G: State statutory limitation	3	3	—	—
Various other	5	6	10	23
Total	486	451	474	393
Number of Companies				
Referring to dividend restrictions	411	399	398	313
Not referring to dividend restrictions	189	201	202	287
Total	600	600	600	600

*Refer to Company Appendix Section—A: 16, 132, 263, 379, 536; B: 101, 356, 399, 436, 469, 542; C: 71, 170, 261, 330, 465, 510; D: 177, 299, 420, 491; E: 135, 273; F: 252; G: 69.

MOORE DROP FORGING COMPANY
Notes to Financial Statements

Note 3: The $300,000 term loan is payable $150,000 annually September 30, 1966 and 1967. The loan bears interest at the rate of 4% per annum. The company has agreed not to apply any sum to the redemption, retirement or purchase of its capital stock, or to the payment of dividends, except out of net income earned subsequent to October 31, 1955, plus the aggregate amount of net proceeds received by the company after October, 1955 from the sale of its capital stock, plus $400,000. At June 30, 1966, the amount of earnings retained in the business free from such restriction amounted to approximately $5,685,875.

NATIONAL STARCH AND CHEMICAL CORPORATION
Notes to Financial Statements

Note 3: Under the Company's term loan agreement, executed in 1966, dividend payments on its stock (other than stock dividends) are limited to earnings of the Company accumulated after December 31, 1964, the unrestricted balance of which amounted to $9,933,347 on December 31, 1966. The Company is also required to maintain working capital in an amount not less than $12,000,000. The term loan of $7,500,000 is repayable in installments from 1968 to 1972.

A. G. SPALDING & BROS. INC.
Notes to Financial Statements

Note B: *Long-Term Debt*—The agreements with respect to the 5.30% notes payable contain, among other things, restrictions and covenants relative to the maintenance of working capital and net tangible assets, short-term borrowing, execution of long-term leases, and payments for cash dividends or acquisition of treasury stock. Such payments may be made to the extent that consolidated net earnings (as defined) subsequent to November 1, 1958 have accumulated at a rate in excess of $500,000 annually. At October 31, 1966, approximately $6,020,000 of earnings retained for use in business were unrestricted as to such payments.

STANDARD BRANDS INCORPORATED
Notes to Financial Statements

The loan agreements for the 3.7% Promissory Notes contain certain restrictions as to payment of cash dividends on common stock. Under the foregoing, approximately $81,600,000 of consolidated retained earnings was free of such restrictions as of December 31, 1966.

PREFERRED STOCK REQUIREMENTS

CUDAHY COMPANY
Notes to Financial Statements

Note 2 (in part): *Agreements with Banks, First Mortgage Bonds*—Among other things, the bank credit agreement provides that the Company and its subsidiaries may not pay any dividends on or purchase or redeem any of the Company's outstanding capital stock, incur new indebtedness for borrowed money, make expenditures for fixed assets in excess of $500,000 for the Company and its subsidiaries during any fiscal year, or enter into lease agreements if, after giving effect thereto, the aggregate annual rentals under all leases (except those covering automobiles and trucks and certain other leases) during any fiscal year would exceed $1,500,000. The Parent Company has covenanted that it will maintain working capital, as defined, of not less than $8,000,000. As of October 29, 1966, Parent Company working capital, as defined, was $8,635,946.

Note 9: *Preferred Stock Restrictions*—The Company's by-laws provide that dividend payments on the common stock (except stock dividends) are restricted by a specified formula unless authorized by a vote of two-thirds of the outstanding shares of preferred stock. The formula specifies that after accumulated dividends on the preferred stock have been paid or provided for, $3,000,000 plus amounts added to and less amounts subtracted from consolidated earned surplus after October 28, 1944, is available for common stock dividends. As of October 29, 1966, computations in accordance with the formula specified in the by-laws result in a deficit of $9,045,836, which amount must be restored to surplus before any amount will be available for dividend payments on the common stock.

EVANS PRODUCTS COMPANY
Notes to Financial Statements

Retained Earnings: The authorizing resolution underlying the 5¼% Preferred Stock contains certain restrictions including a limitation on the payment of dividends. At December 31, 1966, $10,813,000 of retained earnings was free from this limitation. The terms of the agreements relating to the 5.95% term loan and the 5¼% bank loan (see Note on Long-Term Debt) also contain, among other restrictions, a limitation on the payment of dividends. This latter limitation does not become effective until December 31, 1967, and because of dependence upon 1967 events is not presently determinable.

FOREMOST DAIRIES, INC.
Balance Sheet

Stockholder Equity (Note 4):	
4½% preferred stock, $50 par value—authorized, 125,328 shares; outstanding shares: 1966, 110,731; 1965, 119,230	$ 5,537,000
Common stock, $2 par value—authorized, 15,000,000 shares; issued shares: 1966, 8,556,934; 1965, 8,541,895	17,114,000
Other capital	17,635,000
Retained earnings (Note 2)	59,472,000
Common shares reacquired (1966, 781,330; 1965, 852,966) at cost	(8,514,000)
Employee stock purchase plan instalments	2,011,000
Stockholder Equity—Net	$93,255,000

Note 2: *Long-Term Debt*—Long-term notes payable to banks mature on August 7, 1968 and bear interest at one-half per cent above prime rate; accordingly, the rate was 6½% at December 31, 1966.

Notes payable to an insurance company bear interest at the rate of 5.7% and are due in twelve annual instalments of $4,000,000 commencing January 1, 1969 with a final instalment of $14,000,000 on January 1, 1981.

The 4½% subordinated debentures are to be redeemed through sinking fund payments until 1980 when the final payment is $1,500,000 which amount is more than any annual payment before that year.

The 5½% convertible capital (subordinated) debentures mature on September 1, 1980, are convertible into common stock at $18 per share and are redeemable after August 31, 1968 at 105% of principal.

Long-term debt agreements and also the provisions of the preferred stock contain various restrictions including those relating to payments of dividends. As of December 31, 1966 approximately $1,750,000 of retained earnings was unrestricted as to payment of cash dividends on common stock under the most restrictive provision which related to working capital requirements.

AMERICAN MACHINE & FOUNDRY COMPANY
Notes to Financial Statements

Note 3: Long-Term Debt— Long term debt, less current maturities, at December 31, 1966 is as follows:

Installment notes payable:		
5% notes, due July 15, 1969	$ 250,000	
5¼% notes, due May 15, 1975	1,026,000	
5 to 5½% notes, due December 1, 1979	84,400,000	
5¼% notes, due September 15, 1982	47,500,000	$133,176,000
4¼% convertible subordinated sinking fund debentures, due March 1, 1981		39,910,300
Mortgages:		
5¾% mortgage, due December 1, 1973	261,810	
5% mortgage, due 1972	3,389,200	
5¼% mortgage, due May 31, 1972	600,014	4,251,024
		$177,337,324

The annual amount payable in 1968, 1969, and 1970 is $8,989,000 and in 1971 is $8,864,900. The agreements covering the Company's preferred stock and long term debt contain provisions restricting the payment of cash dividends on common stock. At December 31, 1966 earned surplus of $23,300,000 was not subject to this restriction.

A maximum of 694,575 shares of common stock is required at December 31, 1966 for conversion of 4¼% sinking fund debentures at a price of $57.46. Annual sinking fund payments for these debentures commence in 1972.

CREDIT AGREEMENTS

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	$ 32,113,932
In treasury—202,895 shares	338,158
Outstanding—19,065,464 shares	31,775,774
Additional paid-in capital	50,069,529
Earnings retained for use in the business (Note A)	172,755,533
Total Stockholders' Investment	$254,600,836

Note A: *Restrictions under Short-Term Credit Agreement*—At September 30, 1966, the Corporation had loans outstanding of $71,000,000 under a credit agreement with certain financial institutions which provides for a maximum commitment of $75,000,000 to May 31, 1967, with interest at 6% per annum. The loans are secured by a Mortgage and Deed of Trust on substantially all property, plant, and equipment located in the United States and by a pledge of the stock of all wholly-owned subsidiaries.

The Corporation agrees, among other covenants, that it will:

1. Maintain consolidated current assets at least equal to 115% of consolidated current liabilities.
2. Maintain working capital at least equal to $45,000,000 for the period August 1, 1966, to December 31, 1966, and $50,000,000 for the period January 1, 1967, to May 31, 1967.
3. Maintain consolidated net worth, as defined, at a minimum of $250,000,000.

The Corporation also agrees that it will not pay any cash dividends nor acquire or redeem any of its outstanding capital stock.

At September 30, 1966, consolidated current assets were approximately 126% of consolidated current liabilities. Working capital and consolidated net worth were $52,789,549 and $254,600,836, respectively.

BUCYRUS-ERIE COMPANY
Shareholders' Investment—Notes G and H:

Preferred stock—par value $100 a share—Authorized 300,000 shares; issued—none	
Common stock—par value $5 a share—Authorized 10,000,000 shares; issued and outstanding — 1966 (excluding 43,358 shares in treasury) — 3,790,-500 shares, 1965 (excluding 21,679 shares in treasury) — 1,888,540 shares	$18,952,500
Additional paid-in capital	5,961,798
Earnings retained in the business—Note F	46,721,139
	$71,635,437

Note F: *Long-Term Debt*—A revolving credit agreement entered into in 1966 provides for borrowing up to $15,000,000 on 90-day renewable notes to March 31, 1969. Under the most restrictive terms of the agreement, dividends or redemption of stock are limited to consolidated net earnings subsequent to December 31, 1965. At December 31, 1966, earnings retained in the business of $7,447,982 were unrestricted for such payments.

RADIO CORPORATION OF AMERICA
Shareholders' Equity:

Capital stock, no par, at stated value	
$3.50 Cumulative first preferred stock	
Authorized: 920,300 shares	
Outstanding: 1966, 183,639 shares; 1965, 190,039 shares	
Preference on liquidation ($100 per share) 1966, $18,363,900; 1965, $19,003,900	$ 2,971,000
Common stock (Notes 4 and 6)	
Authorized: 80,000,000 shares	
Issued: 1966, 59,458,337 shares; 1965, 59,293,490 shares	39,639,000
2% Stock dividend paid January 30, 1967, 1,184,597 shares	790,000
Capital surplus (Note 5)	411,835,000
Reinvested earnings (Note 2)	237,702,000
Total Shareholders' Equity	$692,937,000

Note 2: *Long Term Debt and Reinvested Earnings*—Long term debt outstanding at December 31, 1966, included:

Promissory notes	
3%, due 1970 to 1974	$100,000,000
3¾%, due 1973 to 1977	50,000,000
5⅜%, due 1977 to 1986	100,000,000
Purchase money mortgages payable in instalments to 1989	13,438,000
Total	$263,438,000

The terms of credit agreements include limitations on the payment of cash dividends and the purchase of the Corporation's capital stock. At December 31, 1966, consolidated reinvested earnings of $211,094,000 were free of such limitations.

RICHARDSON-MERRELL INC.
Stockholders' Interest:

Capital stock—$1.25 par value; Authorized — 8,000,000 shares; Issued — 6,135,998 shares	$ 35,439,429
Earnings Reinvested in the Business	
Unappropriated	94,666,379
Appropriated (Note)	48,026,493
	178,132,301
Less: 245,073 shares of treasury stock, at cost (1965—215,579)	13,436,855
	$164,695,446

Notes to Financial Statements

The bank loan agreement referred to on page 9 provides, among other things, for a limitation on the payment of cash dividends. The unrestricted earnings at June 30, 1966, under this limitation, were $48,204,000 (1965—$33,458,000).

FAIRCHILD HILLER CORPORATION
Stockholders' Equity:

Preferred stock, without par value:	
Authorized—150,000 shares	
Issued—none	
Common stock, par value $1.00 per share:	
Authorized—6,000,000 shares (Note 8)	
Issued and outstanding—4,438,920 and 4,488,240 shares	$ 8,356,437
Additional paid in capital	19,886,896
Accumulated earnings (Note 2)	18,804,699
Total Stockholders' Equity	$47,048,032

Note 2: Loans payable to banks are made under a Revolving Credit Agreement that permits the Corporation to borrow, with certain restrictions, up to $75,000,000 during the period ending, December 31, 1968. The Agreement also provides, among other

covenants, that the Corporation will assign monies due or to become due under all significant defense production contracts and two significant non-defense contracts, will maintain consolidated net current assets of $23,000,000 to be increased by the net proceeds of any equity type securities and/or long term debt issued subsequent to December 31, 1966, will maintain consolidated stockholders' equity including debt subordinated to the bank loans of at least $42,000,000 to be increased by the net proceeds of any equity type securities and/or debt subordinated to the bank loan issued subsequent to December 31, 1966, and places certain restrictions upon the declaring of dividends. Under the latter provision accumulated earnings of $3,155,925 were not restricted for the payment of dividends at December 31, 1966; however, the net current assets provision reduced such amount to $2,050,567 as of that date.

TREASURY STOCK

UNITED FRUIT COMPANY
Shareholders' Equity:

	(In thousands)
Cumulative Preferred Stock without par value. Authorized—1,000,000 shares; issued at stated value 1966—420,283 shares, 1965—424,925 shares of $2 Cumulative Preferred Stock, Series A (Convertible), redeemable at $50 per share; liquidation value, 1966 $21,014,150—Notes 1, 8 and 9	$ 9,297
Common Stock of $1 par value per share. Authorized—12,000,000 shares; issued 1966—8,781,498 shares, 1965—8,775,-000 shares—Notes 7, 8 and 9	8,781
Other paid-in capital—Note 10	184,046
Retained earnings—Note 15:	
Unappropriated	128,431
	128,431
	330,555
Less cost of 1,044,503 shares of Common Stock reacquired for Stock Option Incentive Plans or for other corporate purposes (1965—814,075 shares)—Note 7	27,610
Total Shareholders' Equity	$302,945

Note 15: Retained Earnings are restricted to the extent of the cost of the reacquired Common Stock.

ARTICLES OF INCORPORATION

ALLIS-CHALMERS MANUFACTURING COMPANY

Note 5 (in part): ***Share Owners' Equity and Dividend Restrictions***—Agreements relating to debentures and notes payable and the certificate of incorporation contain certain restrictions relating to the declaration of cash dividends. The amount of earnings retained which was not available for the future declaration of cash dividends on the common stock was approximately $95,400,000.

CALUMET & HECLA, INC.
Notes to Financial Statements

Note 3: *Long-Term Debt*—Under a loan agreement, The Prudential Insurance Company of America holds a company note with a balance of $20,450,000 bearing interst at 5% and payable in semi-annual installments of $775,000, starting June 1, 1968.

The loan agreement and the article of incorporation relating to Preferred Stock impose certain restrictions on corporate action. Under the terms of the loan agreement, dividends and the purchase or retirement of capital stock (less proceeds of the sale of stock) are limited to 70% of the consolidated net income, as defined, from January 1, 1959 and consolidated working capital may not be less than $20,000,000. At December 31, 1966, under the most restrictive covenants of the loan agreement and the article of incorporation, consolidated retained earnings not subject to such restrictions approximated $7,883,000, and consolidated working capital exceeded stated requirements by approximately $13,170,000.

The company's executive office building is subject to a mortgage note. The note calls for monthly payments to March 31, 1985 and had a balance of $714,009 at December 31, 1966.

COLGATE-PALMOLIVE COMPANY
Notes to Financial Statements

Surplus Restrictions: Domestic earned surplus at December 31, 1966 amounted to $112,459,000 of which $45,721,000 was not available for payment of cash dividends on common stock under terms of the 3% notes due 1967-1971 and the preferred stock provisions of the Certificate of Incorporation.

THE FLINTKOTE COMPANY
Notes to Financial Statements

Note 9: The indentures covering the sinking fund debentures, the long-term note agreements and the Company's Articles of Organization contain restrictive provisions as to the payment of cash dividends on, and the purchase or redemption of, Company stocks. Under the most restrictive of these provisions, the amount of earned surplus available for cash dividends on common stock at December 31, 1966 was approximately $46,487,000.

DIVIDEND ARREARAGES

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)	4,083,224
Total Stockholders' Investment	$11,864,873

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, 1966).

Note D: *Dividend Arrearages on Preferred Stock*—Dividends aggregating $2.25 a share, or a total of $136,829, on the 4½% Cumulative Convertible Preferred Stock were in arrears at October 31, 1966.

Note F: *Dividends 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, 1966, were available for dividends on the Common Stock.

VARIOUS OTHER

DETROIT STEEL CORPORATION
Notes to Financial Statements

Long-Term Debt and Retained Earnings Restriction: The bank notes are payable in quarterly installments of $475,000 until paid in full on June 30, 1970. The insurance company notes are payable in annual installments of $1,900,000, commencing July 1, 1971, with a final payment of $3,300,000 on July 1, 1984.

In connection with the loan agreements, the Corporation has agreed to maintain consolidated net current assets (as defined) at not less than $23,000,000 and to otherwise limit expenditures for dividends, capital stock acquisitions and investments in securities of others. Retained earnings of $4,957,000 was free of such restrictions at December 31, 1966, which amount was reduced by $2,658,000 in January, 1967, representing the cost of additional shares of The Cleveland-Cliffs Iron Company.

Retained earnings of $6,453,000 arising upon the acquisition of Portsmouth Corporation in a prior year are not available for dividends under Michigan law.

R. G. LeTOURNEAU, INC.
Notes to Financial Statements

Note 8: The Company is obligated under long-term leases as follows:

Property Leased	Leases Expire	Approximate Annual Lease Payment
Aircraft	1974	$92,000
Production machinery and equipment	1972	$10,000
Production machinery and equipment	1979	$76,000

Leasing and financing agreements impose certain restrictions upon the Company, among which are the limitation of dividends and requirements to maintain a minimum working capital of $6,000,000, and a current ratio of 2.2 to 1. Under the most restrictive covenants, no cash dividends could be paid at December 31, 1966.

As at December 31, 1966, the Company was technically in default under the current ratio restriction and as a result of making loans to a stockholder (The LeTourneau Foundation), but has subsequently received waivers on the defaults from the note holders.

The Company was contingently liable on notes and leases guaranteed in the amount of $759,000 at December 31, 1966.

Sales in the amount of $17,726,000 in 1966 are subject to the Renegotiations Act of 1951. The Company believes no renegotiation refund will be required.

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 $11,733,672 applied to purchase of treasury stock)	$152,302,705

FOREIGN STATUTORY LIMITATION

AVON PRODUCTS, INC.
Notes to Financial Statements

Note 1 (in part): *Principles of Consolidation*—Capitalization of retained earnings, legal reserves, and exchange restrictions limit the availability of foreign retained earnings for dividends in the amount of $7,900,000. To the extent that retained earnings of foreign subsidiaries may be brought into the United States in the form of dividends, such dividends are subject to United States income taxes (less credit for foreign taxes) which are not considered to be significant.

ELTRA CORPORATION
Notes to Financial Statements

Note 2: *Investments in Subsidiaries not Consolidated*—Investments in several wholly owned special-situation equipment leasing subsidiaries, mainly domestic, and in a French financing company (90% acquired for cash in 1966) are carried in the consolidated balance sheet at cost plus increase in equities since acquisition.

Investments in other foreign subsidiaries not consolidated, the largest being Brazilian, are carried at cost. These companies are located for the most part in countries where restrictions are imposed upon transfer of earnings or where currency uncertainties presently exist; in certain instances, declaration of dividends requires the approval of other shareholders in addition to Eltra Corporation. Based on financial statements of recent dates, in part unaudited, translated to U.S. dollars the net assets of these subsidiaries applicable to the Corporation's interests, after adjustment for change in an investment, exceeded cost of investments as of September 30, 1966 by approximately $5,126,000. The last fiscal year earnings of such companies applicable to the Corporation's interests approximated $1,540,000. Dividends received from these companies in each of the 1965 and 1966 fiscal years were less than $25,000.

As at the end of their latest fiscal years subsidiaries not consolidated reported obligations on outstanding notes payable totalling $12,600,000. In addition, they currently reported contingent liabilities aggregating $8,300,000 principally relating to guarantees of discounted notes receivable by the French financing subsidiary.

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 because 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 75 stock splits disclosed in the 1966 reports, in only 6 instances were shares distributed in a ratio of less than one-half to one.

Table 3 summarizes the accounting treatment of the stock distributions disclosed in 140 annual reports of the 600 survey companies.

The classification of stock distributions as between stock dividends and stock splits, for the purpose 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.

1966 STOCK DIVIDENDS

Retained Earnings

ADAMS-MILLIS CORPORATION
Statement of Earnings Retained

Dividends paid:	
Cash (40¢ per share in 1966 and 50¢ per share in 1965)	$ 303,530
5% in common stock (37,190 shares at $12.86 per share and $9,664 in cash in lieu of fractional shares)	487,927
	791,457
Earnings Retained at End of Year—Note C	$6,249,213

ALLEN INDUSTRIES, INC.
Consolidated Statement of Earnings Employed in the Business

Balance at beginning of year	$12,833,568
Net earnings for the year	2,919,949
	15,753,517
Dividends declared:	
In cash—$1.40 a share in 1966 and $1.65 a share in 1965 (based on number of shares outstanding at dates of declaration)	1,326,737
In stock—10%, aggregating 95,965 shares, at fair value plus $25,506 cash in lieu of fractional shares	2,130,018
	3,456,755
Balance at End of Year	$12,296,762

TABLE 3: STOCK DIVIDENDS AND STOCK SPLITS

	Stock Dividends		Stock Splits	
Distribution Recorded as:	1966	1955	1966	1955
Debit retained earnings	14	21	5	4
Debit retained earnings and credit capital surplus	52	53	—	—
Debit capital surplus	2	1	25	15
Debit retained earnings and debit capital surplus	—	1	6	9
Credit capital surplus	—	—	2	3
	68	76	38	31
Increase in Number of Shares Only:				
Set forth in:				
Financial statements	—	—	1	—
Letter to stockholders	—	—	11	4
Accompanying footnotes	—	—	25	7
Total Transactions	68	76	75	42

Number of Companies showing*	1966	1955
A: Stock dividends	64	68
B: Stock splits	71	36
C: Stock dividends and stock splits	4	6
Dividends-in-kind	1	2
Total companies with distributions	140	112
Reports not showing distributions	460	488
Total	600	600

*Refer to Company Appendix Section—A: 13, 54, 152, 365, 385, 532; B: 2, 88, 122, 211, 309, 600; C: 344.

ELTRA CORPORATION
Earned Surplus:

Beginning of Year	$90,421,574
Net Income for the Year	18,184,901
Dividends Paid:	
In cash:	
Preferred stock—(per share, $1.40—1966 and 1965)	(654,585)
Common stock—(per share, $1.875—1966; $1.775—1965)	(6,056,801)
In Common stock: 5%—165,175 shares, at quoted market on date of declaration	(7,680,637)
End of Year	$94,214,452

GRUMMAN AIRCRAFT ENGINEERING CORPORATION
Statement of Income and Earnings Retained

Deduct:	
Cash dividends	$ 4,580,505
Stock dividend, 2% (92,021 shares at $49 per share, market value at declaration date)	4,509,029
	9,089,534
Earnings Retained for Use in the Business, December 31 (Note 5)	$86,683,379

THE INTERNATIONAL SILVER COMPANY
Statement of Retained Earnings

Deduct—	
Dividends declared:	
On 7% preferred stock ($1.75)	$ 91,607
On common stock:	
Cash (1966—$1.01; 1965—$.75)	3,224,786
Stock (5%, or 151,662 shares, at approximate market)	4,442,180
	7,758,573
On common stock, to be paid in 1967 (Note 5)	958,208
	8,716,781
Charge relating to acquisition of subsidiary through pooling of interests (Note 1)	479,785
	9,196,566
Retained Earnings at End of Year	$31,722,402

Retained Earnings and Capital Surplus

ACME MARKETS, INC.
Earnings Retained for Use in the Business

Balance at beginning of period	$50,170,861
Net earnings for the period	10,450,144
	60,621,005
Deduct:	
Cash dividends—$2 a share	5,347,883
Stock dividend—5%	6,809,300
	12,157,183
Balance at End of Period	$48,463,822

Notes to Financial Statements

Note 4: Capital in Excess of Par Value of Common Stock—During the year this account was increased by the excess of:

Assigned value over par value of 136,186 shares common stock issued as a stock dividend	$6,673,114
Sales proceeds over par value of 3,035 shares common stock sold to officers and key management employees pursuant to exercise of stock options	95,132
	$6,768,246

AIR PRODUCTS AND CHEMICALS, INC.
Consideration Received in Excess of Par Value

Balance, beginning of year	$34,802,000
Excess over par value of—	
Sales price of 200,000 shares of Convertible Preferred Stock, less applicable expenses (Note 2)	19,378,000
Fair market value of Common Stock issued as 2% stock dividend	3,288,000
Option price of Common Stock issued under option plans (Note 7)	496,000
Miscellaneous	(19,000)
	57,945,000
Par value of 2,265,909 shares issued as a two-for-one stock split, less 78,007 shares issued to Treasury (Note 2)	2,188,000
Balance, end of year	$55,757,000

Retained Earnings

Balance, beginning of year	$33,809,000
Net income	9,157,000
	42,966,000
Dividends:	
Cash—	
Convertible Preferred Stock from August 24 to September 30, 1966 (Note 2)	100,000
Common Stock, 15¢ per share in 1966; 10¢ per share in 1965	652,000
Stock—	
2% on Common Stock at fair market value, 1966—85,676 shares; 1965—83,440 shares	3,331,000
	4,083,000
Balance, end of year ($24,600,000 restricted at September 30, 1966—Note 1)	$38,883,000

SCM CORPORATION
Statement of Retained Earnings

Less Dividends:	
SCM:	
Cash—common stock ($.30 per share)	$ 937,634
Stock—2½% in 1966, 5% in 1965, on common stock, at market values	4,269,055
Proctor-Silex, prior to merger	1,075,329
Total	6,282,018
Balance at End of Year	$31,011,176

Notes to Financial Statements

Capital Surplus: After restatement of June 30, 1965 balance to give effect to pooling, the net increase of $8,827,737 in capital surplus during the year ending June 30, 1966, resulted from the following:

Excess of market value at date of declaration over par value of common stock issued as a dividend	$3,890,994
Excess of sales price over par value of common stock issued upon exercises of stock options and warrants	637,914
Excess of principal amount of subordinated debentures over par value of common stock issued upon conversion	2,258,937
Excess of par value of preferred stock over par value of common stock issued upon conversion, less costs of conversion	2,386,695
Costs in connection with pooling	(346,803)
Total	$8,827,737

APCO OIL CORPORATION
Statement of Income and Retained Earnings

Retained Earnings—beginning of year	$ 6,997,952
	11,064,055
Stock dividend payable in Common Stock of the Company (4% payable January 31, 1967—4% paid January 31, 1966)	1,063,359
Retained Earnings—end of year	$10,000,696

Capital Surplus

A summary of the changes in capital surplus for the year ended December 31, 1966 follows:

Capital surplus—beginning of year	$7,278,708
Excess of proceeds over par value of shares issued under stock option plans	93,151
Credit resulting from dividend payable in common stock of the Company	977,639
Capital surplus—end of year	$8,349,498

CHICAGO PNEUMATIC TOOL COMPANY
Statement of Income and Retained Earnings

Net Income	$18,423,552
Retained earnings at beginning of year	66,130,190
Total	84,553,742
Dividends paid per share $1.80—1966 and $1.65—1965	7,769,290
Stock dividend declared—10% distributed January 20, 1967 (450,132 shares at approximate market value)	12,738,736
	20,508,026
Retained Earnings at End of Year	$64,045,716

Notes to Financial Statements

Additional Paid-in Capital: Additional paid-in capital was increased by $9,137,680, representing the excess of the amount charged to retained earnings with respect to the 10% stock dividend over the par value of the 450,132 shares issued.

1966 STOCK SPLITS

Retained Earnings

THE BOEING COMPANY
Statement of Net Earnings and Retained Earnings

Net Earnings	$ 76,133,000
Retained earnings, January 1	235,777,000
Amount transferred to capital stock in connection with two-for-one stock split ($5 per share par value for new shares)	(43,315,000)
Cash dividends paid (per share, restated for stock split: 1966, $1.10; 1965, $1.25) .	(20,151,000)
Retained Earnings, December 31	$248,444,000

Financial Review

During the year the authorized number of shares of capital stock was increased from ten million to thirty million and the outstanding stock was split two-for-one. Dividends for the first two quarters of the year were paid at $.50 per share on the number of shares outstanding prior to the stock split. This corresponds to $.25 a share after the stock split. The regular quarterly dividend for the last two quarters of the year was increased to $.30 per share.

PET MILK COMPANY

Dr.—$2,303,726—"*Earnings Invested in the Business*: Transferred to common stock account due to stock split."

Financial Review

The common stock was split two-for-one on October 1, 1965, and per-share figures in the report reflect this split.

McDONNELL AIRCRAFT CORPORATION
Earnings and Retained Earnings Statement

Stock split, Note E	$ 10,151,784
Cash dividends declared	5,242,647
	15,394,431
Earnings Retained for Growth at End of Year	$127,947,683

Note E: *Common Stock*—Effective 20 June 1966, authorized Common Stock was increased from 16,000,000 to 25,000,000 shares, outstanding shares split on a 2 for 1 basis, and an amount equal to the par value of the 8,121,427 shares issued as a result of the stock split was transferred from Earnings Retained for Growth to Common Stock. The certificates representing these additional shares were mailed to shareholders with the cash dividend paid 5 July 1966. Other share data shown in these notes reflect this stock split.

REX CHAINBELT INC.

Dr.—$14,394,340—"*Retained Earnings*: Par value of stock distribution (Note 4)."

Note 4 (in part): *Shareholders' Ownership*—At a special meeting held March 17, 1966, the company's shareholders amended the Restated Articles of Incorporation to increase authorized capital stock from 2,000,000 shares to 6,000,000 shares of $10 par value per share. This increase enabled a split-up effected in the form of a dividend of one additional share for each share held, which previously had been approved by the Board of Directors on January 26, 1966. Accordingly, 1,439,434 shares were issued April 5, 1966, and an amount of $14,394,340, representing the par value thereof, was transferred from Retained Earnings to Capital Stock. The per share information in this report for all years has been adjusted to reflect the issuance of such shares.

Capital Surplus

ADMIRAL CORPORATION
Notes to Financial Statements

Note F: *Capital Surplus*—

Balance as at December 31, 1965	$10,540,988
Add: Excess of amount received over the par value of Capital Stock issued under the stock option plans..	426,761
	10,967,749
Deduct: Par value of 2,550,736 shares issued in connection with a two-for-one stock split...........	2,550,736
Balance as at December 31, 1966	$ 8,417,013

PHILIP MORRIS INCORPORATED

Dr.—$3,739,838—"*Additional Paid-in Capital*: Deduct, Transfer to common stock account pursuant to stock split effective April 27, 1966 (Note 5)."

	1966	1965
Note 5 (in part): *Capital Shares*—		
Preferred, 4% Series:		
Authorized and issued	157,868	159,867
In treasury	8,342	8,441
Preferred, 3.90% Series:		
Authorized and issued	109,698	111,005
In treasury	26,223	27,530
Common, $2 par value:		
Authorized	25,000,000	15,000,000
Issued	11,250,477	11,204,670
In treasury	443,805	443,805

Effective April 27, 1966 the Company's authorized common stock was increased from 5,000,000 shares to 25,000,000 shares and the par value was changed from $5 per share to $2 per share. In addition, each issued share of common stock of $5 par value was changed to three shares of common stock of $2 par value. To account for these changes, the Common Stock capital account was increased by a transfer of $3,739,838 from the Additional Paid-in Capital account, which amount is equivalent to $1 for each share of previously issued common stock.

All references to number of shares of common stock and related prices, dividends and earnings per share have been restated to reflect the foregoing stock split to achieve comparability of the data presented.

BUCYRUS-ERIE COMPANY
Notes to Financial Statements

Note G: Capital Changes—On April 26, 1966, the authorized capital stock of the Company was changed to consist of 300,000 shares of preferred stock (par value $100 a share) and 10,000,000 shares of common stock (par value $5 a share). Subsequently, 1,890,710 shares of common stock were issued in a two-for-one stock split and a transfer of $9,453,550 was made from additional paid-in capital to common stock.

SUNSTRAND CORPORATION
Notes to Financial Statements

Note E: Contributed Capital Accounts—During the year the stockholders approved the change of incorporation to the State of Delaware; a change in the authorized common stock from 3,000,000 $5 par value to 7,000,000 $1 par value; and the authorization of 1,000,000 shares of preferred stock, no par value.

	Common Stock	Additional Capital
January 1, 1966	$ 8,509,610	$ 9,202,391
Stock options exercised	141,405	502,504
Issuance of treasury stock at market value for an additional investment in a foreign affiliate	—	537,439
Reduction in par value from $5 to $1 and issuance of 1,730,203 shares $1 par value in connection with a stock split on a 2 for 1 basis	(5,190,609)	5,190,609
December 31, 1966	$ 3,460,406	$15,432,943

THE RELIANCE ELECTRIC AND ENGINEERING COMPANY
Statement of Shareholders' Equity

	Common Stock	Other Capital	Retained Income	Total
Balance at beginning of year	$9,842,625	$2,465,632	$33,974,258	$46,282,515
Net income			7,902,623	7,902,623
Cash dividends—$1.02 per share			(2,994,931)	(2,994,931)
Par value of 984,263 common shares issued in three-for-two stock split	4,921,315	(2,295,520)	(2,625,795)	

Retained Earnings and Capital Surplus

CONGOLEUM-NAIRN INC.

Dr.—$2,249,380—"*Earned Surplus*: Dividends—Stock (Note 3)."

Note 3: In June, 1966, the Company's authorized capital stock was changed from 1,750,000 shares of no par value common stock to 5,000,000 shares of $5 par value common stock, and each share of the no par value stock then outstanding became a share of the $5 par value stock. The stated capital of the Company was reduced from $11,650,620 to $6,950,000, the difference of $4,700,620 being transferred to capital surplus.

In August, 1966, the common stock was split in the form of a 100% stock distribution. Accordingly, 1,390,000 shares of common stock were issued with an aggregate par value of $6,950,000. Transfers were made to the common stock account from capital surplus and earned surplus in amounts of $4,700,620 and $2,249,380, respectively.

M. H. FISHMAN CO., INC.
Statement of Income and Retained Earnings

Net Income for the Year	$1,361,872
Less: Dividends paid	277,661
Income Retained in the Business—This Year	1,084,211
Income Retained in the Business—Beginning of Year	7,077,043
Transfer to common stock in connection with the 2-for-1 stock split (Note 4)	(168,019)
Income Retained in the Business—End of Year (Note 2)	$7,993,235
Net Income per Share (Adjusted for 2-for-1 stock split in 1966)	1.50

Paid-In Surplus

Paid-In Surplus at Beginning of Year	$ 287,138
Transfer to common stock in connection with stock splits (Note 4)	(287,138)
Paid-In Surplus at End of Year	$ —0—

Note 4: In 1966 the authorized number of shares of common stock, $1 par value per share, was increased from 500,000 shares to 2,000,000 shares and a two for one split of the common stock was effected. In connection with the two for one split, $455,157, representing 455,157 shares of common stock, $1 par value per share, was transferred to the common stock account by charges to Income retained in the business and Paid-in surplus of $168,019 and $287,138, respectively.

Change in Number of Shares Only

ACF INDUSTRIES, INCORPORATED
Notes to Financial Statements

Note 3: Stock Split—On August 26, 1965, the stockholders approved an amendment to the Company's Certificate of Incorporation splitting the Company's common stock on a 2-for-1 basis and increasing the number of shares authorized from 4,350,000 to 8,700,000.

BAUSCH & LOMB INCORPORATED
Notes to Financial Statements

Note 6: Stock Split—The shareholders, in their annual meeting held on March 15, 1966, approved certain amendments to the Company's Certificate of Incorporation which, among other things, increased the authorized common stock to 4,000,000 shares of $5.00 par value each and split the outstanding stock two-for-one. The split required proportionate adjustments in the number and price of shares of common stock issuable on the conversion of the debentures and on the exercise of stock options then outstanding.

BIGELOW-SANFORD, INC.
Letter to Stockholders

At the Annual Meeting on May 3, 1966, the shareholders approved an increase in common shares authorized from 1,500,000 to 4,000,000 shares. A 2-for-1 stock split previously voted by the Directors was subsequently implemented, one additional share of $5 par value common stock being issued on May 24, 1966, for each share held of record May 9.

CLUETT, PEABODY & CO., INC.
Notes to Financial Statements

Capital Stock (in part): On April 27, 1966 the shareholders approved a three-for-one split of the common shares and increased the authorized shares from 3,000,000 shares, par value $3.25 per share, to 12,000,000 shares, par value $1.08-1/3 per share. At December 31, 1966, 1,121,391 shares of common stock were reserved for issuance to employees under the 1956, 1962 and 1964 stock option plans and for conversion of the 4¼% convertible subordinated debentures.

EATON YALE & TOWNE INC.
Notes to Financial Statements

Note G: Stock Split—On July 15, 1966, the number of authorized Common Shares of the Company was changed from 10,000,000 to 20,000,000 shares and each previously authorized common share with a par value of $1.00 was changed into two shares with a par value of $.50. Net income and dividends per share are shown after giving retroactive effect to this change.

HOUDAILLE INDUSTRIES, INC.
Notes to Financial Statements

Note C: Capital Stock—On May 23, 1966, the shareholders of the Corporation approved an amendment to the Articles of Incorporation to change the authorized common stock from 2,500,000 shares of $3.00 par value each to 5,000,000 shares of $1.50 par value each; and to split the stock two-for-one. Shares of common stock and dividends per share for 1966 prior to the stock split and for 1965, as shown in the accompanying financial statements, and related notes, have been restated to reflect the two-for-one stock split.

During 1966, 31,354 shares of Series A convertible preferred stock were converted to 34,786 shares of common stock.

At December 31, 1966, 380,718 shares of common stock have been reserved for conversion of the Series A convertible preferred stock in accordance with the terms of the preferred issue.

STANDARD BRANDS INCORPORATED
Financial Review

Stock Split: At the annual meeting on May 3, 1966, stockholders approved a 2-for-1 split of the common stock and an increase in the number of authorized shares from 10,000,000 to 20,000,000. The additional shares were distributed to stockholders of record May 16, 1966.

STOCK DIVIDENDS—DECLARED BEFORE BALANCE SHEET DATE FOR DISTRIBUTION AFTER BALANCE SHEET DATE

Thirteen 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 1966 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.

MOORE DROP FORGING COMPANY
June 30, 1966
Dr.—$463,752—"*Earnings Retained in the Business*: Stock 5% (1966) 18,035 shares, Note 6."

Note 6: On April 21, 1966, the directors declared, subject to approval by the stockholders, a five per cent stock dividend on the common stock payable on October 1, 1966. At June 30, 1966, $463,752 has been appropriated from earnings retained in the business for issuance of the dividend, representing the market value at the date of declaration.

THE PARKER PEN COMPANY
February 28, 1966
Letter to Stockholders

During the year, cash dividends of $.80 per share were paid to the shareholders. In addition, on 15 March 1966 a common stock dividend of two per cent was paid. The accompanying financial statements have been prepared to reflect the declaration of this stock dividend in February, 1966.

UNITED STATES SMELTING REFINING AND MINING COMPANY
December 31, 1966
Notes to Financial Statements

Note 7: In December, 1966, the Company declared a 3% stock dividend pursuant to which 65,355 shares of common stock were issued on January 16, 1967. In 1967, as a result of the stock dividend, retained earnings unappropriated was reduced by $3,172,343 and additional paid-in capital and common stock were increased by $3,106,988 and $65,355, respectively.

THE PITTSTON COMPANY
December 31, 1966

Earned Surplus:	
Consolidated Earned Surplus at December 31, 1965	$40,334,973
Add: Consolidated net income for year ended December 31, 1966	12,425,261
	52,760,234
Deduct: Cash dividends declared 1966—$1.20 per share	5,220,107
Consolidated Earned Surplus at December 31, 1966, including $2,648,109 appropriated for a 2% stock dividend payable February 9, 1967 (Note 4)	$47,540,127

Note 4: Common Stock, Par Value $1.00 per Share—On December 28, 1966, the directors declared a 2% stock dividend resulting in the issuance of 84,167 additional shares of Common Stock on February 9, 1967. At December 31, 1966, earned surplus of $2,648,109 was appropriated for the issuance of the stock dividend, and in February 1967, after crediting capital stock with $1.00 for each share issued and after the payment of $90,274 in lieu of issuing fractional shares, the remainder of $2,473,668 was credited to capital surplus.

H. H. ROBERTSON COMPANY
December 31, 1966
Retained Earnings

Balance, January 1	$19,716,016
Net Income	7,802,727
Total	27,518,743
Deduct Dividends Paid:	
Cash	2,585,178
Stock—5%	2,718,848
Total	5,304,026
Balance, December 31	$22,214,717

Notes to Financial Statements

Note 4: A 5% stock dividend (61,792 shares) was declared November 8, 1966, payable on January 12, 1967 to shareholders of record on November 18, 1966. Such shares were recorded in the accounts as of December 31, 1966, at an estimated average market value of $44 per share or $2,718,848. Of this amount, $1.00 per share or $61,792 was added to the common stock account, and the difference of $2,657,056 was added to capital surplus.

STANDARD OIL COMPANY OF CALIFORNIA
December 31, 1966
Statement of Earned Surplus

Balance at Beginning of Year	$1,901,568,000
Net Income for Year	424,019,000
Cash Dividends:	
Preferred Stock	(1,909,000)
Common Stock	(190,297,000)
Stock Dividend (5%) payable in Common Stock of the Company February 10, 1967	(223,155,000)
Balance at End of Year	$1,910,226,000

Notes to Financial Statements

Capital Stock and Capital Surplus (in part): On November 30, 1966 the Board of Directors declared a dividend payable February 10, 1967 in common stock of the Company at the rate of one share for each twenty shares held by stockholders of record on December 22, 1966. As a result of the stock dividend, 3,847,494 additional shares were issued. A charge of $223,155,000 was made against earned surplus representing $58 per share for the 3,847,494 shares. Common stock was credited with $6.25 per share or $24,047,000, and the balance of $199,108,000 was credited to capital surplus.

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 1966, are summarized and classified in Table 4.

One hundred and eighty-four 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, 414 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 1966 annual reports, 493 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.

1966 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

AIR PRODUCTS AND CHEMICALS, INC.
Cr.—$19,378,000—"Consideration Received in Excess of Par Value: Excess over par value of sales price of 200,000 shares of Convertible Preferred Stock, less applicable expenses (Note 2)."

Note 2 (in part): *Capital Stock*—On August 24, 1966, the Company sold publicly at $100 per share 200,000 shares of Convertible Preferred Stock, par value $1.00, with dividends cumulative from that date at the rate of $4.75 per annum. The involuntary liquidating preference of the Convertible Preferred Stock is $100 per share and at September 30, 1966, aggregated $19,800,000 in excess of par value. It is the opinion of counsel for the Company, that the surplus of the Company (comprised of its "Consideration Received in Excess of Par Value" and "Retained Earnings" accounts) will not be restricted under Delaware law by the excess of the liquidating preference of the Convertible Preferred Stock over its par value.

UNITED PARK CITY MINES COMPANY
Cr.—$66,177—"Statement of Surplus: Proceeds in excess of par value of shares issued."

CONVERSIONS

From Preferred Stock into Common
Capital Surplus

DRAVO CORPORATION
Cr.—$10,310—"Other Capital: Representing the excess of stated value of the preferred shares over the par value of the common shares exchanged, less a pro-rata portion of the excess of purchase price over par value of the treasury shares used."

HERCULES INCORPORATED
Dr.—$66,278—*"Paid-in Surplus*: Net amount by which stated value of class A stock was less than par value of common stock issued in conversion thereof and the market value of fractional shares."

WALTER KIDDE & COMPANY, INC.
Consolidated Statement of Paid-In Surplus

Balance at beginning of year	$24,373,294
Quoted market over par value of shares issued as stock dividends	6,071,260
Principal amount of debentures converted over par value of common shares issued, less related unamortized debt discount	887,069
Proceeds received over par value or cost of shares sold to employees under stock option and incentive plans	819,503
Quoted market over par value of shares issued in connection with the acquisition of certain businesses	122,990
Difference between par values of converted preference shares and common shares issued upon conversion	(424,423)
Balance at end of year	$31,849,693

TEXTRON INC.
Cr.—$673,000—"Statement of Capital Surplus: Capital in excess of par value of shares issued upon conversion of 27,750 shares of $1.25 preferred stock into 59,725 common shares."

TABLE 4: OTHER CHARGES AND CREDITS

Nature of Transaction Presented*	Retained Earnings Account 1966 Debit	Retained Earnings Account 1966 Credit	Retained Earnings Account 1955 Debit	Retained Earnings Account 1955 Credit	Capital Surplus Account 1966 Debit	Capital Surplus Account 1966 Credit	Capital Surplus Account 1955 Debit	Capital Surplus Account 1955 Credit
Capital Stock Transactions:								
A: Revision in capital structure	1	—	4	—	2	5	5	12
B: Premium or discount on initial issue of capital stock	—	1	—	—	2	15	1	37
C: Conversion from preferred stock or debentures to common stock (or preferred)	—	1	—	—	4	74	2	58
Conversion of preferred stock to debentures	3	—	—	—	—	—	—	—
D: Redemption, retirement of capital stock, warrants, scrip, etc.	10	2	36	4	19	29	24	47
Treasury stock transactions	27	3	3	1	23	16	8	22
E: Bonds and/or debentures redeemed or retired	3	—	—	—	—	1	—	—
Business Combinations:								
F: Acquisition of subsidiary companies or business properties for cash or through the issuance of stock	4	3	9	3	6	40	5	53
G: Pooling of interests	28	39	2	2	31	32	2	2
Liquidations and dissolutions	4	—	3	10	1	—	6	11
H: Adjustments arising in consolidation	2	7	8	7	—	—	1	6
Sale or spin-off of a subsidiary company or division, because of F.T.C. consent order	—	1	N/A	N/A	—	—	N/A	N/A
Goodwill, intangible assets	1	—	7	—	—	1	—	1
I: Employee benefit plans involving sale or issue of capital stock	2	—	1	—	1	39	3	136
J: Stock option plans involving sale or issue of capital stock	8	3	—	—	21	309	—	—
K: Appropriation or reserve—transfers thereto and transfers therefrom	8	10	17	29	—	—	1	3
L: Financing expenses	1	—	7	1	6	1	12	—
M: Merger expense	—	—	—	—	7	—	—	—
N: Extraordinary losses or gains	26	25	8	6	—	—	—	—
Prior year adjustments:								
Fixed assets and depreciation	—	1	—	5	—	—	1	2
O: Tax adjustments	5	9	5	10	—	—	—	1
Various other adjustments	2	2	12	8	4	1	1	1
Miscellaneous transactions	5	8	3	7	6	11	6	6
Dollar changes—not described	1	1	1	—	4	24	1	10
Total Other Charges and Credits	141	116	126	93	137	598	79	408
Net loss or income for the year	15	585	21	579	—	—	—	—
Cash dividend declaration (Table 1)	571	—	586	—	—	—	—	—
Stock dividends and stock split-ups (Table 3)	77	—	88	—	33	54	26	56
Total Charges or Credits	804	701	821	672	170	652	105	464

*Refer to Company Appendix Section—A: 401, 531; B: 221, 232, 318, 351, 462; C: 11, 115, 286, 328, 462, 548; D: 24, 144, 222, 378, 420, 592; E: 66, 487; F: 31, 139, 281, 352, 458, 553; G: 45, 123, 253, 334, 409, 517; H: 123, 263, 279; I: 95, 109, 226, 318, 441, 526; J: 12, 182, 250, 324, 463, 600; K: 155, 569, 586; L: 231, 468; M: 69, 84, 456, 467; N: 119, 135, 276, 300, 444, 506; O: 135, 235, 426, 518.
N/A—Not Available.

LITTON INDUSTRIES, INC.

Cr.—$20,123,431—"Statement of Additional Paid-In Capital: Excess of principal amount of debentures and par value of preferred and preference stocks converted over par value of common stock issued."

Dr.—$4,125,978—*"Statement of Additional Paid-In Capital*: Excess of par value of preference stock issued over par value of common and preferred stocks exchanged therefor."

Conversion of Debentures into Common Stock

Capital Surplus

THE DOW CHEMICAL COMPANY

Cr.—$1,523,290—"Capital Surplus: Excess of face value of debentures over par value of Common Stock issued on conversion."

FANSTEEL METALLURGICAL CORPORATION
Notes to Financial Statements

Note 4: Changes in "common stock" and "capital in excess of par value of shares" during 1966 result from the exercise of stock options and conversions of 4¾% subordinated debentures into common stock, as follows:

	Common stock Number of shares	Common stock Par value	Capital in excess of par value of shares
Balance December 31, 1965	1,383,251	$6,916,255	$9,025,558
Stock options exercised			1,049
Conversion of 4¾% debentures	15,007	75,035	352,908
Balance December 31, 1966	1,398,258	$6,991,290	$9,379,515

Treasury shares were issued for stock options exercised and the excess of proceeds over cost was credited to "capital in excess of par value of shares." The conversion privilege on the 4¾% debentures expired in October 1966.

FMC CORPORATION

Cr.—$4,909,556—"Capital in Excess of Par Value of Capital Stock: Excess of principal amount of 3⅛% convertible subordinated debentures over par value of common stock issued on conversion, less related unamortized debenture expense."

GENERAL AMERICAN TRANSPORTATION CORPORATION
Notes to Financial Statements

Note D: *Additional Capital*—Additional capital was increased in 1966 by the excess ($106,869) of the principal amount of debentures converted over the par value of Common Stock issued and the excess ($255,790) of proceeds over the par value of Common Stock issued under employee stock options.

J. P. STEVENS & CO., INC.
Notes to Financial Statements

Note B (in part): *Long Term Debt*—During the year debentures amounting to $2,322,000 were converted into 41,130 shares of capital stock. These conversions resulted in additions totalling $1,704,648 to capital in excess of par value. As at October 29, 1966, 490,470 shares of capital stock were reserved for conversion purposes.

Conversion of Preferred Stock into Debentures

Retained Earnings

UNITED STATES GYPSUM COMPANY

Dr.—$5,866,310—*"Retained Earnings*: Excess of principal amount of debentures issued over par value of preferred stock exchanged."

REVISION IN CAPITAL STRUCTURE

Retained Earnings and Capital Surplus

UNITED STATES STEEL CORPORATION
Notes to Financial Statements

January 1, 1966 Merger: On January 1, 1966, United States Steel Corporation, a New Jersey Corporation, was merged into a wholly-owned Delaware subsidiary, retaining the same name. In the merger, each outstanding share of $100 par value 7% cumulative preferred stock of the Corporation was exchangeable for $175 principal amount of 4⅝% Subordinated Debentures due January 1, 1966, a total of $630.5 million. As the debentures were issuable only in denominations of $100 and multiples thereof, stockholders entitled to fractional interests received cash in lieu thereof. Also, holders of five shares or less were given the opportunity to exchange their shares for cash. As a result, $7.7 million was paid in cash and debentures are outstanding for the balance of $622.8 million.

The par value of the preferred stock exchanged was $270.2 million less than the principal amount of debentures to be issued. Of this amount, $234.5 million represents the excess of the December 31, 1965 market value of the preferred stock exchanged over its par value and has been charged to Income Reinvested in Business; the balance of $35.7 million has been charged to Costs Applicable to Future Periods and is being amortized over the life of the debentures.

The merger also involved an increase in the par value of the outstanding common stock from $16-2/3 per share to $30 per share for a total increase of $721.9 million. Of this amount, $704.1 million was transferred from Income Reinvested in Business and the remainder, $17.8 million, from Capital Surplus (included with the Reserve for Contingencies at December 31, 1965 in the financial statements).

The changes for the year 1966 in Income Reinvested in Business were as follows:

	Dollars in Millions
Balance at December 31, 1965	$2,362.3
Less—effect of January 1, 1966 merger:	
Excess of market value over par value of preferred stock exchanged for subordinated debentures	234.5
Increase in par value of common stock	704.1
Balance as adjusted January 1, 1966	1,423.7
Income reinvested in 1966 (see page 23)	130.1
Balance at December 31, 1966	$1,553.8

Capital Surplus

AMPCO METAL, INC.
Notes to Financial Statements

Note 1: The company's shareholders approved an increase in the authorized stock to 1,500,000 shares and a change in the par value from $2.50 to $1.00. The five-for-four stock split effective May 4, 1966, and the change in the stock's par value resulted in a $583,483 increase in the amount paid in in excess of par value of stock issued.

CONGOLEUM-NAIRN INC.

Capital Stock and Surplus (Notes 3, 4 and 5):

Common stock, par value $5	
Authorized 5,000,000 shares	
Issued 2,780,000 shares	$13,900,000
Earned surplus (Note 1)	27,482,000
	$41,382,000
Less—Common stock in treasury, at cost, 1966—242,180 shares, 1965—263,430 shares	1,150,509
Total Capital Stock and Surplus	$40,231,491

Note 3: In June, 1966, the Company's authorized capital stock was changed from 1,750,000 shares of no par value common stock to 5,000,000 shares of $5 par value common stock, and each share of the no par value stock then outstanding became a share of the $5 par value stock. The stated capital of the Company was reduced from $11,650,620 to $6,950,000, the difference of $4,700,620 being transferred to capital surplus.

In August, 1966, the common stock was split in the form of a 100% stock distribution. Accordingly, 1,390,000 shares of common stock were issued with an aggregate par value of $6,950,000. Transfers were made to the common stock account from capital surplus and earned surplus in amounts of $4,700,620 and $2,249,380, respectively.

DAYCO CORPORATION

Dr.—$443,036—*"Additional Paid-In Capital*: Deduct adjustment upon change of state of incorporation and par value of common stock from $.50 to $1.00 per share."

RETIREMENT OR REDEMPTION OF CAPITAL STOCK

Retained Earnings

CLUETT, PEABODY & CO., INC.

Dr.—$44,853—*"Consolidated Income and Earned Surplus*: Premium paid on redemption of 7% preferred stock (1966—1,800 shares, 1965—3,600 shares)."

GENERAL DYNAMICS CORPORATION

Dr.—$2,952,377—*"Consolidated Earned Surplus*: Deduct—Excess of redemption price over liquidating value of 781,442 shares of convertible preference stock (Note 3)."

THE SHERWIN-WILLIAMS COMPANY

Dr.—$452,826—*"Earned Surplus*: Excess of cost over par value of preferred shares redeemed."

Capital Surplus

AMERICAN MACHINE & FOUNDRY COMPANY

Dr.—$6,255—*"Consolidated Statement of Capital Surplus*: Premium paid upon retirement of 5% preferred stock.

THE CLEVELAND-CLIFFS IRON COMPANY
Notes to Financial Statements

Note D (in part): *Preferred Stock*—The increase during the year in Capital in Excess of Par Value of Shares represents the excess of par value over cost of preferred shares purchased and retired.

RAYTHEON COMPANY
Notes to Financial Statements

Note G: *Capital in Excess of Par Value*—Changes during the year ended December 31, 1966 were as follows:

Balance at Beginning of Year	$40,652,815
Excess of amounts received from sale of common stock under option plans over the par value thereof	1,607,938
Excess of amounts received from sale of common stock upon exercise of warrants over the par value thereof	185,799
Excess of par value of preferred stock over the par value of common stock issued upon conversion	158,376
Excess of cost over the par value of preferred stock redeemed	(239,557)
Balance at End of Year	$42,365,371

U. S. INDUSTRIES, INC.
Dr.—$11,542—"*Additional Paid-In Capital*: Deduct: Difference between cost and par value of Preferred Stock Acquired."

Retained Earnings and Capital Surplus

FAIRCHILD HILLER CORPORATION
Dr.—$1,341,805—"*Accumulated Earnings*: Retirement of 128,550 shares received as a partial liquidating dividend from investment in RAC Corporation."
Dr.—$1,156,950—"*Additional Paid-In Capital*: Retirement of 128,550 shares received as a partial liquidating dividend from investment in RAC Corporation."

FORD MOTOR COMPANY
Dr.—$60,797,725—"*Consolidated Statement of Earnings Retained for Use in the Business*: Deduct Excess of cost of 1,352,516 shares of Class A Stock purchased and retired over par value and amount allocable to capital account in excess of par value of stock."
Dr.—$4,045,625—"*Consolidated Statement of Capital Account in Excess of Par Value of Stock*: Amount allocable to $1,352,516 shares of Class A Stock purchased and retired."

UNITED WHELAN CORPORATION
Dr.—$4,163,740—"*Statement of Consolidated Retained Earnings*: Portion of cost of treasury stock retired applicable to retained earnings."
Dr.—$3,397,439—"*Other Capital Paid-In*: Less cost of 342,821 shares of common stock in treasury retired (including 76,050 shares retired on January 7, 1967), less par value and portion applicable to retained earnings."

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

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

for payment of dividends or have other effects of a significant nature, these facts should be disclosed.

Three hundred and thirty-six companies reported the treatment of 473 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 sixty-four companies did not mention having such transactions. Table 5 summarizes the various treatments found in the annual reports of the survey companies for 1966.

The examples which follow disclose charges and credits to retained earnings and capital surplus as they relate to treasury stock transactions. A single example may embrace more than one treasury stock transaction. For convenience, it has been used to illustrate the heading associated with it.

Examples: Treasury Stock Transactions—Common Stock

Used for Stock Options

AMERICAN ENKA CORPORATION
Source of Stockholders Equity:

Common stock, $1.25 par value:	
Authorized—6,400,000 shares	
Issued —5,421,792 shares	$ 6,777,240
Capital in excess of par value	18,597,691
Accumulated income retained for use in the business	100,507,446
	125,882,377
Treasury stock: 1966—94,750 shares; 1965—54,350 shares	2,858,161
	$123,024,216

Cr.—$47,244—"Accumulated Income Retained for Use in the Business: Adjustment of treasury stock."
Notes to Financial Statements

Note 3: *Stock Options*—On March 9, 1966, the stockholders approved a stock option plan which provides that a maximum of 75,000 shares of common stock, to be acquired on the open market, may be optioned to key employees at a price not less than market price on dates of grant. Options granted may be exercised one year after but not more than five years from dates of grant. At January 1, 1967, options for 12,125 shares were outstanding at a price of $37.31 per share, and options for 62,875 shares were available for future grant under this plan.

In 1966, remaining available options for 5,500 shares were granted and options for 9,600 shares were exercised (proceeds $99,150) under the terms of the plan approved by stockholders in 1958. At January 1, 1967, options for 44,750 shares were outstanding at prices ranging from $4.97 to $41.94 per share, of which options for 39,250 shares were then exercisable.

Treasury shares reserved for options outstanding under the 1958 plan are stated at the aggregate option price of such shares; remaining treasury shares are stated at cost, including those reserved for options outstanding under the 1966 plan (option price approximates cost). No further options are available for grant under the 1958 plan; the excess of cost of total shares purchased for this plan over aggregate option price of options granted has been charged to accumulated income retained for use in the business.

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION
Letter to Stockholders

Treasury Stock—No purchases of common stock were made by the company in 1966, and 12,250 shares of common stock held in the treasury were delivered to key employees upon the exercise of stock options. At December 31, 1966 a total of 1,705,259 common shares were held in the treasury.

Purchases of 7,135 shares of preferred stock were made during the year.

BLAW-KNOX COMPANY
Notes to Financial Statements

Other Capital: The decrease of $23,812 resulted from issuance of treasury shares under the stock option plan.

MELVILLE SHOE CORPORATION
Dr.—$153,693—*"Retained Earnings*: Excess of cost over proceeds from sales of treasury stock under qualified stock option plan."
Notes to Financial Statements

Note 2: *Capital Stock*—Authorized preferred stock consists of 221,769 shares of cumulative preferred stock of $100 par value (issuable in series), of which 118,419 shares were issued as Series B $4.00 cumulative preferred stock. Such shares are redeemable at the option of the company at par value. During the year, 4,760 shares of Series B were purchased for $374,743 for sinking fund purposes increasing treasury shares to 6,340 at a cost of $516,368.

Authorized common stock consists of 3,500,000 shares of $1 par value, of which 2,790,458 shares have been issued. During the year 57,500 shares were acquired for $1,930,817, of which 11,311 were delivered under the stock option plan leaving 46,189 shares in treasury at a cost of $1,552,316.

PHILADELPHIA AND READING CORPORATION
Notes to Financial Statements

Note 7: Capital surplus increased by $32,000 representing the excess of proceeds received over the cost of 15,079 shares of treasury stock issued under stock options exercised.

Note 9: Treasury stock consists of 3,841 shares of Class A preferred stock and 179,147 shares of common stock at December 31, 1966 and 194,226 shares of common stock at December 31, 1965.

REVERE COPPER AND BRASS INCORPORATED
Consolidated Statement of Income and Earnings Retained and Employed in the Business

Net Income for Year	$22,098,454
Dividends paid: 1966, $2.90 per share; 1965, $2.15 per share	7,952,614
Earnings for Year Retained	14,145,840
Earnings retained and employed in the business	
Balance, beginning of year	69,720,112
Proceeds from exercise of option covering 833 shares of treasury stock (1965, 500 shares), previously charged against this account	25,573
Balance, End of Year	$83,891,525

Balance Sheet

Stockholders' Investment	
Common stock (Note G)	
Authorized 4,000,000 shares $5 par value	
Issued 2,752,288 shares (1965, 2,738,058 shares); held in treasury 8,085 shares (1965, 1,333 shares); outstanding 2,744,203 shares (1965, 2,736,725 shares)	$47,394,239

Note G: *Stock Options*—A qualified stock option plan, approved by the stockholders in 1964, provides that options may be granted to employees to purchase up to 100,000 shares of common stock at option prices not less than fair market value on date of grant. Options are exercisable in full for not more than five years from date of grant. At December 31, 1965, 60,400 shares were under option. During 1966, additional options to purchase 14,300 shares were granted and options to purchase 14,230 shares were exercised. At December 31, 1966, options to purchase 60,470 shares (at $45.44 and $47.56 per share) were outstanding and 25,200 shares were reserved for future options under this plan.

During 1966, under a stock option plan of Ormet Corporation, an option to purchase 833 shares of Company stock was exercised and options to purchase 1,270 shares lapsed. At December 31, 1966 options to purchase 1,385 shares of Company stock (at an average of $46.73 per share) were outstanding under the Ormet plan.

TABLE 5: ACCOUNTING TREATMENT OF TREASURY STOCK TRANSACTIONS

Nature of Transaction*	Charges Allocated Between Retained Earnings and Capital Surplus	Retained Earnings Debit	Retained Earnings Credit	Capital Surplus Debit	Capital Surplus Credit	Transactions Not Affecting Surplus	Total
Common Treasury Stock							
Treasury Stock Used For:							
A: Stock Options and/or Stock Purchase Plans	—	7	2	17	43	17	86
B: Incentive Compensation and/or Bonus	—	—	—	2	8	6	16
C: Stock Dividends	—	1	—	—	3	—	4
D: Poolings or Purchases	9	6	—	9	17	3	44
E: Treasury Stock Retired	1	2	—	2	—	—	5
F: Treasury Stock Purchased or Sold	6	11	—	13	4	137	171
G: Change in Shares and/or Amount only, no further information	—	2	—	2	1	73	78
Other	—	—	—	—	3	—	3
Total Common Stock Transactions	16	29	2	45	79	236	407
Preferred Treasury Stock							
Treasury Stock Used For:							
Stock Options and/or Stock Purchase Plans	—	—	—	1	—	—	1
H: Treasury Stock Retired	—	—	—	1	6	8	15
I: Treasury Stock Purchased or Sold	—	6	1	2	8	22	39
J. Change in Shares and/or Amount only, no further information	—	—	—	1	—	10	11
Total Preferred Stock Transactions	—	6	1	5	14	40	66
Total	16	35	3	50	93	276	473

*Refer to Company Appendix Section—A: 21, 198, 241, 324, 453, 502; B: 43, 160, 318, 354, 367, 456; C: 455, 493; D: 81, 86, 158, 231, 244, 358; E: 572; F: 100, 191, 279, 378, 480, 522; G: 60, 189, 280, 366, 442, 462; H: 10, 101, 132, 436, 519; I: 127, 176, 233, 364, 566, 574; J: 111, 313.

CHERRY-BURRELL CORPORATION

Consolidated Statement of Capital Surplus

Balance, beginning of year	$877,369
Add:	
Discount on purchases of preferred stock	5,725
Excess of proceeds over cost of 5,000 shares of treasury stock sold	53,825
	59,550
	936,919
Deduct—Cost of 1,500 shares of treasury stock over proceeds received upon exercise of stock options	2,790
Balance, end of year	$934,129

Balance Sheet

Stockholders' Investment:	1966	1965
Less—82,892 shares in 1966 and 89,392 shares in 1965 of common stock held in treasury, at cost	$1,149,151	$1,239,241

Used for Deferred or Incentive Compensation, Bonus, etc.

FEDERATED DEPARTMENT STORES, INC.

Cr.—$261,587—"Capital in Excess of Par Value of Common Stock: Stock changes during the year: Issued from treasury under contingent compensation plan."

Dr.—$3,930,108—*"Capital in Excess of Par Value of Common Stock*: Stock changes during the year: Acquired for treasury."

Note to Statement of Stockholders' Investment

Authorized shares consist of 25,000,000 shares of $1.25 par value common stock. The outstanding shares at the end of the year, shown below, exclude 897,568 shares in treasury of which 895,425 shares are for possible future issue under contingent compensation plan.

GENERAL MOTORS CORPORATION

Cr.—$1,005,573—"Capital Surplus: Increase in carrying value of treasury common stock revalued in accordance with the provisions of the Bonus Plan (31,565 shares in 1966 and 101,913 shares in 1965)."

Notes to Financial Statements

Common Stock in Treasury: Common stock in treasury at December 31, 1966 included (1) 639,288 shares, carried at $57,377,915, available for undelivered portions of bonus awards related to the years 1963 through 1965 and for contingent credits applicable to terminated stock options, which were held for instalment delivery under provisions of the Bonus and Stock Option Plans; (2) 378,632 shares, carried at $27,447,175, available for contingent credits included in reserves and related to outstanding stock options granted in March of each year, 1958 through 1966; and (3) 715,559 shares, carried at $63,349,243 or an average of $88.53 per share, available for bonus awards related to 1966 and for contingent credits to be established when stock options are granted in 1967.

Deliveries of common stock to bonus participants in 1966 aggregated 663,599 shares (including instalment deliveries on January 10, 1967 which were recorded as of December 31, 1966) acquired in prior years and valued at $55,222,737.

During 1966, the Corporation acquired 1,485,946 shares of common stock for purposes of the Savings-Stock Purchase Program at a cost of $121,493,324. These shares, together with 3,564 shares carried at $185,695, were sold to trustees of the Program monthly during the year (at a price equal to the average daily closing market price on the New York Stock Exchange during the month). These latter shares were a portion of a total 35,129 shares representing principally shares acquired in prior years and held for contingent credits applicable to stock options exercised during the year. The remaining 31,565 shares were made available for the Incentive Program and, in accordance with the provisions of the Bonus Plan, the carrying value was increased from $1,644,624 to $2,650,197 with the increase being credited to capital surplus. In addition, 665,707 shares acquired in 1966 at a cost of $58,846,665 were made available for bonus awards related to 1966 and for contingent credits to be established when stock options are granted in 1967.

INTERLAKE STEEL CORPORATION

Shareholders' Equity:

Common stock, par value $1 a share; authorized 10,000,000 shares; issued 4,660,005 shares	$107,736,887
Retained earnings (Note 4)	82,629,317
	190,366,204
Less—Cost of Common stock held in Treasury (177,457 shares in 1966 and 182,850 in 1965) (Notes 5 and 6)	5,008,445
	$185,357,759

Note 5: *Stock Options*—A Qualified Stock Option Plan was approved by the shareholders in 1965. At December 31, 1966, there were outstanding options for 56,550 shares at $41.94 per share, of which 17,513 were exercisable. No options granted under this Plan were exercised during the year.

A Restricted Stock Option Plan, approved in prior years, was discontinued in 1965. Options previously issued for 3,035 shares were exercised during 1966 at prices of $25.06 or $25.41 per share. At December 31, 1966, options for 1,965 shares were outstanding and exercisable at $25.41 per share.

Note 6: *Common Stock Held in Treasury*—At December 31, 1966, 151,965 treasury shares were reserved for stock options, 12,340 were reserved for distribution under a deferred compensation plan, and 13,152 shares were unreserved.

Used for Stock Dividends

THE BRISTOL BRASS CORPORATION

Notes to Financial Statements

Note D: Additional paid-in capital for the year ended December 31, 1966 was provided from the following:

Market value in excess of par value of 13,627 shares of treasury stock issued as a stock dividend	$46,839
Proceeds in excess of cost of 1,809 shares of treasury stock sold	6,918
	$53,757

THE PARKER PEN COMPANY

Stockholders' Equity:

Capital stock, $1.50 par value (Note 5)— Authorized 2,500,000 shares Issued 1,333,333 shares	$ 2,000,000
Capital in excess of par value (per accompanying statement)	626,659
Earnings retained for use in the business, after transfers to capital (per accompanying statement) (Note 3)	26,953,451
	29,580,110
Less—Treasury stock, at par value (46,493 shares in 1966 and 93,099 shares in 1965) (Notes 4 and 5)	69,740
Total Stockholders' Equity	29,510,370

Capital in Excess of Par Value:

Balance, Beginning of Year	37,797
Excess of market value over carrying value of treasury shares issued on stock dividends (Notes 4 and 5)	360,905
Proceeds in excess of carrying value of treasury shares issued under stock option plan (Note 4)	227,957
Balance, End of Year	$ 626,659

Note 4: *Stock Option Plan*—At February 28, 1966, 13,446 shares of treasury stock (adjusted to give recognition to 2% stock dividends declared in fiscal years 1964 and 1966) are reserved under options granted to officers and key executives. These options are exercisable for a period of ten years from date of grant at the lower of 85% of fair market value at time of grant or 85% of fair market value on the date of exercise. During fiscal year 1966, 22,886 shares of treasury stock were issued under stock options for an aggregate amount of $261,783.

Note 5: *Stock Dividend*—A 2% stock dividend was declared by the Board of Directors on February 10, 1966, payable on March 15, 1966, out of treasury stock. The accompanying financial statements have been prepared to give effect to this stock dividend. The excess of the fair market value over par value of the 23,720 shares issued was transferred to capital in excess of par value and amounted to $353,902.

Used for Business Combinations—Poolings or Purchases

AMERICAN HOME PRODUCTS CORPORATION

Cr.—$1,137,167—"Capital Surplus: Excess of market value over par value of treasury stock issued for purchase of assets."

Dr.—$698,083—*"Capital Surplus*: Excess of cost over par value of treasury stock acquired, less amount charged to retained earnings."

Dr.—$11,642,304—*"Retained Earnings*: Excess of cost over par value of treasury stock acquired, less amount charged to capital surplus."

THE AMERICAN TOBACCO COMPANY

Dr.—$27,824,000—*"Retained Earnings*: Excess of cost over par value of treasury shares reissued in connection with the acquisition of Sunshine Biscuits, Inc., less $2,203,000 apportioned to paid-in surplus (Note 1)."

Note 1: In May 1966, the Company delivered 3,349,737 of its shares in exchange for all the stock of a newly formed corporation which had acquired the assets and assumed the liabilities of Sunshine Biscuits, Inc. Of the shares used in this exchange, 2,056,165 were newly issued and 1,293,572 were treasury stock, including 828,800 shares purchased during 1966.

For accounting purposes, this exchange was treated as a "pooling of interests." The Company has restated its financial statements for prior periods to give effect to this transaction and, accordingly, the accompanying financial statements include the accounts of Sunshine Biscuits, Inc. As a result of this change, consolidated retained earnings at December 31, 1964, has been increased by $62,500,000 to reflect the adjusted retained earnings of Sunshine Biscuits, Inc. Paid-in surplus at December 31, 1965, which includes $5,034,000 applicable to Sunshine Biscuits, Inc., has been decreased by $6,558,000 to reflect the excess par value of the Company's shares exchanged over the par value of the outstanding shares of Sunshine Biscuits, Inc. at the date of acquisition ($5,982,000) and certain expenses ($576,000) incurred in connection with this transaction. Retained earnings was charged with $27,824,000 in 1966 representing the excess of cost over par value of the treasury shares reissued in this exchange less $2,203,000 applied against paid-in surplus.

CITIES SERVICE COMPANY

Dr.—$2,323,988—*"Retained Earnings*: Cost of treasury stock (less related par value and capital surplus) issued in exchange for properties."

Cr.—$2,549,137—"Capital Surplus: Credit (net) resulting from issuance of treasury stock in exchange for properties."

THE INTERNATIONAL SILVER COMPANY

Dr.—$479,785—*"Retained Earnings*: Charge relating to acquisition of subsidiary through pooling of interests (Note 1)."

Note 1: *Principles of Consolidation*—The consolidated financial statements include the accounts of The International Silver Company and all wholly-owned subsidiary companies. Investments in other affiliated companies, less than wholly-owned, are not significant. In April 1966 the company acquired the assets and operations of The Hawthorne Metal Products Company for an aggregate purchase price of $5,237,000 cash. These operations are included in the accompanying statement of earnings from date of acquisition. During the year the company exchanged 18,400 shares of its common stock for the capital stock of United Tool & Plastics Inc., using treasury shares which cost $772,000. This acquisition has been accounted for as a pooling of interests and the operating results of United Tool for 1966 have been included in the accompanying statements. Prior year financial statements have not been restated inasmuch as the effect of such restatement would be immaterial.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION
Dr.—$4,531,000—"*Earned Surplus*: Net charge resulting from pooling-of-interests transaction with Holland House Brands, Inc. (Note 1)."

Note 1 (in part): *Principles of Consolidation*—In June 1966, the Company exchanged 249,000 shares of treasury common stock for the net assets and business of Holland House Brands, Inc. In accounting for the transaction as a pooling of interests, net charges of $2,387,000 and $4,531,000 were made to the consolidated common stock and earned surplus accounts, respectively, and the results of operations of Holland House for the entire year are included in the 1966 consolidated statement of income. The 1965 consolidated financial statements have not been restated because the 1965 Holland House accounts would not materially affect such statements.

Treasury Stock Retired

THE GLIDDEN COMPANY
Dr.—$2,981,961—"*Additional Paid in Capital*: Retirement of treasury shares."
Application of Funds

Purchase of Common Stock for treasury (used in 1966 for acquisitions)	$1,166,799

THE RYAN AERONAUTICAL CO.
Dr.—$3,225—"*Retained Earnings*: Common stock purchased and retired."
Letter to Stockholders

Financial Position: The consolidated stockholders' equity on October 31, 1966, after adjustments for stock options exercised and the cost of treasury shares purchased and retired, was $42,384,587 or $16.70 per share, a new high, compared with $36,564,661, equal to $14.47 per share on the shares outstanding a year earlier.

SKELLY OIL COMPANY
Dr.—$29,917,133—"*Earnings Employed in the Business*: Excess of cost over par value of treasury shares retired (746,117.2 shares before stock split)."
Stockholders' Investment (Note 2):

	1966	1965
Common stock, $10 par value (2½ for 1 stock split in 1966) Authorized 15,000,000 shares; Issued 12,500,000 shares in 1966; 14,365,293 shares in 1965	$125,000,000	$143,652,930
Earnings employed in the business	307,724,078	294,796,276
	432,724,078	438,449,206
Less—Treasury stock at cost, 431,405 shares in 1966; 2,165,698 shares in 1965	11,203,054	54,010,462
	421,521,024	384,438,744

Financial Review

In conjunction with the stock split, the retirement of 746,117.2 shares of common stock of the Company held in its Treasury was also approved. This resulted in a charge of $29,917,133 to Earnings Employed in the Business, representing the excess of cost over the par value of shares retired.

An annual dividend rate of $1.00 per share was established on the split shares. This is equal to $2.50 per share before the 2½ for 1 split, an increase of 25 per cent over the previous rate of $2 per share. Cash dividends paid in 1966 totaled $10,358,557, compared with $9,769,156 in 1965.

In accordance with the Company's policy of periodically acquiring its own shares, 140,000 shares of common stock were purchased in 1966. The cost of these shares, less the proceeds from options for 9,000 shares exercised during 1966 under the Restricted Stock Option Plan for Officers and Other Key Employees, was $5,762,655.

Treasury Stock Purchased

ASSOCIATED DRY GOODS CORPORATION
Dr.—$36,651—"*Capital in Excess of Par Value of Common Stock*: Shares acquired for treasury."

COLGATE-PALMOLIVE COMPANY
Dr.—$4,706,000—"*Earned Surplus*: Excess of cost over stated value of 203,751 shares of common stock purchased for Treasury."
Notes to Financial Statements

Capital Stock: The capital stock of the Company is as follows:

	1966	1965
Preferred shares (cumulative dividend; without par value)		
Authorized	250,000	250,000
Issued—$3.50 preferred stock	125,000	125,000
Undesignated and unissued	125,000	125,000
Common shares ($1.00 par value)		
Authorized	20,000,000	20,000,000
Issued	15,899,477	15,898,977
Less—Shares in Treasury	993,663	780,089
Outstanding	14,905,814	15,118,888

Treasury shares include 64,584 shares in 1966 and 52,836 shares in 1965 which are reserved for distribution under the terms of the Executive Incentive Compensation Plan. The cost of such shares has been offset against the related deferred liability in the financial statements.

HUNT FOODS AND INDUSTRIES, INC.
Cr.—$140,000—"Capital Surplus: Excess of par value of common stock acquired and held in treasury over cost of investment securities exchanged therefor."
Notes to Financial Statements

Capital Stock (in part): The authorized common stock consists of 15,000,000 shares of $5 par value. The outstanding common stock at June 30, 1966 consists of 6,264,464 shares (after deducting 140,045 shares held in treasury).

In February, 1966, the Company acquired 120,045 shares of its common stock in exchange for 70,836 shares of common stock of Evans Products Company which were previously held as investment securities. The quoted market values of the shares exchanged, which were approximately the same, exceeded by approximately $2,900,000, the cost of the Company's investment in the Evans shares. The par value of the shares of common stock of the Company acquired, $600,225, was charged to common stock, and the excess of par value over cost of the shares of common stock of Evans exchanged therefor, $140,000, was credited to capital surplus.

UNION OIL COMPANY OF CALIFORNIA
Dr.—$17,000—"*Retained Earnings*: Cost of 315 and 4,117,590 treasury shares acquired in 1966 and 1965, respectively."
Cr.—$1,183,000—"Capital in Excess of Par or Stated Value of Shares Issued: Value assigned to treasury shares issued for assets."
Notes to Financial Statements

Common Shares issued in 1966 included 283,007 shares upon the conversion of 4¼% Convertible Debentures, 44,975 shares upon the conversion of 34,601 Preferred Shares, 53,122 shares upon exercise of restricted stock options, and 405 shares upon exercise of qualified stock options. In addition, 27,675 Common Shares held in treasury were reissued for property acquisitions. 315 treasury shares were acquired.

Conversion of Debentures into Common Stock

NORTHROP CORPORATION
Cr.—$906,265—"Additional Capital Paid In: Issuance of Common Stock—in conversion of 5% Convertible Subordinated Debentures into 48,771 shares (17,148 shares issued from treasury)."

Examples: Treasury Stock Transactions—Preferred Stock Used for Stock Options

ASHLAND OIL & REFINING COMPANY
Notes to Financial Statements

Note E: Capital Surplus—Consolidated capital surplus increased in the net amount of $8,271,431 during the year. The increase included $10,459,405 from conversion of subordinated debentures into 725,449 shares of common stock. Decreases consisted of $1,291,224 arising from poolings of interests, $743,403 for the excess of cost over proceeds from sale to employees under stock options of 63,615 shares of common stock and 1,653 shares of convertible preferred stock held in treasury, and $153,347 from other capital transactions.

Treasury Stock Retired

MOORE DROP FORGING COMPANY
Cr.—$2,904—"Capital Surplus: Par value in excess of cost of 415 shares of preferred stock retired under sinking fund provision."
Notes to Financial Statements

Note 5: Preferred stock, 4¾% cumulative par value $50; authorized and issued 7,105 shares (1966) and 7,520 shares (1965)	$355,250
Common stock, par value $1; authorized 500,000 shares, issued 360,697 shares 1966 and 1965	360,697
	$715,947

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, 1966, 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, 1967.

Treasury Stock Purchased

ANCHOR HOCKING GLASS CORPORATION
Balance Sheet

Preferred Stock—$4 cumulative—without par value (stated at $107 a share) Authorized 60,500 shares; issued 30,500 shares less 12,226 in treasury (1965—2,981)	$1,955,318	$2,944,533

Financial Review

Capital in excess of par value increased during 1966 by $504,109 to $4,353,494, as follows:

Proceeds in excess of par value of 12,693 shares of common stock issued under stock option plans	$338,364
Excess of stated value over cost of 9,245 shares of preferred stock purchased	165,745
	$504,109

THE PROCTER & GAMBLE COMPANY
Notes to Financial Statements

Note 1: Shareholders' Equity—The authorized common stock of the Company is 50,000,000 shares without par value; there were 42,773,430 shares and 43,239,135 shares outstanding at June 30, 1966 and 1965, respectively, excluding 1,000,700 shares and 524,200 shares held in treasury at the respective dates. As to the 22,500 shares of authorized 8% (cumulative) preferred stock of $100 par value each, there were 11,603 shares and 22,500 shares outstanding at those dates, respectively, excluding 10,897 shares held in treasury at June 30, 1966. Also, 457,500 shares of authorized preferred stock of $100 par value each were undesignated and unissued.

The net increase of $33,183,000 during the year in earnings retained in the business consisted of $66,395,000, as shown on page 11, resulting from the current year's operations, less $33,212,000 representing the excess of cost over the stated value of 476,500 common shares and 10,897 8% (cumulative) preferred shares of the Company purchased during the year and held in treasury.

TIDEWATER OIL COMPANY
Cr.—$706,000—"Capital in Excess of Par Value of Capital Stock: Excess of par value over cost of preferred stock purchased."

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 purposes, the distinction between a *purchase* and a *pooling of interests,* from which the following excerpts have been taken:

1. When 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.

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

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.

Opinion No. 10, Omnibus Opinion—1966, released in December 1966 by the accounting principles board of the American Institute of Certified Public Accountants, contains the following amendment to Chapter 5, Paragraph 12 of *Accounting Research Bulletin No. 48.*†

12. When a combination is considered to be a pooling of interests,[6] statements of results of operations issued by the continuing business for the period in which the combination occurs should include the combined results of operations of the constituent interests for the entire period in which the combination was effected. Similarly, if the pooling is consummated at or shortly after the close of the period, and before financial statements of the continuing business are issued, the financial statements should, if practicable, give effect to the pooling for the entire period being reported; in this case, information should also be furnished as to revenues and earnings of the constitutent businesses for all periods presented. Results of operations, balance sheets and other historical financial data of the continuing business for periods (including interim periods) prior to that in which the combination was effected, when presented for comparative purposes, should be restated on a combined basis. In order to show the effect of poolings upon their earnings trends, companies may wish to provide reconciliations of amounts of revenues and earnings previously reported with those currently presented. Combined financial statements of pooled businesses should be clearly described as such, and disclosure should be made that a business combination has been treated as a pooling.

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

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

THE BENDIX CORPORATION

Cr.—$553,653—"Capital Surplus: Add Excess of market value over par value of common stock issued in connection with the purchase of Marine Advisers, Inc. (Note 1)."

Note 1 (in part): *Principles of Consolidation*—Also during the year ended September 30, 1966, the Corporation purchased the businesses and substantially all of the assets of Beck-Lee Corporation, Scully-Jones and Company, Fonda Gage Company, and Marine Advisers, Inc. The accompanying financial statements include the operations of these companies from the dates of acquisition to September 30, 1966.

CLARK EQUIPMENT COMPANY

Cr.—$1,079,000—"Capital in Excess of Par Value: Market value of unissued and treasury shares issued for stock of French licensee."

Financial Review

The acquisition of the remaining stock of our French licensee for stock and cash was a purchase, and its operations are consolidated from the date control was acquired. The cost of the 46 percent investment ($1,222,000) we owned prior to the purchase was included in investments and advances at Dec. 31, 1965.

CONTINENTAL OIL COMPANY

Notes to Financial Statements

Note 7: During 1966, capital surplus was increased by $647,000 resulting from the exercise of stock options and by $73,097,000 resulting from the issuance of 1,000,000 shares of common stock in connection with the acquisition of the coal properties and related assets of Consolidation Coal Company.

Note 1 (in part): Effective September 15, 1966, the Company acquired the coal properties and related assets, including normal working capital requirements, of Consolidation Coal Company, subject to a reserved production payment of $460,000,000, in consideration for 1,000,000 shares of the Company's common stock and the assumption of certain liabilities. The operations of the coal properties and related assets since the date of acquisition are included in the accompanying consolidated financial statements.

HART SCHAFFNER & MARX

Notes to Financial Statements

Note 4: *Capital Surplus*—Changes in capital surplus during the year include credits representing (1) the excess of proceeds from the sale of stock under stock option plans over the par value of the unissued shares sold ($425,935) and (2) the excess of market value over cost of treasury stock exchanged in the routine acquisition of a retail subsidiary company during the year ($36,251).

LEAR SIEGLER, INC.

Dr.—$6,441—*"Consolidated Additional Capital*: Excess of cost over fair market value of 21,120 common treasury shares used to purchase a majority interest in a foreign affiliate."

THE MACKE COMPANY

Cr.—$1,017,590—"Consolidated Paid-In Surplus: Fair value in excess of par value of 78,516 shares of class A common stock issued in connection with acquisitions of subsidiaries."

[6]Accounting Research Study No. 5 on *A Critical Study of Accounting for Business Combinations* has been published, and another research study on accounting for goodwill is in process. The Board plans to reconsider the entire subject of accounting for business combinations after the latter study is published.

MAREMONT CORPORATION
Notes to Financial Statements

Note 3 (in part): *Capital Stock, Other Matters*—The net increases during 1966 in preferred stock ($1,916,800), common stock ($54,165) and paid-in surplus ($1,025,807) are primarily due to the 1966 acquisition of Chanslor & Lyon Co., Inc. under which $2,095,-600 par value of preferred and $53,600 par value of common was issued. The difference between these par value amounts and market values at date of purchase was credited to paid-in surplus ($1,018,400).

Note 1: *Acquisition And Non-Consolidated Subsidiaries*—During December, 1966, the Company acquired 80% of the outstanding capital stock of Chanslor & Lyon Co., Inc., a distributor of automotive parts, for 53,600 shares of Maremont common stock and 20,956 shares of 6% preferred stock. This transaction has been accounted for as a purchase in the accompanying consolidated financial statements.

THE SEEBURG CORPORATION
Cr.—$2,087,102—"Paid-In Surplus: Excess of market value over par value of 114,139 shares of common stock issued in connection with the purchase of the outstanding capital stock of the Gulbransen Company (Note 1).

Note 1: *Acquisition of Gulbransen Company*—Under an agreement dated January 3, 1966, the company purchased substantially all the outstanding capital stock of the Gulbransen Company, a manufacturer of organs and pianos, in exchange for 114,139 shares of Seeburg common stock having an aggregate market value of $2,201,241. This transaction was accounted for as a purchase and, accordingly, the results of operations of Gulbransen have been included in the accompanying financial statements since date of purchase.

THE UNITED STATES SHOE CORPORATION
Cr.—$3,300,885—"Capital Surplus: Market value in excess of stated value of 105,000 shares of common stock issued in connection with purchase of Texas Boot Manufacturing Company, Inc. (Note 1)."

Note 1 (in part): *Principles of Consolidation*—On January 31, 1966, the Company acquired all of the outstanding capital stock of Texas Boot Manufacturing Company, Inc. for cash and 105,000 shares of common stock. This acquisition has been accounted for as a purchase; accordingly, only its operations since date of acquisition are included in the consolidated statement of earnings for the year ended October 31, 1966.

WOODALL INDUSTRIES, INCORPORATED
Notes to Financial Statements

Corporate Acquisition: As of February 28, 1966, the Corporation acquired substantially all the outstanding capital stock of J. P. Gits Molding Corporation and certain related assets for $270,659 in cash plus 11,300 shares of treasury Common Stock. Operations of Gits have been included in consolidation from March 1, 1966.

Additional Paid-in Capital: This account increased by $92,595 during the year, comprising $94,154 excess of fair value over cost of treasury shares issued in acquisition of Gits, less $1,559 excess of cost over proceeds of treasury shares sold to optionees.

PURCHASE OF BUSINESS PROPERTIES

Capital Surplus

CONTROL DATA CORPORATION
Cr.—$9,546—"Additional Paid-In Capital: Market value in excess of par value of common stock issued in purchase of assets."

JOY MANUFACTURING COMPANY
Cr.—$270,864—"Paid In Capital: Issuance of common stock at market value for certain assets of Pakager, Inc."

TECUMSEH PRODUCTS COMPANY
Notes to Financial Statements

Note B: The increase of $1,566,593 in Capital Surplus in 1966 represents the excess of market value over par value of 23,382 shares of common stock issued in connection with the acquisition of the Sheboygan Falls, Wisconsin Division of Diecast Corporation.

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 at the end of Chapter 8 contains the following significant paragraphs on consistency:

> 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 1966 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	63
B: Previous year's figures not restated	43
Single year statements	1
Total	107
Financial income summary*:	
C: Prior years' figures restated	23
D: Restated only since the pooling became effective (2 years)	20
Restated for a period other than those stated above	3
E: Prior years' figures not restated	53
No financial summary included	8
Total	107

*Refer to Company Appendix Section—A: 66, 147, 258, 328, 433, 541; B: 59, 172, 278, 313, 409, 517; C: 45, 193, 316, 453, 456, 568; D: 68, 88, 116, 321, 372, 535; E: 65, 184, 280, 398, 495, 598.

The reason given by most companies for not restating prior years' figures in poolings of interests is that restatements would not be significant.

Examples of companies' policies on restatements as shown in their 1966 annual reports will be found among the following examples of poolings of interests.

Retained Earnings

R. J. REYNOLDS TOBACCO COMPANY

Dr.—$3,793,096—"*Earnings Retained*: Cost of treasury Common Stock (less related par value) issued for Filler Products, Inc. in excess of its earnings retained and certain combination expenses."

Notes to Financial Statements

Note A (in part): *Principles of Consolidation*—On July 26, 1966, in exchange for 122,207 shares of its treasury Common Stock the Company acquired through a wholly-owned subsidiary, Penick & Ford, Limited, the net assets and business of Filler Products, Inc. and the capital stock of affiliated Filler companies. The combination has been accounted for on a pooling of interests basis with the accounts consolidated for the entire year 1966. Sales and net earnings of the Filler companies for the year 1965 aggregated $9,267,473 and $359,629, respectively.

G. D. SEARLE & CO.

Earnings Retained:

Balance at January 1:	
G. D. Searle & Co. and Subsidiaries	$57,129,447
Nuclear-Chicago Corporation and Subsidiaries	6,200,100
Net income for the year	22,854,072
	86,183,619
Deduct:	
Expenses in connection with pooling of interests	147,420
Cash dividends paid:	
Preferred stock (Note 3)	412,501
Common stock ($1.30 per share)	17,222,984
	17,782,905
Balance at December 31	$68,400,714

Notes to Financial Statements

Note 2: *Pooling of Interests*—As of July 29, 1966, the Corporation exchanged 1,517,537 shares of its cumulative convertible preferred stock for the business and substantially all of the net assets of Nuclear-Chicago Corporation and subsidiaries. This transaction has been treated as a pooling of interests, and the accompanying consolidated statements of income, paid-in surplus, earnings retained and source and application of funds for the year ended December 31, 1966, include the consolidated statements of Nuclear-Chicago Corporation and subsidiaries for that portion of the year prior to the date of its acquisition by G. D. Searle & Co. Similarly, the accompanying consolidated balance sheet as of December 31, 1965, and the consolidated statements of income, paid-in surplus, earnings retained and source and application of funds for the year then ended have been restated to include Nuclear-Chicago Corporation and its subsidiaries.

THE SINGER COMPANY

Dr.—$624,000—"*Retained Earnings*: Net assets of pooled company."

Financial Review

Investments in Affiliated Companies (in part): During 1966 the company acquired EMC Instrumentation, Inc. of North Hollywood, California for 9,897 shares of capital stock. This transaction was treated as a pooling of interests. Additionally two small companies were acquired for cash.

Retained Earnings and Capital Surplus

ARDEN-MAYFAIR, INC.

Cr.—$1,817,093—"Consolidated Retained Earnings: Pooling of interest adjustments."

Dr.—$2,468,648—"*Consolidated Capital Surplus*: Pooling of interest adjustments."

Notes to Financial Statements

Note 1: *Principles of Consolidation*—The consolidated financial statements include all subsidiaries of the Company except A-M Notes, Inc., a wholly-owned subsidiary incorporated in 1965, for which separate financial statements are included in this report. The sole purpose of this subsidiary is to liquidate certain property notes receivable which were transferred to it by the Company and other subsidiaries.

Acquisitions made during 1965 in exchange for 70,000 shares of Common Stock and in 1966 in exchange for 107,500 shares of Common Stock and 27,500 shares of Convertible Preference Stock have been recorded as pooling of interests. The Company may be required to issue an additional 2,500 shares of Convertible Preference Stock if a wholly-owned subsidiary attains certain profit objectives in each of two successive fiscal years during the five fiscal years commencing January 1, 1967.

Financial statements for 1965 have not been restated to include 1966 acquisitions, however, omission of these acquisitions from the 1965 consolidated financial statements has no significant effect upon the comparability of the statements.

CLARK EQUIPMENT COMPANY

Statement of Shareholders' Equity:

	Amounts in Thousands 1966				1965
	Total	Capital Stock	Capital In Excess Of Par Value	Retained Income	Retained Income
Balances at beginning of year:					
Clark Equipment Company	$128,572	$52,546	$1,691	$74,335	$61,386
Companies acquired in poolings of interest	4,796	683	773	3,340	2,393
	133,368	53,229	2,464	77,675	63,779
Net income for the year	28,213	—	—	28,213	23,122
Dividends paid—$1 and $.875 per share (Total includes minor amounts paid by acquired companies)	(10,871)	—	—	(10,871)	(9,226)
Exercise of stock options and conversion of debentures	2,530	648	1,882	—	—
Market value of unissued and treasury shares issued for stock of French licensee	1,166	87	1,079	—	—
Change in par value from $10 to $7.50 and 2-for-1 stock split	—	26,477	(3,466)	(23,011)	—
Adjustment to record par value of shares issued in poolings of interests	—	3,093	(1,855)	(1,238)	—
	$154,406	$83,534	$ 104	$70,768	$77,675

Financial Review

Principles of Consolidation: The consolidated financial statements include the accounts of all of our subsidiaries except those in Brazil and Argentina and Clark Equipment Credit Corporation and its subsidiaries. The acquisitions during 1966 of Hancock Manufacturing Company and Chicago Malleable Castings Company were poolings of interests for accounting purposes. Our financial statements for 1966 and 1965, therefore, combine the operations of these companies with ours.

BURLINGTON INDUSTRIES, INC.

Dr.—$1,898,832—*"Retained Earnings*: Excess of cost over par value of treasury common stock issued for capital stock of Globe Furniture Company, less amount charged to capital in excess of par value."

Cr.—$264,089—"Capital in Excess of Par Value: Par value of capital stock of Globe Furniture Company over par value of treasury common stock issued in a transaction treated as a pooling of interests."

Dr.—$2,021,214—*"Capital in Excess of Par Value*: Excess of cost over par value of treasury common stock issued for capital stock of Globe Furniture Company, less amount charged to retained earnings."

Notes to Financial Statements

Note A (in part): *Principles of Consolidation and Related Matters*—(4): On May 5, 1966, the Corporation acquired Globe Furniture Company in a transaction treated as a pooling of interests, and its accounts are included in the consolidation only from October 2, 1965. Sales and net earnings of Globe for its last fiscal year prior to acquisition aggregated $6,208,854 and $460,525, respectively.

FMC CORPORATION

Cr.—$296,552—"Consolidated Retained Earnings: Adjustments arising from pooling of interests."

Cr.—$172,890—"Consolidated Capital in Excess of Par Value of Capital Stock: Differences between par values of common stock exchanged in pooling of interests transactions."

Financial Review

During 1966, FMC acquired the operating assets of two companies by issuing the equivalent of 42,462 split shares of treasury and unissued common stock, and assuming essentially all liabilities of the companies. Pooling of interests accounting was used for recording these transactions and consequently the operating results of these companies were included for the full year. However, prior year figures have not been adjusted because the impact of these operations would have been immaterial.

THE GLIDDEN COMPANY

Cr.—$1,686,304—"Retained Earnings: Net changes resulting from poolings of interest."

Dr.—$2,044,947—*"Additional Paid in Capital*: Net changes resulting from poolings of interest."

Notes to Financial Statements

Note A (in part): *Consolidation*—During the year, the Company acquired the net assets of four corporations in exchange for 391,785 shares of Common Stock and purchased two corporations. The businesses acquired with stock were accounted for as poolings of interest and accordingly, the consolidated financial statements for the year ended August 31, 1966, include the operations of these businesses for the entire year. The businesses purchased have been included since the respective dates of purchase. The consolidated financial statements for the year ended August 31, 1965, are presented herewith as previously published and do not include the accounts of the businesses acquired and treated as poolings of interest, as their net sales and net income for that year were not significant.

UNITED MERCHANTS AND MANUFACTURERS, INC.

Dr.—$2,444,198—*"Earned Surplus*
Dr.—$612,588—*"Capital Surplus* : Excess of cost of 98,657 shares of Treasury Common Stock issued in connection with the acquisition of substantially all of the net assets of Shelby Mills, Inc. over the par value thereof (Note G)."

Note G: *Capital Stock and Surplus*—In June 1966, the Company issued 98,657 shares of Treasury Common Stock in exchange for substantially all of the net assets of Shelby Mills, Inc., the accounts of which are included in the accompanying financial statements on the pooling of interests basis (see Note H-5).

Note H: *Contingencies and Other Comments*—5. The financial statements as at and for the year ended June 30, 1965, are included for comparative purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and Notes pertaining to those financial statements. The accounts of Shelby Mills, Inc. (not significant) have not been included therein.

McGRAW-HILL, INC.

Dr.—$344,400—*"Retained Income*: Cost in excess of par value of stock of pooled company retired."

Cr.—$5,604—"Additional Paid-in Capital: Excess of par value of stock issued over par value of common stock of companies acquired in poolings of interests (Note 1)."

Note 1 (in part): *Principles of Consolidation*—During the year McGraw-Hill, Inc., acquired the following:

1. All of the capital stock of Standard & Poor's Corporation in exchange for 1,532,823 shares of a new $1.20 convertible preference stock.
2. All of the common stock of Educational Developmental Laboratories, Inc., in exchange for 211,357 shares of common stock plus additional shares to be issued in 1967 through 1971 based on the earnings of Educational Developmental Laboratories, Inc., and the market value of the stock of McGraw-Hill, Inc.

On Jan. 3, 1967, all of the capital stock of Medical World Publishing Co., Inc., was acquired in exchange for 243,112 shares of common stock. In addition, 31,890 shares of common stock were reserved for issuance upon exercise of substitute stock options to certain stockholders of Medical World Publishing Co., Inc. McGraw-Hill, Inc., has also agreed to issue additional shares in the event 1967 earnings of Medical World Publishing Co., Inc., increase over a stated level of earnings which is in excess of 1966 earnings.

These three acquisitions were deemed to be poolings of interests and all appropriate adjustments of both 1966 and 1965 statements have been made.

TEXACO INC.

Dr.—$18,406,751—*"Retained Earnings*
Dr.—$4,110,230—*"Paid-in Capital* : Adjustment for pooling of interests with certain subsidiaries of the Petrofrance group (Note 1)."

Note 1 (in part): In November 1966, the company exchanged 243,565 shares of its treasury stock and $1,926,102 for certain of the marketing and refining interests of the Petrofrance group of companies. This transaction has been considered as a pooling of interests for accounting purposes. The results of operations have been included in the accompanying financial statements from January 1, 1966. The company's financial statements for 1965 have not been restated since the effect would not be significant.

LIQUIDATIONS AND DISSOLUTIONS

Retained Earnings

GENERAL MILLS, INC.

Dr.—$4,000,000—*"Earnings Employed in the Business*: Extraordinary costs arising from closing of Refrigerated Foods Division facilities, 1966, and from withdrawal from portion of the flour milling business, 1965 (Note 8)."

Note 8: *Extraordinary Costs*—On June 27, 1966, the Board of Directors authorized the company to discontinue the operations and dispose of the facilities of the Refrigerated Foods Division. Provision has been made for the estimated applicable losses and costs in the amount of $4,000,000 (after related income tax credits) by a charge to earnings employed in the business in the fiscal year ended May 29, 1966. The amount provided 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.

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:

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

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.

Following are examples of adjustments arising in consolidation as taken from the 1966 annual reports of the 600 survey companies.

Retained Earnings

UNITED ELASTIC CORPORATION

Dr.—$30,728—*"Earnings Retained for Use in the Business*: Elimination of retained earnings of subsidiaries liquidated."

[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."

ARVIN INDUSTRIES, INC.

Dr.—$368,683—*"Retained Earnings*: Adjustment to reflect underlying net assets of previously unconsolidated subsidiaries and equity in net assets of 50% owned foreign company as of the end of 1965, less retained earnings of company acquired in pooling of interests—Note A."

Note A (in part): *Investment in Subsidiaries*—In 1966, the Company has included in its consolidated statements the accounts of certain Hong Kong subsidiaries, previously 50 per cent owned, which became wholly owned subsidiaries on December 31, 1965. In addition, the Company in 1966 changed its method of accounting for its investment in the 50 per cent owned Canadian corporation from the cost to the equity method. These changes had no material effect on the consolidated financial statements of the Company.

BASIC INCORPORATED

Cr.—$54,612—"Retained Earnings: Net accumulated earnings of previously unconsolidated subsidiaries."

Notes to Financial Statements

Consolidation: The 1966 consolidated financial statements of the Company include the accounts of two previously unconsolidated subsidiaries. Since this change was not material, the 1965 financial statements were not restated.

THE BENDIX CORPORATION

Cr.—$21,470,733—"Earned Surplus: Previously unconsolidated domestic and Canadian subsidiaries (Note 1)."

Note 1: *Principles of Consolidation*—The consolidated financial statements include all significant domestic and Canadian subsidiaries. In prior years, the Corporation consolidated only wholly-owned domestic subsidiaries and, accordingly, for comparative purposes the amounts in the accompanying financial statements for the year ended September 30, 1965 have been restated to include the accounts of the previously unconsolidated subsidiaries. This change in consolidation policy had the effect of increasing net income and total assets previously reported for the year ended September 30, 1965 in the amounts of $1,428,402 and $56,480,965, respectively.

THE FLINTKOTE COMPANY

Cr.—$473,549—"Earned Surplus: Equity in earnings since investment in subsidiary not wholly owned until 1966 and not previously consolidated."

SALE OR SPIN-OFF OF SUBSIDIARY COMPANY OR DIVISION UNDER F.T.C. CONSENT ORDER

CONSOLIDATED FOODS CORPORATION

Cr.—$1,853,757—"Earned Surplus: Special credit—Gain on sale of Gentry Division, less applicable income taxes of $1,009,170.

Letter to Stockholders

On March 14, 1966, the Gentry Division was sold, with a profit of $1,853,757, or 21 cents per share, being realized. This sale was in compliance with a Federal Trade Commission divestiture decree.

EMPLOYEE STOCK PLANS

In 1966 there were 383 adjustments to surplus accounts resulting from various employee benefit plans involving sale or issue of capital stock. The great majority of such adjustments—370 items—related to capital surplus accounts, and in only 13 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

THE GILLETTE COMPANY

Cr.—$766,000—"Additional Paid-in Capital: Amounts arising from issue of common stock under option plans."

Notes to Financial Statements

Note 3: At December 31, 1965, a total of 1,065,070 unissued shares of common stock were reserved for issuance to key executives under the Company's Employees' Stock Option Plans. During 1966 options for 30,920 shares were exercised and an option for 4,500 shares was cancelled and removed from reservation for future grants, leaving a balance of 1,029,650 unissued shares so reserved at December 31, 1966, of which 411,000 shares were available for future grants and 618,650 shares were available for options granted but not exercised.

There were no options granted during 1966. Changes in the number of unissued shares reserved for options granted but not yet exercised are summarized below:

	Number of Shares	Option Price Range Per Share
Options granted but not exercised at January 1, 1966	681,070	$16.33-46.50
Deduct: Options exercised	30,920	16.33-37.67
Options cancelled	27,000	31.64-37.67
Option cancelled and removed from reservation	4,500	37.67
	62,420	
Options granted but not exercised at December 31, 1966	618,650	23.75-46.50

In addition to the above, an option for the remaining 3,000 treasury shares reserved at December 31, 1965, under special options granted to United Kingdom employees, was exercised in 1966 at a price of $26.00 a share (adjusted for the three-for-one stock split effected November 24, 1961).

SEARS, ROEBUCK AND CO.

Cr.—$9,355,459—"Capital in Excess of Par Value: Excess of proceeds over par value of 316,575 common shares issued under employee stock options."

Notes to Financial Statements

Note 6: *Employees Stock Options*—As of January 31, 1966, options for 2,269,453 shares were outstanding. Those options issued prior to January 1, 1964 expire ten years from date of grant and, except in a few cases, are exercisable in five annual and cumulative installments beginning approximately one year from date of grant. Options that were issued subsequently expire five years from date of grant and are exercisable in four equal installments with the first installment accruing approximately one year after the date of grant and the remaining installments accruing annually in the following three year period. No additional options are to be granted under existing plans.

Outstanding options at year end ranged in price from $14.05 to $64.13 per share, aggregating $84,175,946. Options for 1,129,315 shares were exercisable at year end.

Summary of Option Transactions for 1965	Shares issuable when outstanding options are exercised
Balance January 31, 1965	2,620,142*
Options cancelled	(34,114)
Options exercised	(316,575)
Balance January 31, 1966	2,269,453

*Adjusted for 2-for-1 stock split, effective February 11, 1965.

ACME MARKETS, INC.

Cr.—$95,132—"Capital in Excess of Par Value of Common Stock: Excess of sales proceeds over par value of 3,035 shares common stock sold to officers and key management employees pursuant to exercise of stock options."

Notes to Financial Statements

Note 3: *Stock Options*—Under the Company's stock option plans approved by the stockholders in 1952 and 1964 there remained outstanding at April 2, 1966 options granted to 68 officers and key management employees to purchase 65,624 shares common stock at prices ranging from $29.89 to $69.22, such prices being either 95% or 100% of market price on the respective dates of granting, adjusted for subsequent stock dividends. The options are exercisable on a cumulative basis over a period of 10 years or less and expire on or before December 19, 1973. Under the 1964 option plan an additional 93,897 shares common stock were reserved for future option grants.

BROWN SHOE COMPANY, INC.

Cr.—$266,405—"Additional Capital: Excess of option price over par value of Common Stock issued under stock option plan—10,255 shares in 1966 and 8,690 shares in 1965."

Notes to Financial Statements

Note A (in part): *Stockholders' Equity*—At October 31, 1966, certain employees including directors and officers held five and ten year options to purchase 230,675 shares of Common Stock of the Company under stock option plans which provide for purchases in annual installments, commencing eleven months after granting. The options were granted over a period of years for purchases at prices ranging from $20.78 to $59.88.

During the year options for 10,255 shares were exercised at prices ranging from $21.38 to $53.88 a share, and options for 11,700 shares were terminated. At October 31, 1966, there were 21,220 shares of Common Stock available for future options.

PHILIP MORRIS INCORPORATED

Cr.—$1,061,287—"Additional Paid-In Capital: Excess of proceeds over par value of common stock issued under stock options."

Notes to Financial Statements

Note 6: *Stock Options*—Pursuant to stock option plans approved by stockholders (the most recent plan covering 375,000 shares having been approved in 1966), common stock of the Company has been made available for option to officers and other key employees at closing market prices on the dates granted.

	1966	1965
Shares under option, beginning of year	446,943	440,841
Options granted	175,400	68,850
Options exercised	(45,807)	(31,635)
Options canceled	(16,044)	(31,113)
Shares under option, end of year	560,492*	446,943
Shares available for option, end of year	200,598	366

*At prices ranging from $16.583 to $39.167.

Retained Earnings

REVERE COPPER AND BRASS INCORPORATED

Cr.—$25,573—"Earnings Retained and Employed in the Business—Proceeds from exercise of option covering 833 shares of treasury stock (1965, 500 shares), previously charged against this account."

Notes to Financial Statements

Note G: *Stock Options*—A qualified stock option plan, approved by the stockholders in 1964, provides that options may be granted to employees to purchase up to 100,000 shares of common stock at option prices not less than fair market value on date of grant. Options are exercisable in full for not more than five years from date of grant. At December 31, 1965, 60,400 shares were under option. During 1966, additional options to purchase 14,300 shares were granted and options to purchase 14,230 shares were exercised. At December 31, 1966, options to purchase 60,470 shares (at $45.44 and $47.56 per share) were outstanding and 25,200 shares were reserved for future options under this plan.

During 1966, under a stock option plan of Ormet Corporation, an option to purchase 833 shares of Company stock was exercised and options to purchase 1,270 shares lapsed. At December 31, 1966 options to purchase 1,385 shares of Company stock (at an average of $46.73 per share) were outstanding under the Ormet plan.

WARNER-LAMBERT PHARMACEUTICAL COMPANY

Dr.—$285,445—"*Retained Earnings*: Stock option transactions (Note 5)."

Note 5: *Stock Options*—At December 31, 1966 there were 558,351 shares of common stock and 679 shares of preferred stock reserved for sale to officers and employees under stock options. The following table summarizes the changes during 1966 in the numbers of shares under option:

	Common Stock	Preferred Stock
Options outstanding January 1, 1966	220,327	793
Options granted	43,250	—
Options exercised	(35,668)	(114)
Options cancelled	(11,158)	—
Options outstanding December 31, 1966	216,751	679

Options outstanding at December 31, 1966 were exercisable to the extent of 99,448 shares of common stock and 679 shares of preferred stock. The option prices of the options outstanding at December 31, 1966 aggregated $6,196,161. 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, 1966, the cost of treasury stock exceeded proceeds of stock options exercised by $285,445 which was charged to retained earnings.

Incentive Stock Options

Capital Surplus

AMSTED INDUSTRIES INCORPORATED

Cr.—$501,214—"Capital in Excess of Par Value: 16,403 shares of common stock issued under stock option plans—Excess of option price over par value."

Notes to Financial Statements

Stock Option Incentive Plans: Stockholders have approved stock option incentive plans for key employes of the company and its subsidiaries. Shares issued upon exercise of options are to be authorized but unissued shares, or issued shares purchased by the company on the open market. Under the current plan, the option price cannot be less than 100% of the market value on the date of grant. Options may be exercised at any time not less than one year nor more than five years after the date of grant for 1964 and subsequent grants and six years for prior grants.

At the beginning of the year options for 72,654 shares were outstanding. During the year options were granted for 13,461 shares which may not be exercised until March 23, 1967. Options for 16,403 shares were exercised during the year at prices ranging from $29.45 to $43.50, averaging $31.56 per share. Options for 3,118 shares were cancelled. At September 30, 1966 options for 66,594 shares were outstanding at prices ranging from $32.50 to $45.00, averaging $39.38 per share, and 90,265 shares were available for option on that date.

CARRIER CORPORATION

Cr.—$774,306—"Amounts Contributed in Excess of Par Value: Excess of proceeds over par value of 39,595 shares of Common Stock issued under Incentive Stock Option Plan."

Notes to Financial Statements

Common Stock: As of October 31, 1966, 95,211 shares of Common Stock were reserved for issuance to 131 key employees, including officers, who held options to purchase such shares under the Incentive Stock Option Plan as amended, at prices ranging from $19.17 to $32.87. Under the Plan, options have been granted at prices not lower than 95% of market price at date of grant. Options become exercisable beginning one year from date of grant in cumulative annual installments for periods of from five to nine years. All options must be exercised prior to the expiration of their respective terms, which may not exceed ten years.

As of October 31, 1966, options for 55,677 shares were exercisable. During 1966, options for 39,595 shares were exercised, and options for 825 shares were cancelled. No options were granted in 1966, nor will any be granted under the Plan in the future.

AMERICAN SEATING COMPANY

Cr.—$227,742—"Additional Paid-In Capital: Excess of proceeds from sale of 18,000 shares of common stock in 1966, and 14,100 shares in 1965, over par value."

Notes to Financial Statements

Incentive Stock Options: At January 1, 1966 options to certain officers and executives were outstanding, expiring in 1966 to 1971 for 66,900 shares at $12.44 to $20.75 per share, 100% of the market price at the time the options were granted. During 1966 options on 18,000 shares were exercised at prices from $12.44 to $18.625 per share. Options on 3,600 shares expired in 1966. New options were granted in 1966 for 800 shares at $22.28 per share expiring in 1971.

At December 31, 1966, 81,900 shares were reserved for stock options consisting of options for 46,100 shares granted but unexercised and 35,800 shares available for future options.

THE FIRESTONE TIRE & RUBBER COMPANY

Cr.—$2,108,093—"Additional Capital: Excess of proceeds over stated value from sales of common stock under the Incentive Stock Option Plan."

Letter to Stockholders

On November 1, 1965, a total of 516,347 shares of Common Stock was reserved for outstanding options, and 734,893 shares were reserved for granting additional options under the 1960 Employees' Incentive Stock Option Plan approved by the shareholders on January 16, 1960. During the year ended October 31, 1966, options for 156,145 shares were granted, options for 67,163 shares were exercised and options for 12,297 shares were cancelled. On October 31, 1966, 593,032 shares were reserved for outstanding options and 591,045 shares were reserved for granting additional options during the remaining four years of the Plan.

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 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. The first group of examples is termed "qualified" by the employer; the second group, "restricted."

Qualified Stock Option Plans

Capital Surplus

AMERICAN OPTICAL COMPANY

Cr.—$281,469—"Capital Surplus: Excess of proceeds over par value of common share 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 December 31, 1965	55,591	38,011
Changes during year:		
Options granted at $57.88 per share	700	(700)
Options exercised at prices ranging from $18.22 to $39.77 per share or a total of $292,281 as compared with quoted market prices of $49.88 to $74.00 per share or a total of $647,283	(10,826)	—
Options cancelled	(782)	782
Adjustments for 4% stock dividend	1,755	1,702
Balance December 30, 1966	46,438	39,795

STOKELY-VAN CAMP, INC.

Cr.—$196,206—"Additional Paid-in Capital: Excess of amounts received over par value of common shares issued upon exercise of employee options (14,034 shares, 1966; 5,295 shares, 1965)."

Notes to Financial Statements

Note 3: At May 31, 1966, shares of authorized and unissued common stock are reserved as follows:

For key employee options†	$ 59,879
For conversion of debentures (See Note 2)	582,751
For perpetual stock purchase warrants of a corporation which was merged into the Company in 1952 (shares issuable at $30 per share)	14,489
	$657,119

†On October 7, 1964, the Company (1) adopted a Qualified Stock Option Plan under which 50,000 shares of common stock were authorized to be offered under options to key employees at prices not less than the fair market value of the stock at the time the options are granted, and (2) terminated the 1960 Restricted Stock Option Plan except for the employees' rights to exercise options then outstanding. At June 1, 1965, 28,000 shares were available for option grants and 43,746 shares were under option. During the year ended May 31, 1966, the number of shares under option was increased by 2,167 shares to adjust for the effect of a stock dividend, options for 19,500 shares were granted, and options for 14,034 shares were exercised at prices ranging from $13.48 to $20.94 per share. At May 31, 1966, 8,500 shares were available for option grants, and 51,379 shares were under option at prices ranging from $14.20 to $25.06 per share, expiring 1966-1971.

VEEDER INDUSTRIES INC.

Notes to Financial Statements

Note E: Under the qualified stock option plan as revised in 1964, 80,240 shares of unissued Common Stock were reserved at December 31, 1966 and 86,882 shares at December 31, 1965 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, 1966 and December 31, 1965 follows:

	1966	1965
Balance at Beginning of Year	43,362	38,313
Options granted during the year	15,230	16,100
Options exercised during the year	(6,642)	(10,171)
Options cancelled during the year	(352)	(880)
Balance at End of Year	51,598	43,362

The number of shares available for option amounted to 58,740 shares at January 1, 1965, 43,520 shares at December 31, 1965 and 28,642 shares at December 31, 1966. The options become exercisable in varying amounts during 1965 and 1966.

The increase of $104,269 in additional paid-in capital consisted of the excess of the proceeds over par value of shares issued upon exercise of options in 1966.

CONSOLIDATED ELECTRONICS INDUSTRIES CORP.

Cr.—$38,288—"Capital Surplus: Excess of consideration received over par value of stock issued upon exercise of stock options."

Notes to Financial Statements

Note 6: *Employee Stock Options*—At December 31, 1966, 301,101 shares of common stock were reserved for issuance in connection with stock options for officers and key employees. Of the aforementioned shares, 224,500 apply to a qualified stock option plan established in 1964 and approved by stockholders in 1965. Options as to 137,325 shares (at market value at dates of grant) are outstanding under the plan. The remaining 76,601 shares are reserved for issuance in connection with options granted prior to the establishment of the aforementioned plan at prices not less than 95% of market value on dates of grant.

Changes during 1966 in shares of common stock reserved for issuance in connection with options for officers and key employees are as follows:

	Qualified Stock Option Plan		Other Stock Options	
	Shares	Option Price	Shares	Option Price
Reserved, December 31, 1965	225,000		77,701	
Available for future grants	110,600			
Outstanding options, December 31, 1965	114,400	$4,109,615	77,701	$2,734,910
Options granted	23,425	871,335		
Options exercised	(500)	(16,565)	(1,100)	(29,723)
Outstanding options, December 31, 1966	137,325	$4,964,385	76,601	$2,705,187
Available for future grants	87,175			
Reserved, December 31, 1966	224,500		76,601	

Options as to 182,126 shares were exercisable at year end.

THE CESSNA AIRCRAFT COMPANY

Balance Sheet

Stockholders' Equity:

Common stock, $1 par value (Note 4): 5,000,000 shares authorized—1966, 3,357,953 shares issued; 1965, 3,339,528 shares issued	$ 3,357,953
Additional capital (Note 4)	7,249,347
Earnings reinvested in business (Note 3)	54,176,989
	$64,784,289

Note 4: *Stock Options*—On January 25, 1966, the stockholders approved an additional qualified stock option plan (1965 plan—adopted by the Board of Directors July 21, 1965) under which a maximum of 100,000 shares of common stock are reserved for the granting of stock options to officers and key employees.

At September 30, 1966 there were 41,850 shares of authorized and unissued common stock reserved for issuance under stock option grants. Stock option transactions during 1966 were as follows:

	Shares		
		Option plan of	
	Total	1965	1956
Reserved at September 30, 1965	34,775	—	34,775
Options granted	26,000	25,500	500
Options exercised (proceeds—$418,038)	(18,425)	(150)	(18,275)
Options cancelled	(500)	—	(500)
Reserved at September 30, 1966 of which options for 14,670 shares were then exercisable	41,850	25,350	16,500

Under the 1965 plan, no portion of the option may be exercised during the first year of the grant and thereafter the options are exercisable up to one-third annually on a cumulative basis. Under the 1956 plan, options are exercisable 20% on the date of grant and 20% annually on a cumulative basis thereafter. Under both plans, options expire five years from date of grant.

With respect to shares reserved at September 30, 1966, the option price per share was $31.75 under the 1965 plan and ranged from $18.18 to $40.63 per share under the 1956 plan. Shares available at September 30, 1966 for further grants totaled 74,500, all under the 1965 plan.

All options granted have been made under the provisions for qualified or restricted stock option plans of the Internal Revenue Code in effect at the time of grant.

A. O. SMITH CORPORATION

Notes to Financial Statements

Note 3: *Stock Options*—At December 31, 1966, 63,000 shares of the authorized but unissued common stock are reserved for issuance under the qualified plan adopted in 1964. Options for 19,065 shares were outstanding at December 31, 1966, of which options for 16,755 shares were granted in 1964 at per share prices ranging from $27.98 to $35.36 and options for 2,310 shares were granted in 1966 at $35.48 per share (option prices represent market values at date of grant). The options expire five years from date of grant and are exercisable six months after date of grant. In 1966 options for 150 shares were exercised at $31.20 per share (total $4,680) and the excess of the proceeds over the par value of the shares issued of $3,180 was credited to capital in excess of par value. Options for 420 shares were cancelled in 1966.

Under a restricted stock option plan, adopted in 1962, options for 54,075 shares were outstanding at December 31, 1966, at per share prices ranging from $21.60 to $30.31. All of the treasury stock (17,504 shares) and 36,571 shares of authorized but unissued common stock are reserved for these options. The options expire ten years from date of grant and are exercisable at a maximum of one-fourth per year during the first five years, and one-half in any year thereafter. At December 31, 1966, options for 13,519 shares were exercisable under this plan. In 1966 no options were exercised and options for 2,310 shares were cancelled. No further options can be granted under this plan.

Restricted Stock Option Plans

Capital Surplus

NOPCO CHEMICAL COMPANY

Cr.—$225,829—"Additional Paid-In Capital: Excess of cash proceeds over par value of 7,303 shares of common stock issued under employees' restricted stock option plan."

Notes to Financial Statements

Note 5: *Stock Options*—The Company has in effect two restricted stock option plans for employees which were approved by stockholders May 24, 1956 and March 23, 1961. Both plans provide that the purchase price shall be not less than 95% of the fair market value of the common stock at the time the option is granted and the maximum period for the exercise of any option is ten years after its grant and the minimum period is one year. At December 31, 1966, options covering 42,523 shares were outstanding at prices ranging from $23.50 to $46.80 per share and a total option price of $1,720,813. No options are available for granting under these plans.

RAYONIER INCORPORATED

Cr.—$6,953—"Capital Surplus: Excess of amount received over par value of common stock issued under stock option plan."

Notes to Financial Statements

Stock Options: There remained outstanding at December 31, 1966 exercisable options granted in 1959 pursuant to the company's 1956 Key Employees Restricted Stock Option Plan to purchase 3,122 shares of common stock at $24.73, which was 95 per cent of market value on grant date. The options expire July 19, 1969. During 1966, options were exercised for 293 shares at $24.73 per share. The number of shares and price reflect applicable adjustments resulting from the 3 per cent stock dividends paid in 1959, 1960 and 1961. No further options may be granted under this plan.

In April 1966, the stockholders approved a Key Employees Qualified Stock Option Plan under which officers and other key employees may be granted options to purchase, within a period not exceeding five years, up to 150,000 shares of common stock at prices per share not less than 100% of the fair market value on the dates the options are granted. At December 31, 1966 options to purchase 44,180 shares at $33.25 per share were outstanding and no options had been exercised under this plan.

TIDEWATER OIL COMPANY

Cr.—$272,000—"Capital in Excess of Par Value of Capital Stock: Amount received in excess of par value of common issued under options."

Notes to Financial Statements

Note 6 (in part): *Capital Stock*—Under the terms of the Restricted Stock Option Plan which was discontinued in 1965, options for 15,270 shares were exercised during the year and options to purchase 2,790 shares were outstanding at December 31, 1966.

Stock Option and Stock Purchase Plans

Capital Surplus

THE BLACK AND DECKER MANUFACTURING COMPANY

Cr.—$763,072—"Capital in Excess of Par Value of Common Stock: Excess of sales price over par value of Common Stock sold under option and purchase plans."

Notes to Financial Statements

Note C: At September 25, 1966, 143,299 shares of Common Stock are reserved for issuance under the following plans:

Incentive Stock Option Plan—Options granted prior to 1964 are exercisable within seven years from the date granted at 95% of the market price on the date of grant. Subsequent options granted are exercisable within five years at 100% of the market price. Options granted after June 16, 1965 become exercisable in four equal installments beginning one year from date granted.

Executive and Key Employee Stock Option Plan—One and one-half per cent of the total shares outstanding less previously issued option shares are reserved. Options may be granted until January 27, 1973 and become exercisable in four equal annual installments beginning one year from date granted. Options granted in 1963 and those granted subsequently extend for seven and five years respectively.

Employees' Stock Purchase Plan—50,000 shares less previously issued offering shares are reserved under the plan adopted in 1966 which provides for subscriptions at 90% of market price on the date offered. Unissued shares will be offered through 1970.

During the year, options for 2,000 shares (option prices of $38.75 and $44.00 per share) and subscriptions for 1,520 shares (offering prices of $37.38 and $54.00 per share) were canceled. Shares reserved for option/offering at the end of the respective years are as follows: Executive and Key Employee Stock Option Plan, 1966—23,771; 1965—37,024; Employees' Stock Purchase Plan, 1966—37,040.

Proceeds from sale of stock issued under these plans are credited to the Common Stock account to the extent of par value and the remainder to capital in excess of par value of Common Stock.

BURNDY CORPORATION

Cr.—$210,892—"Paid-In Surplus: Net proceeds of sale of shares of common stock under Employees' Stock Plans in excess of par value (Note 5)."

Note 5: The Company may offer shares of its common stock for subscription under the Employees' Stock Purchase Plan and may grant options to eligible employees under the 1964 Stock Option Plan. The subscription price under the Employees' Stock Purchase Plan may not be less than 95% of the fair market value on the date of offer. Options granted under the 1964 Stock Option Plan may not be less than the fair market value on the date of grant.

At December 31, 1966 the aggregate shares subject to purchase (all figures have been adjusted to reflect the 2-for-1 common stock split—Note 6) under (a) the Employees' Stock Purchase Plan totaled 95,780 shares at prices from $6.88 to $29.30 per share, issuable through 1969, (b) the 1964 Stock Option Plan totaled 3,934 shares at prices of $8.25 and $24.25 per share, exercisable during various periods through 1971, and (c) the Stock Option Incentive Plan (terminated in 1964) totaled 45,402 shares at prices of $8.25 and $8.38 per share, exercisable during various periods through 1970. During the year, offerings made in prior years of 18,039 shares were exercised at a price principally of $7.75 per share and 12,864 shares were exercised at a price of $8.25 per share. New offerings of subscriptions for 30,000 shares (at $29.30 per share) were issued, options for 1,600 shares (at $24.25 per share) were granted and subscriptions relating to 6,609 shares lapsed.

NATIONAL STARCH AND CHEMICAL CORPORATION

Cr.—$46,165—"Paid-in Surplus: Excess of proceeds over par value of Common Stock issued or sold under stock option and stock purchase plans."

Notes to Financial Statements

Note 4: Under the Company's 1951 Stock Option Plan for Key Management Employees, 44,114 shares of Common Stock were issuable under options outstanding on January 1, 1966. During 1966, options with respect to 5,531 shares were exercised and options for 630 shares were terminated. All grants were made at not less than 95% of the market price at date of grant. On January 24, 1966, options with respect to 21,950 shares were granted pursuant to the 1965 Stock Option Plan for Key Management Employees approved by the stockholders on April 27, 1965. This grant was made at 100% of the market price on the date of grant. On December 31, 1966, options aggregating a total of 59,903 shares were outstanding under the 1951 and 1965 Plans. There were no changes in the exercise price of outstanding options under the Plans through cancellation and reissuance or otherwise. On June 1, 1966, 8,105 shares were issued pursuant to a Company Employee Stock Purchase Plan and on December 31, 1966, 8,080 shares were issuable under the Company's current Employee Stock Purchase Plan.

Retained Earnings

THE SINGER COMPANY

Dr.—$2,557,000—"*Retained Earnings*: Cost of treasury stock in excess of proceeds of sales to employees."

Financial Review

Capital Stock Options: The Company has both a stock option plan and a stock purchase plan. Under the stock option plan, options to purchase capital stock of the Company may be granted to executive employees at prices not less than market value on the dates of grant. Generally, these options expire in five years. Under the stock purchase plan, other employees are granted options to purchase capital stock of the Company by payroll deduction at a price of 85 per cent of either the market value at date of grant or the market value at date of exercise, whichever is lower.

The changes for the year in options outstanding under both plans follows:

	Shares	Option Prices
Options outstanding at January 1, 1966	234,273	$27.00—96.13
Options granted	169,750	34.25—63.50
	404,023	
Less:		
Options exercised	118,040	27.00—54.75
Options terminated	28,155	27.00—89.25
	146,195	
Options outstanding at December 31, 1966	257,828	27.00—96.13

Shares available for options under both plans at January 1, 1966 were 269,820 and at December 31, 1966 were 128,225.

INLAND STEEL COMPANY

Dr.—$764,000—"*Earnings Reinvested in the Business*: Excess of cost of treasury stock over proceeds from reissue."

Notes to Financial Statements

Note 5: *Capital Stock*—Authorized capital stock consists of 22,500,000 shares of no par value, of which 18,273,000 shares were issued and outstanding at December 31, 1966, compared with 18,252,000 shares issued and outstanding at December 31, 1965.

During the year, 124,000 shares of capital stock were purchased for the treasury. 145,245 shares, consisting of 29,245 newly issued shares and 116,000 re-issued treasury shares, were sold under the Company's employee stock purchase and executive stock option plans.

Under the Stock Purchase Plan established in 1958, eligible Inland employees may, by means of regular payroll deductions, purchase stock at six-month intervals at 90 per cent of fair market value at the date of purchase. The first date in 1966 for exercise of the right to purchase was February 7, when 5,782 employees bought 55,744 shares at $38.20 per share. The second 1966 date was August 5, and on that date 5,682 employees bought 67,147 shares at $30.60 per share. As of December 31, 1966, there were 6,621 employees participating in the plan, or 27 per cent of those eligible. At that date, there were 675,148 shares remaining available for purchase under this plan.

A qualified Executive Stock Option Plan, succeeding the 1957 plan, the shares of which had been completely allocated, was approved by the stockholders on April 28, 1965. Under the 1965 plan options may be granted at market price at the time of grant, and may be exercised at the rate of 25 per cent after one year, and an additional 25 per cent during each of the third, fourth and fifth years. Any options not exercised at the end of the fifth year will expire. Options for 57,600 shares at prices ranging from $34.625 to $38.4375 per share were granted to 64 executives under the 1965 plan, and at the end of the year, 341,347 shares were under option to 117 executives under the two plans, at prices ranging from $23.6875 to $48.25 per share. Under the 1957 plan, 18 executives exercised options during 1966 covering 22,354 shares at prices ranging from $23.6875 to $37.0625 per share.

Options with respect to 189,722 shares were exercisable at December 31, 1966, and 368,800 shares were available at that date for option grants under the 1965 plan.

Stock Bonus, Profit Sharing, Incentive, Retirement and Savings Plans

Capital Surplus

ROHM AND HAAS COMPANY
Notes to Financial Statements

Note 3: Capital Surplus—The increase during the year of $22,251,578 represents the excess of market value over par value of 264,127 shares of common stock issued as a 5% stock dividend plus $178,484 representing excess of market value on date awarded over cost of shares reacquired and issued to employees as stock bonuses.

SIGNODE CORPORATION
Consolidated Statement of Earnings
Costs, Expenses and Profit Sharing:

Cost of products sold and expenses applicable to strapping tools and machines in service with customers	$ 83,771,697
Merchandising	15,540,011
General and administrative	5,241,630
Depreciation	5,341,826
Interest expense, net	779,219
Profit sharing contributions (Note 4)	3,045,678
	$113,720,061

Note 3: Capital and Earned Surplus—Capital surplus increased $656,076 during the year as a result of the issuance of common stock under the stock option plan ($263,094) and to the profit sharing trust fund ($392,982).

Capital surplus includes retained earnings of $14,438,000 which have been capitalized in connection with stock dividends in prior years.

Note 4: Profit Sharing—As an incentive and in lieu of a pension plan, the Company has maintained a deferred profit sharing plan for employees upon retirement or for other purposes since 1941. The Company contributes a portion of its earnings annually and employees who participate may contribute up to 4% of their earnings. The Company's contribution is the lesser of (a) a sum equal to 30% of the parent company's net earnings, as defined, after provision for income taxes, or (b) four times the contributions made by the employees. The amount of contribution to the parent company's plan in 1966 was $2,768,000. Certain domestic and foreign subsidiaries also have profit sharing plans and contributions for 1966 under these plans were $278,000. These contributions, totalling $3,046,000, are deductible for income tax purposes on a current basis.

Review of Operations

A general wage and salary increase of about 3% was granted in mid-year and the increased rate of Company contribution to the profit sharing plan, described in the 1965 report to stockholders, took effect for the first time in 1966. Deposits to the profit sharing Trust Fund by all participants within the United States totaled $728,000. The 1966 Company contribution to the parent company Plan of $2,768,000 produces $3.80 for each dollar which is saved by participating employees. Benefits paid to two factory foremen upon their retirement at year end are illustrative of the account balances gradually being built up by all Fund members; one with twenty years of participation in profit sharing received $58,000, and the other, who had been in the Plan since its inception 25 years ago, had a final balance of $84,000.

CONTROL DATA CORPORATION

Cr.—$444,417—"Additional Paid-In Capital: Market value in excess of par value of common stock issued as contribution to Company's Retirement Plan."

Notes to Financial Statements

Note 9: Retirement Plans—The Control Data Retirement Plan is in the form of a deferred stock bonus plan under which annual contributions, based on consolidated net earnings after certain adjustments, are made to a trust established for the plan. Provision for the contribution for the year ended June 30, 1965, amounted to $470,751. The contribution was subsequently made by payment of $20,000 cash and issuance of 12,675 shares of the Company's common stock. No provision is required for the year ended June 30, 1966.

The Supplemental Retirement Benefit Plan provides for payment of supplemental monthly benefits in cash to retired employees when the projected benefit under the Control Data Retirement Plan is less than the guaranteed minimum under the supplemental plan. The amounts paid during the year were nominal, and no funding of past service costs is contemplated. The amount of unfunded liability at June 30, 1966 is not determinable, but it is estimated that supplemental benefits will be paid for the next twenty years and that such amounts will not be significant.

E. I. du PONT de NEMOURS & COMPANY

Cr.—$11,786,130—"Amount Paid-in, In Excess of Par or Stated Value: Adjustments arising out of disposition of common stock (Note 7)."

Note 7: Common Stock Issued to Employees—The company's charter provides that 2,000,000 authorized but unissued common shares may be issued to employees after April 11, 1955, on such terms and conditions as may be prescribed and determined by the Board of Directors. In 1966 and 1965, 50,017 and 20,410 shares, respectively, of new common stock were issued in connection with employee bonus plans (page 42). No options granted under Bonus Plan "C" were exercised in 1966 or 1965. The par value of the shares so issued was added to the Common Stock account and the excess of issue price over par value ($11,781,346 in 1966, $4,857,580 in 1965) was added to the account, "Amount Paid-in, In Excess of Par or Stated Value". At December 31, 1966, there remained 1,528,438 common shares reserved for issuance to employees.

MERCK & CO., INC.

Cr.—$3,364,554—"Other Paid-in Capital: Excess of proceeds over the par value of common stock issued under stock option and executive incentive plans (111,013 shares in 1966 and 132,657 shares in 1965)."

Review of the Year

Stock Purchase and Savings Plan: From the establishment of the Employee Stock Purchase and Savings Plan in 1959 through the end of 1966, Merck common stock distributed to employees or credited to their individual accounts within the Plan totaled 385,195 shares. More than 5,800 Merck employees participate in the Plan.

Executive Incentive and Special Award Plans: For 1966, awards totaling $2,477,000 were made to executives and other key employees under the Executive Incentive Plan. Of this amount, $1,200,000 is payable in cash and $1,277,000 in contingent stock awards amounting to 16,663 shares of Merck common stock.

At the end of the year, 165,696 shares of common stock had been designated for conditional delivery to participants; they had a total award value of $7,012,848.

In addition, Merck has long had a Special Award Plan to reward extraordinary contributions to the Company by any employee. In 1966, 17 employees at various levels were recognized by such cash awards.

UNIROYAL, INC.
Notes to Financial Statements

Capital Surplus: The increase of $3,703,000 in capital surplus consists of the excess of market value over par value of 145,031 shares of common stock issued under employees' stock options and 12,442 shares (after giving effect to the stock split effective January 18, 1966) issued on January 3, 1966 to employees in part payment of Class B Bonus awards for the year 1965.

Class B Bonus and Management Incentive Plans: The Bonus Plan, as amended by the stockholders on April 21, 1959, was resubmitted to, and approved by, the stockholders on April 21, 1964.

Class B Bonus Plan: The amount credited to the Class B Bonus Fund, as approved by the Board of Directors, is $1,879,226. Haskins & Sells, Independent Certified Public Accountants, have reviewed the computation of the Class B Bonus and have rendered an opinion that the amount of $1,879,226 represents the maximum amount available from 1966 operations as provided in the Plan and is in conformity with the Plan. The Executive Committee awarded a major part of the total amount available in cash and in shares of common stock, based on the average price of the Company's common stock on the New York Stock Exchange on January 3, 1967, the day the stock was issued. The balance of the amount available was carried forward into 1967.

Management Incentive Plan: The Board of Directors made available to participants the same amount as the Class B Bonus, or $1,879,226. Participants are employees who occupy responsible executive positions. This Plan permits awards in cash and/or in the form of participation units which may be accompanied by stock options, the number not to exceed three times the number of participation units awarded. Exercise of such stock options automatically cancels a proportionate number of the participation units. A participation unit entitles the employee (or, in the event of such employee's death, to his successors in interest) to receive until his death or his 85th birth anniversary, whichever is later, cash payments equal to dividends if and when paid on one share of common stock. The amounts therefor are charged to income as paid. Of the total amount available, the Salary and Bonus Committee awarded a major part in cash and/or in the form of 10,193 participation units. The cash equivalent of the participation units, as determined by the average price of the Company's common stock on the last day of the year, was thus retained by the Company. The balance of the amount available was carried forward into 1967.

On January 10, 1967, the Committee awarded options to recipients of participation units to purchase 30,579 shares of common stock at $41.50 a share, the average price on the New York Stock Exchange on January 10, 1967.

APPROPRIATIONS OR RESERVES*

Retained Earnings Charges

Transfers Within Stockholders' Equity

MOORE DROP FORGING COMPANY

Dr.—$17,845—"*Earnings Retained in the Business*: Current year requirement for preferred stock sinking fund."

Stockholders' Equity

Sinking fund for retirement of preferred stock	$17,845

RICHARDSON-MERRELL INC.

Dr.—$5,899,686—"*Earnings Reinvested in the Business*: Earnings appropriated."

Stockholders' Interest:

Capital stock—$1.25 par value; Authorized—8,000,000 shares; Issued—6,135,998 shares	$ 35,439,429
Earnings Reinvested in the Business	
Unappropriated	94,666,379
Appropriated (note)	48,026,493
	178,132,301
Less: 245,073 shares of treasury stock, at cost (1965—215,579)	13,436,855
	$164,695,446

Notes to Financial Statements

The Board of Directors has authorized the appropriation from Earnings Reinvested in the Business of an amount equal to the amount carried as Intangible Assets.

Transfers to Valuation and Liability Reserves

ARMOUR AND COMPANY

Dr.—$24,000,000—"*Earnings Employed in the Business*: Extraordinary charge in connection with replacement or relocation of facilities, less anticipated Federal income tax reduction (Note 6)."

Above Stockholders' Equity

Reserves and deferred credits (Notes 4 and 6)

	(In thousands)
Anticipated costs related to replacement or relocation of facilities (net after Federal income taxes)	$24,000
Deferred Federal income taxes	26,533
Credit arising from merger	10,221
	$60,754

Note 6: *Extraordinary Special Charge*—Subsequent to the end of the 1966 fiscal year, the Company undertook a modernization program that will encompass the replacement or relocation of some of its food and fertilizer facilities. The special charge in the consolidated statement of earnings and earnings employed in the business for 1966 gives accounting recognition to losses on disposition of facilities and separation pay anticipated in connection with this program. The provision for anticipated charges is reflected as a reserve in the consolidated statement of financial position.

GENERAL REFRACTORIES COMPANY

Dr.—$3,800,000—"*Retained Earnings*: Allowance for loss on abandonment and disposal of property, plant and equipment and related pensions."

Property, plant and equipment, at cost:

Land	$ 2,865,772
Mineral lands	3,838,090
Plant and equipment	138,271,899
	144,975,761
Less accumulated depreciation and depletion and allowance for loss on abandonment and disposal	79,892,366
	$ 65,083,395

Notes to Financial Statements

Note 7: *Special Charge to Retained Earnings*—After a review by management, the Board of Directors decided that the allowance on abandonment and disposal of property, plant and equipment established in 1962 did not sufficiently take into account the impact of technological changes on the company's business. An additional amount of $3,800,000 net of applicable income taxes, has been charged in 1966 to retained earnings to provide $2,000,000 for further planned abandonments as well as $1,800,000 for the related estimated pension funding requirements.

THE RATH PACKING COMPANY

Dr.—$1,000,000—"*Operations and Deficit*: Provision for possible further terminations, leased car rental deficits and other extraordinary costs."

Above Stockholders' Equity

Reserve for Extraordinary Costs and Contingencies	$1,000,000

Notes to Financial Statements

Note 4: *Provision and Reserve for Extraordinary Costs*—Lamb and veal operations were discontinued in the last quarter of fiscal 1966 and the slaughter of beef was terminated in October, 1966. As a result certain facilities and other assets have been inoperative. The book value of such assets less estimated salvage value is approximated to aggregate $1,425,000. The assets have been written off and estimated salvage value entered on the books at October 1, 1966 by a special charge of $1,425,000.

Employees whose jobs are affected by the discontinuances have ninety days from the date of discontinuance of the operation to decide whether to accept other work within the Company or terminate their employment and thus receive termination benefits provided under present labor agreements. If all persons affected including salaried personnel under termination policies of the Company were to elect to terminate then such payments are estimated to approximate $900,000. As at October 1, 1966 persons so electing to terminate will receive approximately $190,000 and such amount has been shown as a special charge.

The utilization of the fleet of refrigerated rail cars leased by the Company is presently such that it is considered doubtful if past arrearages in usage credits now aggregating $690,000 will be recovered prior to the end of the contract in 1972.

Sixty women have instituted suit alleging discrimination because of "sex" under Title VII of the Civil Rights Act for approximately $365,000 in back pay and other benefits they would have accrued

*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.

had they not been on layoff status while male employees with lesser plant seniority were working. It is the opinion of legal counsel for the Company that the suit is without merit.

The Company through a special charge to operations of $1,000,000 has established a reserve deemed sufficient and necessary to provide for the possible costs estimated to be incurred in the future under the above described contingent situations. Such costs if and when incurred will be charged to such reserve.

Retained Earnings Credits

Transfers Within Stockholders' Equity

UNITED FRUIT COMPANY

Cr.—$4,500,000—"Unappropriated Retained Earnings: Portion no longer required of amount appropriated in 1964 for future possible losses."

Shareholders' Equity:

Retained Earnings	(In thousands)	
Unappropriated	$128,431	$105,730
Appropriated for contingencies	—	4,500
	$128,431	$110,230

UNITED SHOE MACHINERY CORPORATION

Cr.—$4,960,341—"Retained Earnings: Transfer from retained earnings appropriated for contingencies."

Stockholders' Equity

	1966	1965
Retained earnings appropriated for contingencies	$ —	$ 4,960,341
Retained earnings	134,649,607	120,932,339

WEYERHAEUSER COMPANY

Cr.—$520,851—"Earned Surplus: Realization in 1966 of March 1, 1913 increase in timber value."

Shareholders Interests:

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 ($520,851 realized and transferred to earned surplus in 1966)	16,733,895
Earned surplus (income retained in the business)—see accompanying statement (Note 2)	416,050,576

Transfers from Valuation and Liability Reserves

OLIN MATHIESON CHEMICAL CORPORATION

Cr.—$2,625,000—"Retained Earnings: Restoration of reserve against investment in an affiliate (Net of taxes)."

Financial Review

50% Owned Affiliates: In 1966, we adopted the policy of including in the consolidated income statement our share of the current earnings of, rather than only dividends received from, 50% owned affiliates. Although this change had no material effect on 1966 consolidated net income, we believe that consolidated results of operations for the current and future periods will be more clearly presented. A reserve of $2,625,000 (net of taxes), which, in a prior year, had been provided against the investment in an affiliate then incurring significant start-up losses, was restored to retained earnings in 1966 because the recent successful operations of this affiliate have overcome its previously accumulated deficit.

CORN PRODUCTS COMPANY

Cr.—$1,943,138—"Earned Surplus: Reserve for reduction of normal inventories to fixed prices, discontinued."

Above Stockholders' Equity

	1966	1965
Reserves:		
Reduction of normal inventories to fixed prices	$ —	$ 1,943,138
Deferred taxes on income	13,160,846	10,796,481
	$13,160,846	$12,739,619

GENERAL MILLS, INC.

Cr.—$2,618,787—"Earnings Employed in the Business: Reduction of reserves provided in prior years for liquidation of feed, electronics and oilseeds operations."

Letter to Stockholders

In line with our policy of concentrating efforts in areas that offer the most attractive returns, the Board of Directors in June approved a management recommendation to discontinue production and sale of refrigerated biscuits and other specialty dough products and to close four plants. Refrigerated products account for about three per cent of our total General Mills sales.

This decision was reached only after careful consideration of all possible alternatives. The effect it will have on the 400 employees of the Refrigerated Foods Division is deeply regretted, and every effort will be made to absorb or relocate the employees involved. Estimated costs of withdrawing from our refrigerated foods business will be about $4,000,000 after taxes. Because of their unusual and nonrecurring nature, these costs have been charged to Earnings Employed in the Business (see Note 8, page 17, and statement of Earnings Employed in the Business, page 14).

At the same time, $2,619,000 is being returned to Earnings Employed in the Business as a result of lower than anticipated costs of withdrawal from feed, electronics and oilseeds businesses during the past five years.

Above Stockholders' Equity

Long-Term Debt, Reserves and Deferred Liabilities:

Reserve for disposition losses	$8,010,322

FINANCING EXPENSES

Expense of Stock and Bond Issues

Capital Surplus

CARRIER CORPORATION

Dr.—$51,542—*"Amounts Contributed in Excess of Par Value*: Payments for fractional shares and expenses related to capital stock transactions."

HARNISCHFEGER CORPORATION

Notes to Financial Statements

Stockholders' Equity: The changes in capital in excess of par value of shares during fiscal 1966 resulted from 1) the conversion of the remaining preferred stock into common stock, 2) the sale of additional shares of common stock and 3) the exchange of common stock for the capital stock of Seren Machine Products Corporation. These transactions are summarized as follows:

	Common Stock	Capital in Excess of Par Value of Shares
Balance at October 31, 1965	$ 7,848,850	$ 7,773,651
Conversion of 69,603 shares of 6% Series, preferred stock into 235,456 common shares	2,354,560	4,605,740
Sale of 200,000 additional common shares	2,000,000	6,600,000
Exchange of 43,000 common shares for capital stock of Seren	430,000	(328,000)
Expenses and payments resulting from capital stock transactions	—	(755,514)
Balance at October 31, 1966	$12,633,410	$17,895,877

CRUCIBLE STEEL COMPANY OF AMERICA

Dr.—$187,000—"*Capital Surplus*: Costs of converting preferred stock."

DETROIT STEEL CORPORATION

Notes to Financial Statements

Common Stock Reserved (in part): Additional paid-in capital was increased by $34,000 during the year, representing the excess of proceeds over par value of shares issued under the option plan, less expenses of $2,000.

EXTRAORDINARY LOSSES OR GAINS*

Extraordinary Losses

Retained Earnings

ASSOCIATED BREWING COMPANY

Dr.—$3,172,598—"*Earnings Retained for Use in the Business*: Loss arising from closing and disposing of plants net of related tax reduction (Note B)."

Note B: During 1966 the Company discontinued its Detroit Plant operations and incurred losses on disposition of facilities and other associated costs which have been charged to earnings retained for use in the business in the amount of $3,172,598 after deducting $2,460,000, the estimated amount by which such losses will reduce federal income taxes. Federal income taxes, otherwise payable for the current year, have been applied against the tax reduction and the remainder, available as future tax reductions, is included in the annexed balance sheet as prepaid expenses to the extent of $640,000 and $1,180,000 is included in deferred charges.

The provision for federal income taxes has been reduced by approximately $238,000 for 1966 and $124,827 for 1965 as a result of the use of available investment credits.

CHEMETRON CORPORATION

Dr.—$7,493,039—"*Retained Earnings*: Write-off of investment in Westec Corporation, net of tax benefit (Note 3)."

Note 3: *Investment in Westec Corporation*—As of December 31, 1965 the Company acquired 411,866 shares of the common stock and 30,000 shares of the 5% cumulative preferred stock of Westec Corporation in exchange for its majority interest in the capital stock of Pan Geo Atlas Corporation and $3,000,000 in Pan Geo notes.

As the result of events that transpired in 1966 concerning Westec, including the appointment of a Trustee under Chapter X Bankruptcy proceedings, the prolonged suspension of trading in Westec shares, and the development of significant contingent liabilities under various legal actions against Westec, the Company concluded that it was not possible to place a value on the Westec securities at December 31, 1966. Accordingly, the carrying value of the Westec shares was written off by a charge to retained earnings, net of expected tax benefits.

KOPPERS COMPANY, INC.

Dr.—$1,848,213—"*Earnings Retained in the Business*: Special charge, net of applicable income taxes (Note 6)."

Note 6: *Special Charge and Contingency*—In 1964, the Company entered into a contract with Malan Construction Corp. under which it incurred costs for certain assets to be acquired in the future. The Company rescinded the contract in 1966 on the grounds of alleged misconduct by Malan and its principals.

The Company is defendant in a civil action brought by Malan in which the plaintiff alleges breach of a management assistance contract and seeks damages in a substantial amount. The Company and its legal advisors believe the claim by Malan to be without merit. The Company has filed a counterclaim in this suit to recover the amount of the 1964 purchase, but the collection of any judgment rendered on the counterclaim is not certain. As a conservative action, in 1966, the 1964 purchase, less applicable income tax benefit of $1,885,787, was written off as a special charge to earned surplus.

*Presentation of extraordinary items in operating statements is discussed in Section 3, in relation to Table 11, where some further illustrative examples of such items are given.

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION

Consolidated Statement of Income and Earned Surplus

Net income	$ 10,347,000
Earned surplus:	
Balance at beginning of year	187,642,000
	197,989,000
Less:	
Estimated expenses (net of related taxes) resulting from revaluation of certain product lines and facilities (See page 11)	15,000,000
Estimated loss (net of related taxes) on discontinuance of a substantial portion of the operations of Gulfstan Corporation (a consolidated subsidiary) (See page 12)	2,900,000
	$17,900,000

Notes to Financial Statements

Note 5: The charge to earned surplus of $17,900,000 (net of related taxes) has been applied, $6,594,000, as a reduction of working capital, $12,025,000, as a reduction of property, plant and equipment, $2,344,000 as a reduction of other assets and $7,677,000 as a reserve for expenses; the aggregate of the foregoing items of $28,640,000 has been offset by $8,620,000 of future income tax benefits and $2,120,000 of reduction in deferred income taxes payable.

Letter to Stockholders

Revaluation of Certain Product Lines and Facilities: Severe contraction in market demand, such as occurred in the past year, has significant impacts on the life of product lines, especially in the light of constantly rising wage and raw material costs, narrowing profit margins and technological changes. Consequently, after review of certain operations both in the U.S. and abroad, we have undertaken a program involving substantial modification of certain products and a phasing out of others. The program will require the consolidation or closing of certain facilities.

Gulfstan Corporation: During the year we took over as a wholly-owned subsidiary Gulfstan Corporation, a company in which we previously had held a fifty percent stock interest. Gulfstan had become almost entirely an engineering and contracting company in the field of water and waste systems for public bodies. The need for a change became obvious as the company began to develop substantial losses instead of the forecasted profits. When we took over management and full ownership we found it advisable to discontinue substantial portions of the operations and provide for related losses by a charge to earned surplus of $2,900,000 net of related taxes.

AMPEX CORPORATION

Dr.—$636,000—"*Retained Earnings*: Litigation settlement and related expenses less reduction in Federal taxes on income, Note 5."

Note 5: *Litigation Settlement*—Litigation of the Corporation with Precision Instrument Company and MVR (formerly Mach-Tronics) Corporation was settled. Among other elements, the validity of the Corporation's patent in controversy was acknowledged and patent licenses were accepted by both Precision Instrument and MVR for specified functional applications. The cost to the Corporation of the litigation, less reduction in Federal taxes on income, has been charged to retained earnings.

PHILADELPHIA AND READING CORPORATION

Dr.—$9,875,000—"*Retained Earnings*: Write off of notes received on disposition of toy subsidiary, net of federal income tax benefit of $9,125,000 (Note 8)."

Note 8: On October 4, 1966 the assets and business of De Luxe Reading Corporation, a subsidiary, were sold to De Luxe Topper Corporation for $22,000,000 cash and $27,000,000 of notes receivable due in various installments to December 31, 1977. No portion of these notes are included in current assets. The transactions provided for the complete recovery of Philadelphia and Reading's equity in and advances to De Luxe Reading upon full payment of the notes.

During the period from October 5, to December 31, 1966, De Luxe Topper suffered an unexpectedly large loss. In view of Topper's financial condition, $19,000,000 of these notes were written off resulting in a $9,875,000 charge to retained earnings (net of tax benefit).

KUHLMAN ELECTRIC COMPANY

Dr.—$71,000—"*Retained Earnings*: Price adjustments on final settlement of anti-trust claims, net of Federal income taxes."

ELI LILLY AND COMPANY

Statement of Consolidated Income and Reinvested Earnings

Net Income—Notes A and B	$ 49,847,120
Net income per share of common stock outstanding at end of year	$3.09
Vacation pay adjustment, less applicable income taxes of $3,173,820—Note C	3,438,305
Net income less special item	46,408,815
Reinvested earnings at beginning of year	181,781,145
	$228,189,960

Note C: *Vacation Pay Adjustment*—The company has followed the practice of charging vacation pay on a cash basis against income in the year the vacation was taken although the employee earned the vacation in the preceding year. In 1966, the Board of Directors, giving recognition to accumulated changes in vacation policies, authorized a change in the practice so as to accrue vacation pay in the year earned. The change to the accrual basis increased vacation expense for 1966 by $6,612,125, the net effect of which is $3,438,305 after reduction of applicable income taxes, which reduction is subject to approval by the Internal Revenue Service. Because this change affects the comparability of 1966 earnings with prior years, the net amount of $3,438,305 is shown in the Statement of Consolidated Income and Reinvested Earnings as a special item. The net effect on any one of the prior years is not material, and, accordingly, net income for those years is not restated.

PEPSICO, INC.

Dr.—$6,240,000—"*Retained Earnings*: Write-down of sugar facility (net of Federal income tax benefit) (Note 2)."

Note 2: *Sugar Facility*—The Company is constructing a beet/cane sugar facility at Montezuma, New York. This facility operated on a limited basis in the last quarter of 1966, processing the 1966 sugar beet crop. Pre-production expenses and operating losses amounting to $3,500,000 (before federal income tax benefit) incurred during the year have been charged to expense in the accompanying income statement. Cane sugar start-up operations are planned for Spring 1967 with additional beet sugar operations in the Fall of 1967. Present forecasts of operations made by management indicate that the facility will incur additional losses in 1967 but of lesser amount than in 1966.

The Company has incurred substantial capital costs in excess of its maximum guaranteed cost under the construction contract and intends to claim reimbursement for these costs, for costs related to construction contemplated in the contract and not delivered or timely completed and in addition, for consequential and other damages. In view of the plant's impaired economic value, uncertainties surrounding claims, including the possibility of protracted negotiation, arbitration and/or litigation and the magnitude of the claim when compared to the contractor's reported net assets, a provision has been made to write off excess construction costs by a charge to retained earnings of $6,240,000, representing a write off of $12,000,000 of such excess costs less estimated federal income tax benefit (charged to deferred federal income tax).

The contractor responsible for the design and construction of this facility has advised that the cost of completion will substantially exceed the presently adjusted guaranteed maximum cost. It is anticipated that unless the matter is settled by negotiation there will be arbitration to determine what, if any, portion of such excess cost is the obligation of the Company. The Company has reserved all its rights against the contractor. A principal subcontractor has commenced two separate actions against the contractor and against the Company, respectively, seeking to collect monies alleged to be due and owing to it from the contractor and alleging further, in the case of the Company, that payment of such monies was guaranteed by the Company. Such monies are presumably for, among other things, payment of its obligations to its subcontractors. The Company has filed an answer denying the material allegations of the complaint, including the existence of any such guarantee, and the case is in preliminary stages. The principal subcontractor and a number of its subcontractors have also filed materialman's liens against the refinery property in connection with the monies alleged to be due and owing to them, which liens are generally duplicative of the aforementioned litigation claims. The Company has taken steps to contest the aforementioned liens and to discharge them of record as charges against the realty at the refinery.

SEABOARD ALLIED MILLING CORPORATION

Dr.—$109,381—"*Retained Earnings*: Loss on liquidation of certain grain storage, bakery, and cattle operations less Federal income taxes of $102,000 and $100,000 respectively."

SWIFT & COMPANY

Statement of Consolidated Income and Accumulated Earnings

Net Income for the Year	$ 19,785,584
Special charge (net after income taxes) for costs incurred and estimated to be incurred in closing plants	(15,000,000)
Net income less special charge	4,785,584
Accumulated earnings at beginning of year	$264,024,009

Letter to Shareholders

In 1961, a reserve was provided to cover abnormal losses incurred, or to be incurred, in closing outmoded facilities. During 1966 this reserve was exhausted. Completion of our modernization program will entail more unusual charges. Therefore, an additional reserve in the amount of $15,000,000, after income taxes, has been provided from accumulated earnings to cover the cost of such closings. We have charged $3,504,351 against these reserves during the year. The balance will be used to cover future costs.

Extraordinary Gains

Retained Earnings

THE FLINTKOTE COMPANY

Cr.—$6,436,016—"Earned Surplus: Special items (after net effect of income taxes of $3,543,541) (Note 10)."

Note 10:

Gains on sale of timberlands and disposal of plant	$9,817,911
Less, Write-off of intangibles, considered to be no longer of value, relating to businesses acquired during the period 1945 to 1960	3,381,895
Special items (because of their substantial nature, these items have not been included in "Net income" to avoid distortion of comparative earnings)	$6,436,016

GENERAL BRONZE CORPORATION

Cr.—$619,889—"Earned Surplus: Gain on sale of Garden City plant, less costs resulting from completing move to Medley, Florida, and setting up the Medley plant, net after applicable federal income taxes (Note 7)."

Note 7: During 1966 the Company sold its Garden City, New York plant and completed the relocation of its Architectural division from Garden City to a new plant in Medley, Florida. The sale of the plant resulted in a gain of $2,252,665, net after applicable federal income taxes of $752,000. Costs resulting from completing the move of the Architectural division to Medley and setting up the Medley plant amounted to $1,632,776, net after applicable federal income taxes of $1,465,000.

KENNECOTT COPPER CORPORATION

Cr.—$20,350,000—"Earned Surplus: Net gain on sale of securities (Note 6)."

Note 6: *Sale of Kaiser Aluminum & Chemical Corporation Common Stock*: In October, 1966, 1,000,000 shares of Kaiser Aluminum & Chemical Corporation common stock were sold. It is anticipated that there will be no Federal income tax on the gain because of a 1961 capital loss carry-over resulting from the sale of the Company's South African investments. Had the capital loss carry-over not been available, Federal income taxes would have approximated $5,100,000.

THE MACKE COMPANY

Cr.—$97,115—"Retained Earnings: Special item."

Note 4: *Special Item*—During the year, the Company's headquarters premises were acquired by the District of Columbia Redevelopment Land Agency. The sale resulted in a gain after taxes of approximately $135,000. In addition, the Company discontinued operations of a minor segment of its business, and incurred certain extraordinary legal expenses, all of which are included in the Special Item on the Statement of Consolidated Income.

OSCAR MAYER & CO. INC.

Statement of Income and Accumulated Earnings

Net Income for the period	$ 8,363,019
Special Credit—Gain from sale of certain machine rights, less provision for applicable income taxes	735,000
Net income and special credit	9,098,019
Accumulated earnings at beginning of period	48,002,565
	$57,100,584

PET MILK COMPANY

Statement of Consolidated Earnings

Net earnings	$10,546,178
Special credit—profit on sale of investment in General Milk Company, net of federal income taxes of $10,290,000	30,800,000
Net earnings and special credit	$41,346,178

Statement of Consolidated Earnings Invested in the Business

Earnings invested in the business at beginning of year	$ 77,260,126
Net earnings and special credit	41,346,178
	$118,606,304

Financial Review

Sale of Investment in General Milk Company: On January 22, 1966, the Company contracted to sell its 35 per cent interest in General Milk Company and related companies for $42,000,000 in cash. The net profit after taxes, $30,800,000, has been treated as a special credit for the year in the Company's statement of consolidated earnings and is equal to $6.67 per common share.

Under the contract of sale, Pet received $1,000,000 at the contract date and $41,000,000 on the closing date, April 22, 1966. For financial statement purposes, the cash installment of $41,000,000 has been reflected in the Company's balance sheet as if it had been received by March 31, 1966. Accordingly, cash has been increased in the amount of $6,734,000, notes payable decreased in the amount of $34,266,000, and the receivable of $41,000,000 eliminated.

TIDEWATER OIL COMPANY

Cr.—$105,012,000—"Retained Earnings Reinvested: Special items, net of taxes."

Notes to Financial Statements

Note 2: *Special Items*—Special items, less related federal and state income taxes, include the gain on the sale of Western marketing, manufacturing and certain related facilities of $101,603,000 and $3,409,000 from the sale of other properties and discount on repurchase of debentures.

The sale of certain assets of Western marketing and manufacturing operations to Phillips Petroleum Company by the company and several of its wholly-owned subsidiaries closed on July 14, 1966. (See Note 9—Litigation.) The assets sold included service stations in five western states, the Avon refinery, a number of transportation terminals and bulk plants, the Los Angeles office building, five foreign flag supertankers and two U.S. flag tankers, certain accounts receivable and inventories. Proceeds from the sale comprised a $219,000,000 note, with interest at 5%, of which $139,000,000 of principal plus interest was received in January 1967 and the balance is payable in ten equal annual installments of $8,000,000 commencing in July 1967; a $27,187,000 non-interest bearing note payable June 14, 1967; and cash payments and indebtedness assumed of $121,600,000.

The domestic crude oil purchase agreement between the company and Phillips Petroleum Company, entered into at the time of the sale, provides, among other things, that for a period of ten years from July 14, 1966 Phillips Petroleum Company will purchase from the company's California production, including crude oil and natural gas liquids produced and owned or obtained on exchanges or by purchases under contracts then in effect (but subject to existing contracts to sell to others), not in excess of 85,000 barrels per day, exclusive of natural gas liquids, generally at prevailing market prices.

Note 9 (in part): *Litigation*—The United States, through the Department of Justice, filed suit under the antitrust laws to block the sale of the company's Western marketing and manufacturing and certain related transportation facilities to Phillips Petroleum Company. The U.S. District Court has denied the Department of Justice's motion for a temporary restraining order and a motion for a preliminary injunction. The department has stated that it intends to press the case. No trial date has been set.

SUNRAY DX OIL COMPANY

Cr.—$26,280,000—"Earnings Retained for Use in the Business: *Special Items* (Net of income taxes—see notes): Gain on liquidation of interest in Great Lakes Pipe Line Company."

Dr.—$9,000,000—*"Earnings Retained for Use in the Business*: Special Items (Net of income taxes—see notes): Provision for extraordinary abandonment of foreign and domestic undeveloped leasehold interests."

Special Items: The gain on liquidation of Great Lakes Pipe Line Company, in which the Company owned 18.96% of the stock, is after applicable income taxes of $9,687,000.

The provision for extraordinary abandonment of foreign and domestic undeveloped leases is net of deferred income tax credits of $3,850,000. This provision resulted from a major change in the Company's exploration policy which will accelerate abandonments of nonproducing leases in areas that, under prior policy, might either have been tested during their primary term or would have expired after June 30, 1968.

UNION OIL COMPANY OF CALIFORNIA

Cr.—$12,634,000—"Retained Earnings: Net gain (after deducting $5,092,000 income taxes) on liquidation of Great Lakes Pipe Line Company."

PRIOR YEAR ADJUSTMENTS

Prior Year Adjustments—Taxes

Retained Earnings

ANDERSON, CLAYTON & CO.

Cr.—$1,522,000—"Retained Earnings: Recoverable tax on 1965 reduction in investment."

ART METAL, INC.

Cr.—$300,000—"Retained Earnings: Tax benefit resulting from 1963 charge against retained earnings (Note 5)."

Note 5: *U. S. Income Taxes*—Due principally to the application of prior years' tax loss carryforwards and credits, there was no liability for U. S. income taxes for the year. A provision in lieu of U. S. income taxes in amount of $300,000, however, has been made to transfer to retained earnings tax benefits realized during the current year which relate to the loss from disposition of the Avenel, N. J. plant that was charged directly against retained earnings in 1963.

CONSOLIDATED LAUNDRIES CORPORATION

Dr.—$235,163—*"Earned Surplus*: Adjustment of prior years' Federal income taxes."

Notes to Financial Statements

Federal Income Taxes (in part): In 1966 the Corporation and the Internal Revenue Service reached agreement as to deficiencies in Federal income taxes for the years 1959 through 1963, based upon the disallowance of amortization of purchased service routes. The adjustment of prior years' income taxes of $235,163 charged to earned surplus represents the excess of (1) such deficiencies, (2) estimated additional income taxes for 1964 and 1965, and (3) related interest (net of income taxes), over amounts accrued in prior years.

DENNISON MANUFACTURING COMPANY

Cr.—$244,334—"Earnings Reinvested: Federal Income tax refunds relating to prior years."

HAT CORPORATION OF AMERICA

Dr.—$155,946—*"Earned Surplus*: Special Item—Assessment of Federal income tax for fiscal year ended October 31, 1962—Note C."

Note C: Assessment of Federal income tax resulted from partial disallowance on tax audit of a net operating loss of an acquired subsidiary carried forward to fiscal year ended October 31, 1962, in which a special item of $283,000 was credited to earned surplus.

HOLLY SUGAR CORPORATION
Cr.—$319,691—"Earnings Invested in the Business: Special Item—Adjustments arising from settlement of Prior Years' Income Taxes Including Reclassification of Amounts Received as Capital Contributions—Net (see page 3)."
Letter to Stockholders

During the past year, the Corporation settled Federal income taxes for the several years ended March 31, 1965. The Internal Revenue Service determined that amounts paid to the Corporation as capital contributions, and treated as a reduction of property costs in 1965, were a reduction in the purchase price of sugar beets. The credit of $319,691 required to conform financial records to such determination and to record other income tax changes is excluded from net income for the year and is shown as a special item in the accompanying Statement of Income and Earnings Invested in the Business. In accordance with the foregoing determination, such amounts received during the past year have been recorded as a reduction in the cost of beets, which has increased net income by $326,141.

KENNECOTT COPPER CORPORATION
Cr.—$5,726,381—"Earned Surplus: Refund of prior years' U.S. income taxes, including interest less $1,700,000 of related taxes."
Financial Review

Taxes (in part): For several years Kennecott has been in litigation with the Internal Revenue Service concerning protested tax payments. As a result of a favorable court decision in 1965, Kennecott received cash and judgments in 1966 pertaining to the years 1949 through 1953. These refunds, including interests less related taxes, came to $5,726,000. This amount, since it concerns past years, was credited directly to earned surplus.

Prior Year Adjustments—Various Other

Capital Surplus

ATLAS CHEMICAL INDUSTRIES, INC.
Notes to Financial Statements

Note 7: *Additional Paid-in Capital*—During 1966, additional paid-in capital was increased by $1,115,000, representing the excess of the proceeds over par value of common stock sold to employees pursuant to exercise of stock options (48,854 shares) and under subscription agreements (20,769 shares). Also, in 1966 this account was reduced by $63,000, representing correction of prior year items.

BROCKWAY GLASS COMPANY, INC.
Dr.—$64,540—*"Paid in Capital*: Costs of registration and sale of class A stock charged to income in a prior year."

HALLIBURTON COMPANY
Dr.—$36,790—*"Paid-in Surplus*: Prior year adjustment applicable to the two-for-one stock split effective May 15, 1964."

Retained Earnings

GEO. A. HORMEL & COMPANY
Cr.—$39,579—"Earnings Reinvested in Business: Prior years' dividends recovered on shares issued in merger."
Stockholders' Investment

Common Stock, par value $7.50 a share:	
Authorized 1,600,000 shares	
Issued and outstanding	
1,190,124 shares, after reduction during the year of 5,497 shares ($41,227) arising from adjustment of shares issued in December, 1960, in merger of Hormel, Inc.	$ 8,925,930
Additional paid-in capital, after addition during the year of $41,227—contra above	1,986,315
	$10,912,245

MISCELLANEOUS OTHER ADJUSTMENTS

Retained Earnings

AMERICAN SAINT GOBAIN CORPORATION
Cr.—$895,612—"Retained Earnings: Special Item—Future income tax benefits relating to provisions for furnace repairs and pensions through January 1, 1966."
Notes to Financial Statements

Note 6: *Future Income Tax Benefits*—For financial statement purposes, the Company recognizes as a current expense during the production cycle of a furnace the estimated repair costs which will be incurred during the period of furnace shut down. For income tax purposes, these repairs are a deductible expense in the year incurred. With respect to pensions, the Company does not completely fund its pension expense each year. For income tax purposes, the unfunded amount becomes a deductible expense in the year of payment.

Prior to 1963, it had been the practice of the Company, to recognize, on a current basis, the future income tax benefit resulting from these items. During the years 1963 through 1965, the net operating losses available for income tax purposes exceeded the income of the Company. Accordingly, the Company made no provision for future income tax benefits during these years. In 1966, the Company's income exceeded the operating loss carry-over for income tax purposes and, as of January 1, 1966, the Company recognized through an adjustment of $895,612 the full future income tax benefit applicable to the reserves for furnace repairs and pensions.

CANADA DRY CORPORATION
Dr.—$2,415,859—*"Earned Surplus*: Adjustment arising from the change in accounting for containers as of April 1, 1965—net."
Notes to Financial Statements

Containers: On March 31, 1966, the Internal Revenue Service granted the Corporation permission to change its method of accounting from the retirement method to a method of depreciation using a life expressed in terms of years beginning with the taxable year ended March 31, 1965. Accordingly, the depreciation method was also adopted for financial accounting purposes as of April 1, 1965.

Prior to the change, income was charged and a deduction was allowed for tax purposes for the cost of those containers which it was estimated would not be returned by customers, less deposits thereon, together with those retired or otherwise disposed of, less sales proceeds, if any. Also, for financial accounting purposes, a reserve (unallowable for tax purposes) equal to 50% of the cost of cases was provided; this reserve amounted to $4,141,849 at March 31, 1965. As a result of the change, income is charged with depreciation, as now permitted for tax purposes. The ruling allows the Corporation additional deductions from taxable income for the estimated accumulated depreciation applicable to containers over the remaining useful lives of the respective containers.

The effect of the change to depreciation accounting is to increase net income by $132,000 for 1966 and to decrease earned surplus as of April 1, 1965 by $2,415,859 in order to accumulate depreciation (opening reserve) applicable to containers on hand as of that date. This latter amount is after estimated tax benefits of $3,832,803 (United States only) and after restoring the reserve for cases, $4,141,849, which was established in prior years.

STANDARD PACKAGING CORPORATION
Dr.—$2,956,939—*"Retained Earnings*: Deferred amount, as of December 31, 1966, of product development, creative and promotional costs (Note 3)."

Note 3: *Change in Accounting*—Effective December 31, 1966, the Company changed its accounting for product development and certain creative and promotion costs. Previously, such costs were deferred and charged to income during the years when the related products were sold. After 1966, these costs will be expensed as incurred. The Company wrote off as a special charge to retained earnings the unamortized portion of these costs at December 31, 1966 which totaled $2,956,939; $1,676,427 from prepaid expenses and product costs, and $1,280,512 from other assets and deferred charges. Comparable amounts at December 31, 1965 were $1,969,741 and $1,306,945, respectively, totaling $3,276,686. Had this change in accounting been made as of January 1, 1965, net income for 1966 would have been increased by approximately $204,600 and net loss for 1965 would have been reduced by $125,600 after respective tax effects of approximately $115,100 and $110,000.

CONSOLIDATED FOODS CORPORATION
Cr.—$325,893—"Earned Surplus: Miscellaneous items, net."

GRUEN INDUSTRIES, INC.
Consolidated Statement of Income and Retained Earnings

Net Income	$ 997,408
Special credits:	
Interest forgiveness on 4½% subordinated note	94,228
Prior years' provisions for inventory obsolescence no longer required	83,160
Net income and special credits	1,174,796
Retained earnings (deficit) at beginning of year	(1,243,528)
	(68,732)
Transfer from other paid-in capital (Note 5)	68,732
Retained Earnings (Deficit) at End of Year	$ —

Capital Surplus

AIR PRODUCTS AND CHEMICALS, INC.
Dr.—$19,000—*"Consideration Received in Excess of Par Value*: Miscellaneous."

EVANS PRODUCTS COMPANY
Cr.—$4,000—"Additional Paid-In Capital: Other."

MOBIL OIL CORPORATION
Dr.—$1,452,000—*"Capital Surplus*: Miscellaneous."

VARIAN ASSOCIATES
Cr.—$276,000—"Capital in Excess of Par Value of Common Stock: Capital contributed by former stockholders of Wilkens."

FOREIGN EXCHANGE LOSSES

In December 1966, the accounting principles board of the American Institute of Certified Public Accountants issued *Opinion No. 9, Reporting the Results of Operations.* This *Opinion,* in part, supersedes Chapter 12, *Foreign Operations and Foreign Exchange* (paragraph 21) of *Accounting Research and Terminology Bulletins,* Final Edition, issued in 1961. In the *Opinion,* the accounting principles board set forth criteria for extraordinary items related to the current period and provided for their disclosure in the income statement before "Net income." Among such items was "... (e) a major devaluation of a foreign currency." The board further stated that "... (c) gains or losses from fluctuations of foreign exchange ..." "... do not constitute extraordinary items (or prior period adjustments) because they are of a character typical of the customary business activities of the entity."

The board also furnished criteria for excluding items from the determination of net income. Gains or losses due to fluctuations in foreign exchange or to major devaluations of foreign currency were not among the items to be excluded from net income.

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, 28 companies reported foreign exchange losses, a substantial drop from the 112 companies reporting such losses in the 1963 survey. The information given in the 1966 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
Canada	2
Brazil	1
Latin American countries	8
Country not identified	17
Total	28

The methods of recording the foreign exchange losses applied by the above-mentioned 28 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 20 companies showed the full amount of the loss without tax allocation. The remaining 8 companies did not clearly indicate their procedure in this respect.

Account Charged:*	Number of Companies
A: Income	16
Reserve previously provided	1
Income and reserves	1
B: Only on books of foreign subsidiary	10
Total	28

*Refer to Company Appendix Section—A: 188, 341, 380, 418, 424, 471; B: 79, 207, 326, 347.

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

THE CARBORUNDUM COMPANY
Statement of Consolidated Income

Other income and (expense)	
Interest and other income	$1,612,000
Interest expense	(1,066,000)
Foreign exchange adjustments	(73,000)
Total other income and (expense)	$ 473,000

CORN PRODUCTS COMPANY
Statement of Income

Income before provision for taxes on income	$107,552,857
Provision for United States and foreign taxes on income	47,379,395
	60,173,462
Unrealized losses on foreign exchange, net	299,631
	$ 59,873,831

CROWN CORK & SEAL COMPANY, INC.
Consolidated Statement of Income

Profit from Operations after Taxes of Income	$17,931,000
Less: Portion of Net Income Applicable to Minority Interests	805,000
Allowance for unrealized reduction in foreign assets arising from decline in exchange rates	377,000
Net Income	$16,749,000

THE FIRESTONE TIRE & RUBBER COMPANY
Consolidated Income Statement

Income Before Devaluation Losses	$105,935,018
Foreign Currency Devaluation	4,169,225
Net Income	$101,765,793

PARKE, DAVIS & COMPANY
Consolidated Statement of Net Earnings and Earnings Retained for Use in the Business

Costs and Expenses:	
Cost of products sold	$ 90,343,846
Research and product development	15,396,560
Selling, administrative, and general	83,655,844
Cost of employee pension program (Note D)	4,010,575
Awards under Bonus Plan	612,341
Interest	1,899,543
Currency exchange adjustments (in 1966, principally devaluations in India and Latin America)	1,340,480
Taxes on income—United States and other countries (Note C)	17,350,000
Net earnings applicable to minority interest in subsidiaries	429,901
	$215,039,090

SAFEWAY STORES, INCORPORATED
Statement of Consolidated Income and Retained Earnings

Operating Profit	$121,222,914
Other Deductions	
Interest on debentures and long-term notes	1,800,718
Provision for conversion of Canadian assets to U.S. dollars	1,300,000
Provision for conversion to equity in nonconsolidated foreign subsidiaries	670,297
Other charges (income)—net	(341,058)
	3,429,957
Income Before Provision for Income Taxes	$117,792,957

Charge to Reserve Previously Provided

H. J. HEINZ COMPANY
Notes to Financial Statements

Note 1: Principles of Consolidation—Except for property, plant, equipment and long-term debt, assets and liabilities of the foreign subsidiaries have been converted at appropriate exchange rates prevailing at the end of the fiscal year. Foreign property, plant, equipment and long-term debt have been converted on the basis of exchange rates prevailing at the time of acquisition. The realization in U.S. dollars of assets located outside the United States is limited in certain instances by currency and other restrictions. No provision has been made for U.S. income taxes which may become payable when earnings of foreign subsidiaries are remitted as dividends since, in the case of those subsidiaries where it is contemplated that earnings will be remitted, the credit for foreign taxes on income already paid generally offsets applicable U.S. income taxes. Operating accounts (other than depreciation which was based upon the approximate equivalent dollar cost of fixed assets) were converted at average rates of exchange prevailing during the fiscal year. The net unrealized loss on foreign exchange has been charged to the reserve for possible foreign exchange losses. Of the consolidated net income for the year, $13,289,751 originated from subsidiaries located outside the United States and its possessions and the income of the Company from dividends from such subsidiaries during the year amounted to $4,843,866.

Charge to Income and Reserve

AMERICAN HOME PRODUCTS CORPORATION
Income Statement

Cost of goods sold	$423,769,018
Selling, administrative and general expenses	292,922,022
Employees' insurance, annuities, etc.	10,607,203
Interest	1,878,848
Other deductions, including foreign losses and exchange adjustments	6,299,621
Income before federal and foreign taxes on income	735,476,712
	$183,541,573

Notes to Financial Statements

Note 8: Foreign Operations—The financial statements include net foreign assets at December 31, 1966 and foreign net income for the year then ended as shown below. Comparable foreign net income for the year ended December 31, 1965 was $14,049,112 after a provision of $2,547,357 for foreign losses and exchange adjustments.

	Net Assets	Net Income
Locations:		
Canada	$20,492,334	$ 3,866,940
England, India, Western Europe	21,686,756	7,908,438
Latin America	23,772,586	5,159,042
Australia, New Zealand, South Africa, Far East	6,519,947	1,698,582
	72,471,623	18,633,002
Provision for foreign losses and exchange adjustments	5,300,000	1,177,348*
	$67,171,623	$17,455,654

*The provision of $1,177,348, charged to 1966 consolidated net income, brought the balance in the reserve for foreign losses and exchange adjustments to $5,300,000 at December 31, 1966. This reserve had been charged during 1966 with exchange conversion adjustments of $877,348.

Foreign fixed assets and related depreciation, in general, were translated into U.S. dollars at rates of exchange in effect during the year such assets were acquired. All other foreign currency assets and liabilities were translated at rates of exchange prevailing at December 31, 1966.

Foreign sales, other income and expenses, in general, were translated into U.S. dollars at rates of exchange prevailing at the end of each month during the year.

Charges Shown Only on Books of Foreign Subsidiary

ANDERSON, CLAYTON & CO.

Latin American Subsidiaries—Statements of Combined Income and Retained Earnings

Income before foreign taxes on income and loss from decline in foreign exchange rates	$8,310,000
Foreign taxes on income	3,739,000
	4,571,000
Loss from decline in foreign exchange rates	565,000
Income before minority interest	$4,006,000

THE BORDEN COMPANY

Foreign Subsidiaries not Consolidated—Combined Statements of Income

Income before provision for foreign income taxes and other changes	$12,086,667
Less	
Provision for foreign income taxes	3,874,027
Minority interest	1,198,582
Company's Equity (Before unrealized exchange loss)	7,014,058
Company's portion of unrealized exchange loss—subsidiaries and 50% owned companies	191,200
Company's Equity in Net Income	$ 6,822,858

UNION CARBIDE CORPORATION

Notes to Financial Statements

Note 1 (in part): Based upon the latest financial statements received, the following is a financial summary of the Corporation's foreign unconsolidated subsidiary and associated companies:

Total Assets	$670,339,000
Less: Total Liabilities	349,848,000
Net Worth	320,491,000
Less: Minority and 50% Interests	76,233,000
UCC Equity in Net Worth	244,258,000
Consisting of:	
UCC Investment	103,316,000
Excess of UCC Equity Over Investment	140,942,000
Net Income	41,931,000
UCC Equity in Net Income	30,961,000
Dividends Received and Included in UCC Consolidated Earnings	20,173,000

The Net Income is after giving effect to net declines in local currency values. The Corporation's share amounted to $120,900 in 1966.

JOHNSON & JOHNSON

Consolidated Statement of Earnings of Foreign Subsidiaries

Costs and Expenses:	
Cost of products sold	$ 95,224,326
Selling, distribution and administrative expenses	52,572,996
Wear and exhaustion of property, plant and equipment	5,673,519
Taxes on income	10,356,773
Provision for exchange losses	1,533,451
Miscellaneous expenses	1,847,901
Total Costs and Expenses	$167,208,966

LONE STAR CEMENT CORPORATION

Latin American Summaries

Income and Net Assets:	
Billings, less discounts	$35,339,968
Miscellaneous income and expense (net)	975,863
	36,315,831
Costs and expenses	29,085,818
	7,230,013
Foreign income taxes	2,604,133
Income before exchange adjustments	4,625,880
Net foreign exchange adjustments	(1,297,007)
Net Income	3,328,873
Net assets (parent company's equity) at beginning of year	22,060,234
	25,389,107
Dividends remitted to Lone Star Cement Corporation and included in its financial statements	4,352,886
Net assets (parent company's equity) at end of year	$21,036,221

WILSON & CO., INC.

Notes to Financial Statements

Note 2 (in part): Results of foreign subsidiaries in 1966 were as follows:

Sales	$64,390,370
Profit from operations (before following items)	1,102,198
Gain on sales of land	506,103
Exchange adjustments	(500,000)

The exchange adjustments represent the amounts by which the net current assets employed throughout the respective years in Brazil were written down in translation as a result of the continuing decline in the U.S. dollar value of the Brazilian cruzerio.

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 auditor's 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 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, adjusted to reflect the absence of confirmation of some receivables:

> In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings and of earnings retained in the business present fairly the financial position of United Aircraft Corporation and its domestic subsidiaries at December 31, 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. 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.

ADOPTION OF SHORT-FORM

The survey of the 600 annual reports for the year 1966 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 1966 the recommended short-form has been used in 489 reports, and the modified version in 111 reports.

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

WORDING VARIATIONS

The auditors of 484 of the survey companies presented 777 minor wording variations in their reports on the financial statements for 1966. 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—1966

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 ...	160	—
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"	41	—
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	261	18
D: "similar examination for the preceding year," or similar phrase added	142	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"	1	85
F: the consistency phrase enlarged to include the words "in all material respects"	4	—
G: "of the company" used without stating its name	56	—
H: "of such statements" omitted	—	4
I: "in the circumstances" omitted ...	—	2
Total	665	112

*Refer to Company Appendix Section—A: 130, 184, 210, 369, 396, 478; B: 142, 177, 203, 286, 454, 591; C: 12, 169, 227, 318, 473, 475; D: 44, 93, 261, 363, 448, 582; E: 56, 118, 224, 313, 472, 590; F: 81, 223; G: 18, 144, 270, 380, 488, 520; H: 264, 318; I: 309.

"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 of the 600 survey companies omitted reference to "such other auditing procedures." However, for the year 1966, 42 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 42 auditors' reports of the 1966 survey companies revealed 48 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.

Eight of the 42 reports referred to above 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 eight reports the auditors indicated or implied their satisfaction by the use of other terms or similar wording.

Representative examples are as follows:

TABLE 2: AUDITING PROCEDURES

Normal Procedures Omitted	1966	1965	1960	1950
Confirmation of Accounts Receivable, with report:				
Stating that other procedures were employed:				
For government accounts	38	38	43	23
For foreign accounts	3	3	2	4
For other accounts	7	6	4	—
Confirmation of Accounts Payable	—	—	—	1
Observation and Test of Inventories, or Verification of Investment in Subsidiary	—	—	4	7
Total	48	47	53	35
Normal Procedures Explained	—	—	1	25
Number of Reports:				
Containing no reference to the omission of auditing procedures and no explanation regarding auditing procedures employed	557	558	549	552
Containing no reference to the omission of auditing procedures with supplementary explanation of certain normal auditing procedures employed	—	—	1	13
Referring to the omission of certain normal auditing procedures	42	41	49	32
Omitting reference to "auditing procedures"	1	1	1	3
Total	600	600	600	600

Confirmation of Accounts Receivable—U.S. Government

Board of Directors,
McDonnell Aircraft Corporation:

We have examined the consolidated financial statements of McDonnell Aircraft Corporation and subsidiaries for the fiscal year ended 30 June 1966. 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 is not the general practice of the United States Government to confirm amounts owing by it, consequently as to the accuracy of receivables from the Government, we satisfied ourselves by other auditing procedures.

In our opinion, the accompanying balance sheet and earnings and earnings retained for growth statements present fairly the consolidated financial position of McDonnell Aircraft Corporation and subsidiaries at 30 June 1966, 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 consolidated working capital analysis presents fairly the information shown therein.—*Independent Public Accountants' Report—July 18, 1966.*

To the Board of Directors and Stockholders,
Standard Kollsman Industries, Inc.:

In our opinion, the accompanying balance sheet, the related statements 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, 1966, the results of their operations and the 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.—*Accountants' Opinion—March 16, 1967.*

The Board of Directors and Stockholders,
The Cessna Aircraft Company:

We have examined the accompanying consolidated statement of financial position of The Cessna Aircraft Company and its consolidated subsidiary at September 30, 1966 and the related consolidated statements of operations and earnings reinvested in business and source and use of working capital for the year then ended. We also have examined the accompanying statement of financial position of National Aero Finance Company, Inc. at September 30, 1966 and the related statement of operations and earnings reinvested in business 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. It was not practicable to confirm amounts due from the U. S. government, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly (1) the consolidated financial position of The Cessna Aircraft Company and its consolidated subsidiary at September 30, 1966, the consolidated results of their operations and the source and use of their consolidated working capital for the year then ended, and (2) the financial position of National Aero Finance Company, Inc. at September 30, 1966 and the results of its operations for the year then ended, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Accountant's Report—November 8, 1966.*

Confirmation of Accounts Receivable—Foreign Accounts

To the Share Owners and the Board of Directors of General Dynamics Corporation:

We have examined the consolidated balance sheet of General Dynamics Corporation (a Delaware corporation) and subsidiaries as of December 31, 1966, and the related statements of consolidated income, surplus 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. We were unable to obtain confirmation of receivables from the United States and Canadian Governments; however, we have applied other auditing procedures as to such receivables. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income, surplus and funds present fairly the financial position of General Dynamics Corporation and subsidiaries as of December 31, 1966, and the 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.—*Auditors' Report—January 23, 1967.*

The Board of Directors and Shareowners, Sparton Corporation:

We have examined the accompanying consolidated balance sheet of Sparton Corporation and subsidiaries at June 30, 1966, the related consolidated statements of income and retained earnings and the consolidated statement of 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. 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, 1966, 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.—*Auditors' Report—August 19, 1966.*

Confirmation of Accounts Receivable—Various Other

To the Board of Directors and Shareholders of The Magnavox Company:

In our opinion, the accompanying consolidated balance sheet, the related consolidated statement of income and retained earnings and the consolidated statement of source and application of funds present fairly the financial position of The Magnavox Company and its subsidiaries at December 31, 1966, 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 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 and others under defense contracts by direct correspondence, but we satisfied ourselves as to these amounts by means of other auditing procedures.—*Opinion of Independent Accountants—February 24, 1967.*

Board of Directors, United Whelan Corporation:

We have examined the accompanying consolidated balance sheet of United Whelan Corporation and subsidiaries as of December 31, 1966, and the related statements of consolidated net income and of consolidated 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 certain amounts receivable from retail stores, but we satisfied ourselves as to such amounts by means of other auditing procedures.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of United Whelan Corporation and subsidiaries at December 31, 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' Report—February 20, 1967.*

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 1966 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.

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 27 in 1966. The sharp decrease in the number of companies (from 80 in 1964 to 27 in 1966) 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 three companies qualified their opinions as a result of the change in the treatment of investment credit in 1966, while 60 companies disclosed this qualification in 1964.

All of these reports disclosed the nature of the changes and their effect on financial statements. Thirty

TABLE 3: STANDARDS OF REPORTING

Auditors' Report:*	1966	1965	1960	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	543	538	552	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	30	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	27	39	41	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	9	13	20	21
Does not contain informative disclosures or explanatory remarks	591	587	580	579
Total	600	600	600	600
Expression of Opinion				
Contains an unqualified expression of opinion	560	549	532	489
Contains a qualified expression of opinion	39	50	68	111
Disclaims an opinion	1	1	—	—
Total	600	600	600	600

*Refer to Company Appendix Section—A: 76, 147, 592; B: 5, 37, 558; C: 132, 338, 399; D: 97, 182, 328.

additional reports stated that generally accepted principles of accounting had been consistently observed in the current period after the restatement of prior year's 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 39 auditors' reports that expressed qualified opinions in 1966, there were 43 instances of qualifications, 29 of which related to consistency, and 14 to fair presentation.

Changes in accounting for depreciation, and for various other income and cost items, were the principal reasons for consistency qualifications.

An unqualified expression of opinion was given in 560 of the auditors' reports of the 600 survey companies. The auditor of one of the 600 survey companies, in the report of his examination, 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. . . .

Table 5 reveals that in 22 instances the auditors expressed their approval of accounting changes made, while in 7 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 30 auditors' reports referring to statements restated because of changes in accounting principles employed, expressed approval of the changes, while in the remaining 23 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. . . .

Fourteen auditors' reports of the survey companies, as may be noted from Table 4, disclosed 14 qualifications as to fair presentation of certain items. The main

TABLE 4: AUDITORS' OPINION QUALIFIED

Reason for Qualification	1966	1965	1960	1950
Changes in Consistent Application of Generally Accepted Principles of Accounting				
Assets and Liabilities:				
Lifo inventory method — initial adoption or readoption, abandonment or modification	1	1	5	61
Other methods of inventory valuation	3	4	5	3
Property, plant and equipment	1	1	1	1
Other assets	3	2	1	—
Miscellaneous	—	2	6	1
Income and Expense:				
Depreciation, depletion, amortization	10	17	9	5
Other income and cost items	7	6	16	21
Investment credit	3	4	—	—
Principles of Consolidation:				
Change in consolidation policy	—	5	11	6
Preceding year statements not restated in "pooling" of interest	1	1	—	—
Total	29	43	54	98
Reasons for Qualification as to Fair Presentation:				
Federal income taxes	6	6	7	15
Contingencies, uncertainty, litigation	6	5	15	
Miscellaneous	2	2	2	3
Total	14	13	24	18
Number of Auditors' Reports Containing:				
An unqualified expression of opinion	560	549	532	489
A qualified expression of opinion	39	50	68	111
Disclaimer of an opinion	1	1	—	—
Total	600	600	600	600

causes for qualifications were specific contingencies with regard to Federal income taxes, matters in litigation, or uncertainty as to the valuation of specific assets.

All fourteen of these reports used the recommended phrase "subject to."

Examples of Disclaimer and of Qualified Opinions

The examples which follow were selected from the 1966 annual reports and are illustrative of the presentation of the disclaimer and of qualified opinions indicated in Tables 4 and 5, including opinions on restated financial statements referred to in Table 3.

DISCLAIMER OF AN OPINION

To the Board of Directors,
Hazeltine Corporation:

We have examined the consolidated balance sheet of Hazeltine Corporation and its wholly-owned subsidiaries as of December 31, 1966, 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. Although we were unable to obtain confirmation of accounts receivable from the United States Government, we satisfied ourselves as to these amounts by other auditing procedures.

Because of the possible material effect of the litigation referred to in Notes 1 and 2 to the consolidated financial statements, the outcome of which is uncertain, we do not express any opinion on the consolidated financial statements taken as a whole. Were it not for the referenced litigation, in our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings would present fairly the financial position of Hazeltine Corporation and its wholly-owned subsidiaries at December 31, 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—February 10, 1967.*

CONSISTENCY IN APPLICATION OF ACCOUNTING PRINCIPLES

Changes in Inventory Pricing

Heywood-Wakefield Company:

We have examined the consolidated balance sheet of Heywood-Wakefield Company and its subsidiaries as of December 31, 1966, and the related consolidated statements of operations 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.

Inventories, fixed asset balances, and classifications of additional paid-in capital and retained earnings at January 1, 1966 were examined by other public accountants.

In our opinion, based on our examination and the report of the other accountants, the statements mentioned, together with the accompanying notes, present fairly the consolidated financial position of Heywood-Wakefield Company and its subsidiaries at December 31, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change referred to in the notes to the financial statements, of which we approve, have been applied on a basis consistent with that of the preceding year.—*Accountants' Report—February 17, 1967.*

Notes to Financial Statements

Change in Accounting Procedure—For 1966, the company reclassified certain accounts aggregating approximately $750,000 from cost of products sold to selling and administrative expenses. This affected the determination of the amount of factory overhead included in inventories at December 31, 1966. As a result of these changes, the inventories at December 31, 1966 were approximately $107,000 less, and net loss for the year then ended was the same amount more than if the changes had not been made.

TABLE 5: AUDITORS' SPECIFIC APPROVAL OR DISAPPROVAL OF CHANGES IN CONSISTENT APPLICATION OF GENERALLY ACCEPTED PRINCIPLES OF ACCOUNTING

Nature of Change	1966* A	1966* N	1965* A	1965* N	1960* A	1960* N	1950* A	1950* D	1950* N
Assets and Liabilities:									
Lifo inventory method—initial adoption or re-adoption, abandonment or modification	—	1	1	—	1	4	54	—	7
Other methods of inventory valuation	2	1	4	—	3	2	3	—	—
Property, plant and equipment	1	—	1	—	—	1	1	—	—
Other assets	2	1	2	—	1	—	—	—	—
Miscellaneous	—	—	1	1	6	—	—	—	1
Income and Expense:									
Depreciation, depletion, amortization	9	1	12	5	8	1	4	1	—
Other income and cost items	5	2	6	—	12	4	17	2	2
Investment credit	3	—	3	1	—	—	—	—	—
Principles of Consolidation:									
Change in consolidation policy	—	—	3	2	9	2	3	—	3
Preceding year statements not restated in "pooling" of interest	—	1	—	1	—	—	—	—	—
Total	22	7	33	10	40	14	82	3	13

*Summary of Auditors' Approval or Disapproval	1966	1965	1960	1950
A—Approved	22	33	40	82
D—Disapproved	—	—	—	3
N—Neither approved nor disapproved	7	10	14	13
Total	29	43	54	98

To the Board of Directors and Stockholders of
Libby, McNeill & Libby:

We have examined the accompanying consolidated balance sheet of Libby, McNeill & Libby and subsidiary companies at July 2, 1966 and the related statement of consolidated income and earnings retained in the business and summary of changes in working capital 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.

In our opinion, the statements mentioned above present fairly the financial position of Libby, McNeill & Libby and subsidiary companies at July 2, 1966 and the results of their operations and the changes in working capital for the fiscal 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 referred to in Note 2 to the financial statements. —*Auditors' Report—August 30, 1966.*

Notes to Financial Statements

Note 2: *Accounting Changes*—During the year, certain revisions were made in the accounting practices followed by the Company. These changes involved primarily policies relating to the capitalization of fruit tree grove costs prior to initial crop harvesting and valuations of certain inventories other than those valued under the LIFO method. The effect of each change was not material but, in the aggregate, increased the 1966 reported net income by approximately $440,000.

To the Stockholders of
Wheeling Steel Corporation:

In our opinion, the accompanying consolidated balance sheet, the related consolidated statement of income and accumulated earnings retained in the business and the statement of source and application of funds appearing on page 5 present fairly the financial position of Wheeling Steel Corporation and its subsidiaries at December 31, 1966, 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, except for the changes to accepted alternative methods of accounting for inventories and pensions. As explained in Notes C and D of the "Notes to Financial Statements," the effect of these changes was to decrease the net loss reported for 1966 by $9,900,000 ($9,000,000 on account of inventories and $900,000 on account of pensions). 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—March 13, 1967.*

Notes to Financial Statements

Note D: *Inventories*—In 1966 it was decided that the LIFO method of determining cost of inventories, which was adopted in 1955, should no longer be continued. Therefore, at the end of 1966 finished and semifinished inventories are stated at standard cost. Under this method, inventories are priced at predetermined costs, based upon the actual experience obtained during a period of normal operations, with adjustments periodically to reflect current conditions. Raw materials and manufacturing and other supplies are valued principally at average cost. The amount at which inventories are stated is less than their aggregate market value.

The change in the method of accounting for inventories decreased the net loss in 1966 by approximately $9 million, of which $8 million representing the accumulated LIFO reserve at January 1, 1966 has been shown as an extraordinary item and $1 million representing the portion applicable to 1966 operations has been applied against cost of products sold on the consolidated statement of income.

Changes in the Accounting for Property, Plant and Equipment and for Other Assets

To the Stockholders and Board of Directors of Canada Dry Corporation:

We have examined the consolidated balance sheet of Canada Dry Corporation and subsidiary companies as of March 31, 1966 and the related statements of consolidated income and consolidated 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 consolidated balance sheet and statements of consolidated income and consolidated earned surplus present fairly the financial position of Canada Dry Corporation and subsidiary companies at March 31, 1966 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, in accounting for containers as explained in a note to the financial statements) on a basis consistent with that of the preceding year.—*Accountants' Opinion—June 6, 1966.*

Notes to Financial Statements

Containers: On March 31, 1966, the Internal Revenue Service granted the Corporation permission to change its method of accounting from the retirement method to a method of depreciation using a life expressed in terms of years beginning with the taxable year ended March 31, 1965. Accordingly, the depreciation method was also adopted for financial accounting purposes as of April 1, 1965.

Prior to the change, income was charged and a deduction was allowed for tax purposes for the cost of those containers which it was estimated would not be returned by customers, less deposits thereon, together with those retired or otherwise disposed of, less sales proceeds, if any. Also, for financial accounting purposes, a reserve (unallowable for tax purposes) equal to 50% of the cost of cases was provided; this reserve amounted to $4,141,849 at March 31, 1965. As a result of the change, income is charged with depreciation, as now permitted for tax purposes. The ruling allows the Corporation additional deductions from taxable income for the estimated accumulated depreciation applicable to containers over the remaining useful lives of the respective containers.

The effect of the change to depreciation accounting is to increase net income by $132,000 for 1966 and to decrease earned surplus as of April 1, 1965 by $2,415,859 in order to accumulate depreciation (opening reserve) applicable to containers on hand as of that date. This latter amount is after estimated tax benefits of $3,832,803 (United States only) and after restoring the reserve for cases, $4,141,849, which was established in prior years.

Board of Directors, Chrysler Corporation:

We have examined the accompanying consolidated balance sheet of Chrysler Corporation and consolidated subsidiaries as of December 31, 1966, and December 31, 1965, the related consolidated statements of net earnings, net earnings retained for use in the business, and additional paid-in capital, and the consolidated source and application of working capital 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.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Chrysler Corporation and consolidated subsidiaries at December 31, 1966 and December 31, 1965, and the consolidated 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, except for the change in 1966, which we approve, referred to in the note to the financial statements entitled Excess of Cost of Investments in Consolidated Subsidiaries over Equities in Net Assets at Dates of Acquisition. Further, it is our opinion that the consolidated source and application of working capital presents fairly the information therein set forth.—*Auditors' Report—February 14, 1967.*

Notes to Financial Statements

Excess of Cost of Investments in Consolidated Subsidiaries Over Equities in Net Assets at Dates of Acquisition: Prior to January 1, 1966, these costs were being amortized over periods not exceeding twenty years. The company has changed its practice, and effective January 1, 1966 has discontinued the amortization of these costs. Had the company continued to amortize the excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition, net earnings for the year ended December 31, 1966 would have been reduced by approximately $4,200,000.

To the Board of Directors and Stockholders, Standard Packaging Corporation:

We have examined the consolidated balance sheet of Standard Packaging Corporation and subsidiary companies as of December 31, 1966 and the related statements 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.

In our opinion, the accompanying consolidated balance sheet and the related statements of consolidated income and retained earnings present fairly the financial position of the companies at December 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent (except for the change, in which we concur, in the method of accounting for product development and certain creative and promotion costs, as explained in Note 3 to the financial statements) with that of the preceding year.—*Auditors' Report—February 17, 1967.*

Notes to Financial Statements

Note 3: Changes in Accounting—Effective December 31, 1966, the Company changed its accounting for product development and certain creative and promotion costs. Previously, such costs were deferred and charged to income during the years when the related products were sold. After 1966, these costs will be expensed as incurred. The Company wrote off as a special charge to retained earnings the unamortized portion of these costs at December 31, 1966 which totaled $2,956,939; $1,676,427 from prepaid expenses and product costs, and $1,280,512 from other assets and deferred charges. Comparable amounts at December 31, 1965 were $1,969,741 and $1,306,945, respectively, totaling $3,276,686. Had this change in accounting been made as of January 1, 1965, net income for 1966 would have been increased by approximately $204,600 and net loss for 1965 would have been reduced by $125,600 after respective tax effects of approximately $115,100 and $110,000.

Changes in the Accounting for Depreciation, Depletion, and Amortization

Alpha Portland Cement Company:

We have examined the balance sheet of Alpha Portland Cement Company as of December 31, 1966 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 and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earned surplus present fairly the financial position of the Company at December 31, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied (except for the change, which we approve, in depreciation method explained in Note A to the financial statements) on a basis consistent with that of the preceding year.—*Accountants' Opinion—January 23, 1967.*

Notes to Financial Statements

Note A: Change in Accounting for Depreciation—Effective January 1, 1966 the Company adopted straight line depreciation for assets which had previously been depreciated using the declining balance method. This change had the effect of reducing 1966 depreciation by $1,274,000 and increasing 1966 net income by approximately $600,000.

AMERICAN SEATING COMPANY:

We have examined the consolidated balance sheet of American Seating Company and its subsidiaries as of December 31, 1966, and the related consolidated 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 statements mentioned, together with the accompanying notes, present fairly the consolidated financial position of American Seating Company and its subsidiaries at December 31, 1966 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles. Except for the change, of which we approve, in the method of computing depreciation as described in the notes to the consolidated financial statements, such principles have been applied on a basis consistent with that of the preceding year.—*Accountants' Report—February 15, 1967.*

Notes to Financial Statements

Depreciation: Effective January 1, 1966 the company revised the method of computing depreciation on all fixed assets from accelerated methods to the straight-line method for financial reporting purposes. The use of accelerated depreciation will be continued for tax purposes. The change from accelerated methods to the straight-line method increased earnings for the year by approximately $190,000 in 1966.

Federal income taxes: Deferred income taxes have been provided on the difference in earnings determined for tax and financial accounting purposes. Investment tax credits are taken into earnings as reductions of current income tax provisions.

Design, research, development and patent costs: are expensed as incurred.

The Board of Directors,
Control Data Corporation:

We have examined the consolidated balance sheet of Control Data Corporation and subsidiaries as of June 30, 1966, 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, agencies and related contractors, as to which we have satisfied ourselves by means of other auditing procedures.

In our opinion, such financial statements present fairly the financial position of Control Data Corporation and subsidiaries at June 30, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, other than for the January 1, 1965 change in depreciation method described in note 2 to consolidated financial statements, have been applied on a basis consistent with that of the preceding year.—*Accountants' Report—August 17, 1966.*

Notes to Financial Statements

Note 2: Accounting Practices—As a method of more closely matching costs against related revenues, the Company follows 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 related to the acquisition of lease orders. While most lease contracts have a one year term, renewals normally extend rentals over or beyond the three year amortization period.

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. Had this change in depreciation method been made as of July 1, 1964, net earnings for the year ended June 30, 1965 would have been increased approximately $1,030,000 or $0.14 per share of common stock.

For income tax purposes, costs related to acquisition of leases are charged off as incurred, depreciation is computed by an accelerated method, and accordingly provision has been made for related deferred income taxes. Such amounts provided have been reduced by taxes on reportable income related to unrealized intercompany profits on sales of equipment to the Company's subsidiaries primarily for foreign rental.

To the Stockholders and the Board of Directors,
Lily-Tulip Cup Corporation:

We have examined the consolidated balance sheet of Lily-Tulip Cup Corporation and subsidiaries as at December 31, 1966, 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. As to Canadian subsidiaries and an associated company, whose financial statements were not examined by us, we were furnished with reports by other accountants.

In our opinion, based upon our examination and upon the reports of other accountants referred to above, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings, together with the notes to financial statements, present fairly the consolidated financial position of Lily-Tulip Cup Corporation and subsidiaries at December 31, 1966, 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, in the method of computing depreciation as commented upon under Change in Depreciation Method in the notes to financial statements.—*Accountants' Report—March 10, 1967.*

Notes to Financial Statements

Change in Depreciation Method: Depreciation charged to operations in 1966 was $3,630,661 and in 1965, $5,260,748.

As of January 1, 1966, the Company and its subsidiaries changed, for financial accounting purposes, from accelerated methods of computing depreciation, used for property acquired since December 31, 1953, to the straight-line method used for all other property. The accelerated methods, however, are being continued for income tax purposes. As a result of this change, net income was increased by approximately $760,000, after providing for related deferred income taxes.

To the Shareholders of
National Biscuit Company:

We have examined the statement of financial position of National Biscuit Company and consolidated subsidiaries as of December 31, 1966, 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. As in prior years, we were furnished reports of other public accountants upon their examinations of the financial statements of certain foreign subsidiaries. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based upon such reports. We previously made a similar examination of the financial statements for the year 1965 which have been restated to reflect the change, in which we concur, in consolidation policy made in 1966 as described in the notes to the financial statements on page 16.

In our opinion, the aforementioned financial statements present fairly the financial position of National Biscuit Company and consolidated subsidiaries at December 31, 1966 and 1965, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes, in which we concur, in accounting for the amortization of excess of investment over net assets of subsidiaries acquired, and depreciation, described in the notes to financial statements on page 16.—*Report of Auditors—February 1, 1967.*

Notes to Financial Statements

Amortization and Depreciation: Beginning January 1, 1966, the excess of investment over net assets in subsidiaries is not being further amortized. In the opinion of management, there has been no reduction in the value of these investments. The amount reflected in the statement of financial position is net of an amortization reserve of $2,864,000, created by charges against income in years prior to 1966.

For domestic property, plant, and equipment acquired after January 1, 1966, the Company changed, for financial reporting purposes only, from an accelerated method of computing depreciation to the straight-line method.

Our independent auditors concur with these changes as indicated in the accompanying Report of Auditors. These changes resulted in an increase in consolidated net income of approximately $1.1 million.

To the Board of Directors of
Varian Associates:

We have examined the consolidated balance sheet of Varian Associates and its subsidiary companies at September 30, 1966, and the related consolidated statements of income and retained earnings and capital in excess of par value 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. We made a similar examination of the financial statements at September 30, 1965, restated to reflect the pooling of interests adjustments discussed in Note 1.

In our opinion the above-mentioned financial statements present fairly the consolidated financial position of Varian Associates and its subsidiary companies at September 30, 1966, and September 30, 1965, and the results of their operations for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, in which we concur, referred to in Note 5.

We made a similar examination of the accompanying consolidated funds statement which, in our opinion, when considered in relationship to the basic financial statements, presents fairly the sources and application of funds of the Company for the fiscal year ended September 30, 1966.—*Report of Independent Certified Public Accountants—November 14, 1966.*

Notes to Financial Statements

Note 5: Changes in Depreciation Method—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. The change in depreciation methods resulted in an increase in net income for the year ended September 30, 1966, of $578,000 or $.10 per share.

Other Income and Cost Items

Board of Directors,
American Saint Gobain Corporation:

We have examined the accompanying balance sheet of American Saint Gobain Corporation as of December 31, 1966, and the related statement of earnings and retained earnings, and the statement of 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.

In our opinion, the statements referred to above present fairly the financial position of American Saint Gobain Corporation at December 31, 1966, and the results of its operations and the changes in 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, except for the change, which we approve, in the method of accounting for certain pension plans as described in Note 2 to the financial statements.—*Accountants' Report—January 20, 1967.*

Notes to Financial Statements

Note 2: Pensions—The Company has pension plans covering all full time employees of the Company. The aggregate pension expense before tax benefit for the year 1966, based on normal cost and amortization of prior service costs over varying periods ranging to 40 years, amounts to $935,000 as compared to $659,000 for the year 1965. This change represents an increase in benefits under contractual arrangements with certain hourly employees and a change in the method of accounting for pensions under these plans. In prior years, the Company had followed the policy of providing in its account for the present worth actuarially calculated of contractual pension commitments to employees who retired under these plans. In 1966, the Company changed its method of accounting with respect to these contractual pension plans to recognize normal costs and amortization of prior service cost as recommended by Accounting Principles Board Release 8. If this change had been made in 1965, the effect would have been to increase pension expense by approximately $330,000 before tax benefit.

Actuarial estimates of unaccrued past service costs for all pension plans at December 31, 1966 amounts to $13,500,000 before tax benefits. Estimated pension expense for 1967 will approximate $1,390,000.

The Stockholders and Board of Directors of
J. I. Case Company:

We have examined the statement of financial condition of J. I. Case Company and consolidated subsidiary companies as of October 31, 1966 and the related statements of income, earnings retained, capital in excess of par value, 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 have made a similar examination of the statement of financial condition of the Company's non-consolidated finance subsidiary, J. I. Case Credit Corporation, as of October 31, 1966 and the related statement of income and earnings retained for the year then ended.

In our opinion, the accompanying statements present fairly (a) the financial position of J. I. Case Company and consolidated subsidiary companies as of October 31, 1966 and the results of their operations and the source and application of their funds for the year then ended and (b) the financial position of J. I. Case Credit Corporation as of October 31, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied (except for the change, which we approve, in the method of accounting for pension costs of J. I. Case Company as explained in Note 6 to consolidated financial statements) on a basis consistent with that of the preceding year.—*Accountants' Opinion—December 14, 1966.*

Notes to Financial Statements

Note 6: *Pension Plan*—Since 1915 the Company has had a voluntary unfunded pension plan under which employees have been paid pensions during retirement. Prior to 1966 the Company charged to income pension costs under this plan as they were paid.

In 1966 the Company began to recognize pension costs on an accrual basis for retired employees and for those employees who reasonably may be expected to retire in the future. Accordingly pension costs charged to 1966 income were approximately $4,600,000 which includes amortization of prior service costs over 40 years. This change in method of accounting for pension costs reduced 1966 net income by $2,800,000 after giving effect to allocation of related income tax to years in which payment of such accrued pension costs will produce a tax deduction. Currently the actuarially estimated cost of future benefits for retired employees aggregates $14,000,000.

Reference is made to page 4 for additional information pertaining to the Company's intended changes in its pension program.

Holly Sugar Corporation,
Its Directors and Stockholders:

We have examined the balance sheet of Holly Sugar Corporation as of March 31, 1966 and the related statement 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 statement of income and earnings invested in the business present fairly the financial position of the Corporation at March 31, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. In our opinion, these principles were applied on a basis consistent with that of the preceding year except for the change in recording amounts received as capital contributions (which change has our approval) as explained on page 3.—*Accountants' Opinion —May 6, 1966.*

Letter to Stockholders

During the past year, the Corporation settled Federal income taxes for the several years ended March 31, 1965. The Internal Revenue Service determined that amounts paid to the Corporation as capital contributions, and treated as a reduction of property costs in 1965, were a reduction in the purchase price of sugar beets. The credit of $319,691 required to conform financial records to such determination and to record other income tax changes is excluded from net income for the year and is shown as a special item in the accompanying Statement of Income and Earnings Invested in the Business. In accordance with the foregoing determination, such amounts received during the past year have been recorded as a reduction in the cost of beets, which has increased net income by $326,141.

Board of Directors,
Utah-Idaho Sugar Company:

We have examined the statement of consolidated financial position of Utah-Idaho Sugar Company and subsidiaries as of February 28, 1966, and the related statement of consolidated earnings 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 statement of financial position and statement of earnings and earnings retained for use in the business present fairly the consolidated financial position of Utah-Idaho Sugar Company and subsidiaries at February 28, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change in the method of computing cost of beets (in which we concur) referred to in Note A, have been applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying statement of consolidated source and use of funds presents fairly the information shown therein.—*Accountants' Report—April 1, 1966.*

Notes to Financial Statements

Note A: *Change in Accounting Method*—Beginning on March 1, 1965, the Company changed its method of computing cost of sugar beets. In prior years cost of sugar beets for the fiscal year was computed on the basis of the net proceeds from sugar sold from the start of the crop year (October 1) to February 28. Cost of sugar beets for the year ended February 28, 1966, has been computed on the basis of the net proceeds from sugar sold during the fiscal year ended February 28, 1966. The change results in $400,878 more net earnings after taxes than would have resulted if the change had not been made. The additional income taxes resulting from this change are included in deferred federal income taxes and are payable over a ten-year period. The management believes the new method more closely relates current costs to current revenues.

Changes in Basis of Consolidation—Prior Years' Figures Restated

To the Stockholders and the Board of Directors of Carnation Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, retained earnings and other capital present fairly the consolidated financial position of Carnation Company and its subsidiaries at December 31, 1966 and the results of their operations for the year, in conformity with generally accepted accounting principles. Such principles have been 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 majority owned subsidiaries as explained in Note 1 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—February 27, 1967.*

Notes to Financial Statements

Note 1 (in part): The consolidated financial statements include the accounts of Carnation Company and all of its subsidiaries. Prior to 1966 the Company followed the practice of consolidating only its wholly owned subsidiaries. Subsidiary companies operating outside the United States and Canada (all of which were formerly subsidiaries of General Milk Company) are included on the basis of a fiscal year ending September 30.

For comparative purposes the financial statements for 1965 have been restated to include (1) the accounts of all subsidiaries and (2) the accounts of Trenton Foods, Inc. acquired in a pooling of interests.

To the Stockholders and Board of Directors,
The Curtis Publishing Company:

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and accumulated deficit present fairly the consolidated financial position of The Curtis Publishing Company and its subsidiaries at December 31, 1966 and the consolidated 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 as restated to include the accounts of Curtis Distributing Company, Ltd. The accounts of two subsidiaries are maintained on a cash basis; however, memorandum entries have been applied to the cash basis accounts in the accompanying statements to place them on the accrual basis. 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, 1967.*

Notes to Financial Statements

Basis of Consolidation: The financial statements include the accounts of The Curtis Publishing Company and its subsidiaries, all of which are wholly owned. The accounts of two 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 financial statements for 1965 have been restated to include the accounts of Curtis Distributing Company, Ltd., a wholly owned subsidiary situated in Canada. The restatement increased previously reported net income by $1,000 and decreased the accumulated deficit at January 1, 1965 by $199,000.

On March 31, 1966 the Company sold its stock interest in its wholly owned subsidiary, National Analysts, Inc. for $550,000. The Company's aggregate equity in the net assets of National Analysts, Inc. was $416,000 at that date.

Board of Directors and Shareholders,
Federated Department Stores, Inc.:

We have examined the accompanying consolidated balance sheet of Federated Department Stores, Inc. and subsidiaries as of January 29, 1966 and the related statements of income, changes in shareholders' investment and source and application of funds for the 52 weeks 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 Federated Department Stores, Inc. and subsidiaries at January 29, 1966, and the results of their operations and the source and application of funds for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (*see note 1*).—*Accountants' Report—April 7, 1966.*

Notes to Financial Statements

Note 1: The Financial Statements for the year ended January 29, 1966 have been prepared on a consolidated basis, including all subsidiaries. The financial statements for the prior eight years were published on a parent company basis. The statements for the year ended January 30, 1965 contained herein, however, have been changed to a consolidated basis and, in addition, certain reclassifications have been made.

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 29, 1966, 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 after giving retroactive effect to the consolidation, which we approve, of a previously unconsolidated foreign subsidiary as explained in Note A. 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 22, 1966.*

Notes to Financial Statements

Note A (in part): *Principles of Consolidation*—Consolidated financial statements include the accounts of Oscar Mayer & Co. Inc. and all of its subsidiaries, whereas prior to 1966 only wholly owned subsidiaries were included. The comparative financial statements for 1965 have been restated to include the accounts of a foreign subsidiary which was consolidated for the first time in 1966. All significant intercompany items and transactions have been eliminated from the consolidated financial statements.

Jantzen, Inc.:

We have examined the statement of consolidated financial position of Jantzen Inc. and Consolidated Subsidiaries as of August 31, 1966 and the related statements of consolidated income and earned surplus 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 statements present fairly the financial position of the companies at August 31, 1966 and the results of their operations and their 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 after giving retroactive effect to the inclusion, which we approve, of the accounts of the Canadian subsidiary as explained in Note 1 to the financial statements.—*Opinion of Certified Public Accountants—October 21, 1966.*

Notes to Financial Statements

Note 1: *Principles of Consolidation and Subsidiaries*—The financial statements include the accounts of United States, Puerto Rican, and Canadian subsidiaries. The 1965 financial statements have been revised to include the Canadian subsidiary not formerly consolidated.

The Australian subsidiary is not consolidated and the Company's investment therein is stated at cost. The Company's equity in 1966 net income of the Australian subsidiary exceeded dividends received by $14,490 and the Company's equity in the net assets exceeded cost of investment by $224,882.

In February 1966, the Company acquired all of the outstanding capital stock of the Brenton Textiles group of companies for cash and shares of common treasury stock. The transaction was accounted for as a purchase and accordingly the accompanying financial statements include the accounts of the Brenton group commencing February 1966. The purchase price exceeded tangible net assets by $248,485 which has been recorded as intangible assets arising from acquisition of subsidiaries.

To the Board of Directors and Shareholders,
Olin Mathieson Chemical Corporation:

We have examined the consolidated balance sheet of Olin Mathieson Chemical Corporation and its consolidated subsidiaries as of December 31, 1966 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 consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of Olin Mathieson Chemical Corporation and its consolidated subsidiaries at December 31, 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 after giving retroactive effect to the inclusion of the accounts of all subsidiaries. Also, in our opinion, the statement of source and use of working capital on page 27 for the year ended December 31, 1966, presents fairly the information shown therein.—*Accountants' Report—February 15, 1967.*

Notes to Financial Statements

Note 1: *Principles of Consolidation*—In 1966, the company adopted the policy of including in the consolidated financial statements the accounts of all significant domestic and foreign subsidiaries. Although such change had no material effect on net income, the 1965 figures included for comparative purposes have been revised to the present basis.

Current assets and liabilities of foreign subsidiaries and branches are stated at rates of exchange in effect at the close of their fiscal years; property, plant and equipment (and related depreciation thereon) at rates in effect at the various dates of acquisition; income and expenses at rates not in excess of the average prevailing during their fiscal years.

Assets and liabilities of foreign subsidiaries and branches (after eliminating inter-company accounts) included in the consolidated balance sheet at December 31, 1966 amounted to $168,718,000 and $87,021,000, respectively. Consolidated retained earnings at December 31, 1966 included $45,820,000 and consolidated net income for 1966 included $6,450,000 in respect to foreign subsidiaries and branches.

Qualifications as to Fair Presentation

(a) Federal Income Taxes

Baker Oil Tools, Inc.:

We have examined the consolidated balance sheet of Baker Oil Tools, Inc. and subsidiary companies as of September 30, 1966 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.

In our opinion, subject to the ultimate outcome of the income tax matters discussed in Note 5 to the financial statements, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of the companies at September 30, 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' Opinion—November 22, 1966.*

Notes to Financial Statements

Note 5: *United States Income Taxes*—In connection with an examination being made of the Company's United States income tax returns for the four years ended September 30, 1964, the Internal Revenue Service has indicated that it might propose adjustments of the Company's tax returns based on the capitalization of overhead in inventories (see Note 2 for the consistent practice followed by the Company with respect to the pricing of its inventories). The Service in effect is proposing an accounting practice which would increase the Company's inventories, tax liabilities, and stockholders' equity.

Based on computations made by the Service, which have not given consideration to obsolescence and other factors, the additional tax liability could amount to $1,865,000, plus interest, for the four years ended September 30, 1964, and utilizing the same assumptions, an additional tax liability of $560,000, plus interest, for the two years ended September 30, 1966.

The Company, upon advice of counsel, intends to contest any proposal by the Service to adjust its tax returns for such years. Inasmuch as the ultimate outcome of such matters is not presently determinable, no change has been made in the accounting practice of the Company with respect to its inventories and no provision has been made in the accompanying financial statements for additional liabilities, if any, which might arise therefrom.

To the Board of Directors,
Certain-teed Products Corporation:

We have examined the consolidated balance sheet of Certain-teed Products Corporation and subsidiaries as at December 31, 1966, 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, subject to the effect, if any, of the outcome of the tax matter described in the fourth paragraph of Note 5, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings, together with the notes to financial statements, present fairly the consolidated financial position of Certain-teed Products Corporation and subsidiaries at December 31, 1966, 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, and the accompanying consolidated statement of funds for the year ended December 31, 1966, presents fairly the information shown therein.—*Accountants' Report—January 25, 1967.*

Notes to Financial Statements

Note 5 (in part): Federal income tax returns of certain prior years of the Company and a subsidiary (since liquidated) are being examined by the Internal Revenue Service. The examining agent has discussed with the Company matters which cumulatively could involve possible assessments material in amount; however, since no formal report has been received by the Company, it is impossible to know what the agent's final position on those matters will be and, therefore, the total amounts of additional claims which might be asserted are presently unascertainable. Should the matters so far discussed be incorporated finally in the agent's report, the Company intends to vigorously contest them, since it believes, from such information as is available to the Company, that they are substantially wtihout merit and should have no material effect on the financial position of the Company.

To the Board of Directors,
Consolidated Electronics Industries Corp.:

We have examined the consolidated balance sheet of Consolidated Electronics Industries Corp. as of December 31, 1966 and the related consolidated statements of income, surplus 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, subject to adjustments, if any, which may result from the final determination of the liability for prior year income taxes as indicated in Note 8 to the financial statements (the treatment of which matter as reflected in the foregoing financial statements and related notes we approve), the accompanying consolidated balance sheet and consolidated statements of income and surplus present fairly the financial position of Consolidated Electronics Industries Corp. and consolidated subsidiaries at December 31, 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. It is also our opinion that the consolidated statement of source and application of funds, considered in relation to the basic financial statements, presents fairly the information set forth therein.—*Accountants' Report—February 21, 1967.*

Notes to Financial Statements

Note 8 (in part): *Contingencies*—For various open tax years, beginning in 1957, the federal income tax returns of the corporation, those of certain subsidiaries and predecessor companies, are subject to examination by the Internal Revenue Service.

With respect to returns of a majority-owned subsidiary (Philips Electronics and Pharmaceutical Industries Corp.) under examination, the Internal Revenue Service has made assessments aggregating $1,271,030 relating principally to the disallowance of carry-forward operating losses of a predecessor company. The subsidiary is in disagreement with the assessments and, on advice of counsel, is contesting the assessments. In the opinion of counsel, the assessments are without merit. Accordingly, no provision has been made for this contingent liability.

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, 1966. 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. A similar examination was made for the preceding year, except that the financial statements of certain subsidiaries and divisions were examined by other public accountants, whose report thereon was furnished to us. Our opinion expressed herein relating to the year ended March 31, 1965 is based upon our examination and upon the aforementioned report of other public accountants.

In our opinion, the accompanying balance sheets, subject to the outcome of the tax matters described in Note B 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, 1966 and 1965, 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 19, 1966.*

Notes to Financial Statements

Note B: Operations of the Corporation with its foreign subsidiaries since July 1, 1955 are subject to examination by the Internal Revenue Service, with particular reference to the allocability of income between the Corporation and such subsidiaries. The Service is presently examining tax returns for periods through March 31, 1961. Although no conclusions have been reached, it is not expected that the settlement of these matters will materially affect the financial statements of the Corporation.

(b) Litigation

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, 1966, and the related statements of consolidated operations, stockholders' equity, and changes in 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. 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 recovery of the investment in The LaFleur Corporation and the final determination of litigation, described respectively in Notes A and K to financial statements, the accompanying statements of financial position, operations, and stockholders' equity present fairly the consolidated financial position of Douglas Aircraft Company, Inc. and consolidated subsidiaries at November 30, 1966, 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, and the statement of changes in consolidated working capital presents fairly the information therein shown.—*Accountants' Report—January 21, 1967.*

Notes to Financial Statements

Note K: *Litigation*—A number of lawsuits have been instituted against the Company, some of which purport to be class actions, seeking recovery for losses alleged to have been incurred as a result of alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended, Rules and Regulations issued thereunder, or the common law. In general, these lawsuits charge the Company with alleged misleading and false statements of material fact and alleged omissions to state material facts needed to make some of these statements not misleading. They involve security holders who converted 4% Convertible Subordinated Debentures into the Company's Capital Stock and persons who purchased Capital Stock or Debentures of the Company during various periods of time in 1966. A separate derivative lawsuit alleges liability on the theory of waste of corporate assets in connection with the foregoing. The Company has filed answers denying the material allegations of each complaint and alleging in addition certain affirmative defenses which the Company intends to prove.

The Company was also defendant at November 30, 1966, in other civil actions which Company Counsel believes either to be without merit or will not result in a substantial loss to the Company.

(c) Valuation of Various Assets

Board of Directors and Shareholders,
Hoffman Electronics Corporation:

We have examined the balance sheet of Hoffman Electronics Corporation (a California corporation) as of December 31, 1966 and the related statements of operations and 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; however, it was not practicable to confirm receivables from United States Government agencies, as to which we have satisfied ourselves by means of other auditing procedures. We made a similar examination for the year ended December 31, 1965.

In our opinion, subject to the recovery of the deferred research and development costs referred to in Note E to the financial statements, the accompanying financial statements present fairly the financial position of Hoffman Electronics Corporation at December 31, 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 (after giving retroactive effect to the change in the accounting practice as referred to in Note A to the financial statements) except for the change in the method of accounting for research and development costs.—*Auditors' Report—March 15, 1967.*

Notes to Financial Statements

Note E: *Deferred Research and Development Costs*—As of January 1, 1966 the company adopted a policy of deferring certain research and development costs which had previously been expensed as incurred. These costs will be amortized over a period not in excess of five years. The effect of this change on the Statement of Operations for the year ended December 31, 1966 was to decrease the net loss by $1,121,489.

To the Board of Directors,
Rayonier Incorporated:

We have examined the consolidated balance sheet of Rayonier Incorporated and Subsidiaries as of December 31, 1966, and the related statements of income, surplus and 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. We previously examined and reported upon the financial statements of the Company and subsidiaries for the year 1965. We did not examine the financial statements of Canadian subsidiaries, which statements were examined by Canadian chartered accountants, whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to amounts included for Canadian subsidiaries, is based upon such reports.

In our opinion, subject to the final determination of the insurance claim discussed in the notes to the financial statements, the aforementioned financial statements present fairly the consolidated financial position of Rayonier Incorporated and Subsidiaries at December 31, 1966 and 1965, and the results of their operations and changes in working capital for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, in which we concur, in the method of computing depreciation on United States facilities as described in the notes to the financial statements.—*Auditors' Report—February 13, 1967.*

Notes to Financial Statements

Insurance Claim: In August 1966, the New Westminster (British Columbia) sawmill was substantially destroyed by fire. The final proof of direct damage loss has not been filed but an advance cash payment has been received from the insurers and is held for reinvestment. A contra deferred credit is recorded pending the final settlement, which at this time cannot be predicted with any degree of accuracy. The company also carried business interruption insurance which covers the decrease in profits due to loss of production.

(d) Other Contingencies

The Stockholders and Board of Directors,
Canteen Corporation:

We have examined the consolidated balance sheet of Canteen Corporation and subsidiaries as of October 1, 1966 and the related statements of earnings and retained earnings and the source and use of funds for the year then ended; and the consolidated balance sheet of Commercial Discount Corporation and subsidiaries as of September 30, 1966 and the related statement 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, subject to the ultimate determination of the amount of loss, if any, arising from the loans referred to in note 1 to the respective financial statements, the balance sheets and statements of earnings and retained earnings enumerated above present fairly the financial position of Canteen Corporation and subsidiaries at October 1, 1966 and of Commercial Discount Corporation and subsidiaries at September 30, 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. Also, in our opinion, the accompanying statement of source and use of funds of Canteen Corporation and subsidiaries for the year ended October 1, 1966 presents fairly the information contained therein.—*Accountants' Report—December 1, 1966.*

Notes to Financial Statements

Note 1 (in part): *Basis of Consolidation*—The accompanying consolidated financial statements include all active subsidiaries except Commercial Discount Corporation, a wholly-owned finance subsidiary not consolidated due to the nature of its business.

The Company's investment in Commercial Discount Corporation is carried at cost plus the Company's share of undistributed earnings since acquisition, which carrying value exceeds the underlying net assets by approximately $4,050,000. Consolidated earnings include the undistributed earnings of Commercial Discount Corporation and, for 1965, also include $425,000 net earnings of another finance subsidiary, Hubshman Factors Corporation, the business of which was sold during that year.

At October 1, 1966, Commercial Discount Corporation had two loans outstanding, totalling $3,428,000, in respect of which it has charged earnings with a reserve for possible losses of $1,700,000, less related federal income taxes of $811,000. Future events may determine that such reserve is unnecessary or, if necessary, should be in an amount materially more or less than the amount provided. For further information relating to these loans, refer to the accompanying financial statements of Commercial Discount Corporation included on pages 14 and 15 of this annual report.

The Board of Directors,
Hygrade Food Products Corporation:

We have examined the consolidated balance sheet of Hygrade Food Products Corporation and subsidiary companies as of October 29, 1966, and the related statements of operations, capital surplus 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, subject to the final determination of estimated expenses and losses in connection with the disposition of closed plants and the outcome of disputed pension liability relative to the service of former employees of a closed plant as discussed in note 4, the accompanying financial statements referred to above present fairly the financial position of Hygrade Food Products Corporation and subsidiaries at October 29, 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—December 9, 1966.*

Notes to Financial Statements

Note 4 (in part): A further dispute exists between the company and the union representing certain employees of a closed plant as to inclusion of service with a predecessor company in computing pension payments. It is the opinion of legal counsel that the company's interpretation of the provisions of the union agreement covering service credits and the provision for pensions determined thereon is proper. The union disputes such determination and the matter may also be the subject of arbitration. If the union position is upheld, the annual provision for pension costs, under the present union agreements as described in note 2, would be increased by approximately $200,000.

Separate Opinions Expressed on Financial Position and Results of Operations

To the Shareholders of
American Export Isbrandtsen Company, Inc.:*

We have examined the consolidated balance sheet of American Export Isbrandtsen Company, Inc. (a Delaware corporation) and subsidiary companies as of December 31, 1966 and 1965, and the related consolidated statement of income and retained earnings 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.

In our opinion, the accompanying consolidated balance sheet presents fairly the financial position of American Export Isbrandtsen Company, Inc. and subsidiary companies as of December 31, 1966 and 1965, and subject to the realization of the $2,400,000 reduction of 1966 Federal income taxes resulting from the proposed deposit of 1966 earnings in the statutory reserve funds, which deposit has not yet been approved by the Maritime Administration, as discussed in Note 3 to the consolidated financial statements, the accompanying consolidated statement of income and retained earnings presents fairly the results of their operations for the years then ended, both in conformity with generally accepted accounting principles applied on a consistent basis during the periods.—*Auditors' Report—March 1, 1967.*

Note 3: *Federal Income Taxes*—Earnings of American Export Isbrandtsen Lines, Inc. subsequent to January 1, 1948, which have been or will be deposited in the statutory reserve funds, have not been subject to Federal income taxes. Such earnings, unless withdrawn under certain conditions for general use, will not be subject to Federal income taxes until termination of subsidized oper-

*This company is not one of the 600 survey companies.

ations, since the major part of such earnings has been or presently will be invested in vessels and related equipment. The provision for Federal income taxes in 1966 has been reduced by approximately $2,943,000 as a result of deposits of earnings of American Export Isbrandtsen Lines, Inc. made or to be made to statutory reserve funds, including approximately $2,400,000 resulting from the proposed deposit which is subject to approval of the Maritime Administration. At December 31, 1966, shareholders' equity included approximately $77 million of earnings on which no Federal income taxes have been provided.

To the Stockholders of
National Presto Industries, Inc.:

We have examined the consolidated balance sheet of National Presto Industries, Inc. and Subsidiaries as of December 31, 1966, and the related statements of earnings and surplus accounts 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 statements of earnings and surplus accounts for the year 1965 were unaudited and are included for comparative purposes only as described in Note A.

In our opinion, the accompanying balance sheets present fairly the consolidated financial position of National Presto Industries, Inc. and Subsidiaries at December 31, 1966 and 1965, and the statements of earnings and surplus accounts present fairly the consolidated results of their operations for the year ended December 31, 1966, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Certificate—March 9, 1967.*

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 9 reports, as shown in Table 3.

The examples which follow illustrate informative disclosures.

Disclosure of Explanatory Matter

To the Board of Directors,
The Rath Packing Company:

We have examined the balance sheet of The Rath Packing Company as of October 1, 1966 and the related statements of operations and deficit 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 made a similar examination for the 52-week fiscal year ended October 2, 1965.

Our examination included reference to the provisions of the note agreements executed by the Company in respect to its long-term debt and credit arrangement. Our examination did disclose that the Company has failed to meet the working capital requirements as follows: under the long-term debt agreements since April 1966 and under the credit arrangement since June 1966; however, no action relative thereto has been instituted by any lender.

In our opinion, the accompanying balance sheet and statements of operations and deficit and funds present fairly the financial position of The Rath Packing Company at October 1, 1966 and the results of its operations and funds for the 52-week fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding 52-week fiscal year.—*Report of Independent Accountants —November 16, 1966.*

To the Shareholders and the Board of Directors of
Stewart-Warner Corporation:

We have examined the consolidated statement of financial position of Stewart-Warner Corporation (a Virginia Corporation) and Subsidiary Companies as of December 31, 1966, and the related consolidated statements of income, capital in excess of par value 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 were unable to obtain confirmation of receivables from government agencies but satisfied ourselves as to such balances by means of alternative auditing procedures. We have previously examined and reported on the consolidated financial statements for the preceding year.

We did not examine the consolidated financial statements of Thor Power Tool Company (summarized in Note 1), the investment in which represents approximately 11% of the assets of Stewart-Warner, but we were furnished with the report of other auditors thereon. The opinion of the other auditors was qualified as being subject to the final outcome of Thor's pending litigation and to the ultimate adjustments arising from disposition of Thor's inventories, discussed in Note 1. However, in our opinion, the effect of these matters is not material in relation to Stewart-Warner's consolidated financial statements.

In our opinion, based upon our examination and upon the report of other auditors, the accompanying consolidated statement of financial position and consolidated statements of income, capital in excess of par value and retained earnings present fairly the financial position of Stewart-Warner Corporation and Subsidiary Companies as of December 31, 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' Report—February 24, 1967.*

To the Shareholders and the Board of Directors, U.S. Plywood-Champion Papers Inc.:

We have examined the consolidated balance sheet of U.S. Plywood-Champion Papers Inc. (a New York corporation) and subsidiary companies as of December 31, 1966, and the related consolidated statements of income, retained earnings and source and use of funds for the year then ended. The financial statements reflect the merger of United States Plywood Corporation and Champion Papers Inc. on a pooling of interests basis as described in Note 1 to the financial statements. 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 Weldwood of Canada Limited and Champion Papers Inc. whose accounts are included in the consolidated financial statements, but we were furnished with reports of other auditors thereon.

In our opinion, based upon our examination and upon the reports of other auditors referred to above, the accompanying consolidated financial statements present fairly the consolidated financial position of U.S. Plywood-Champion Papers Inc. and subsidiary companies as of December 31, 1966, and the results of their operations and the 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.—*Auditors' Report—February 28, 1967.*

Notes to Financial Statements

Note 1: *Mergers and Acquisitions*—As of February 28, 1967, Champion Papers Inc. (Champion) was merged with and into United States Plywood Corporation (U.S. Plywood) and the name of the surviving corporation (the Company) was changed to U.S. Plywood-Champion Papers Inc. The accompanying financial statements retrospectively reflect the consummation of the merger on a pooling of interests basis.

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.

REFERENCE TO OTHER AUDITORS*

		Number of Auditors' Reports
A:	Adopting the *scope* paragraph referred to in par. 34 above ..	22
B:	Adopting the *opinion* paragraph referred to in par. 34 above..	39
C:	Using modified short-form report	9
	Apparently assuming full responsibility	1
D:	"Reference to other auditors" adopted in *separate* paragraph .	3
E:	"Reference to other auditors" adopted in *separate* paragraph and in *opinion* paragraph referred to in par. 34 above ...	4
	Total	78

*Refer to Company Appendix Section—A: 45, 177, 227, 394, 499, 582; B: 21, 146, 254, 356, 407, 568; C: 87, 318, 474; D: 485; E: 285.

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, 78 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 26 in 1966, with the corresponding decline of references brought out in opinion, or opinion and scope, paragraphs from 72 in 1960 to 52 in 1966—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

The Board of Directors and Stockholders,
Dan River Mills, Incorporated:

We have examined the consolidated balance sheet of Dan River Mills, Incorporated and consolidated subsidiary companies as of December 31, 1966 and the related statement of earnings and retained earnings and the consolidated statement of source and application of funds for the period from January 2, 1966 to December 31, 1966. 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 Woodside Mills and its subsidiary, which are included in the consolidated statements and which are significant, were examined by other independent certified public accountants whose report has been furnished to us.

In our opinion, based upon our examination and the aforementioned report of other independent certified public accountants, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings present fairly the financial position of Dan River Mills, Incorporated and consolidated subsidiary companies at December 31, 1966 and the results of their operations for the period from January 2, 1966 to December 31, 1966 in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds for the period from January 2, 1966 to December 31, 1966 presents fairly the information shown therein.—*Report of Independent Certified Public Accountants—February 10, 1967.*

Board of Directors and Stockholders,
The New Britain Machine Company:

We have examined the consolidated balance sheet of The New Britain Machine Company and domestic subsidiaries as of December 31, 1966 and the related statement of consolidated 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. Financial statements of one subsidiary included in the consolidated statements, were not examined by us but we were furnished with a report thereon by other independent accountants.

In our opinion, based upon our examination and the report of other independent accountants referred to above, the accompanying balance sheet and statement of income and earnings retained for use in the business present fairly the consolidated financial position of The New Britain Machine Company and domestic subsidiaries at December 31, 1966, 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 1, 1967.*

The Board of Directors and Stockholders,
Philadelphia and Reading Corporation:

We have examined the accompanying consolidated balance sheet of Philadelphia and Reading Corporation and subsidiaries at December 31, 1966 and the related statement of consolidated 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. We have received the report of other certified public accountants with respect to their examination of the financial statements of Union Underwear Company, Inc., a major subsidiary, which financial statements are included in the accompanying consolidated statements.

In our opinion, based upon our examination and the report of other certified public accountants, the statements mentioned above present fairly the consolidated financial position of Philadelphia and Reading Corporation and subsidiaries at December 31, 1966 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—February 21, 1967.*

Foreign Subsidiaries—Consolidated

To the Shareholders and Board of Directors of
Gulf Oil Corporation:

In our opinion, the accompanying consolidated statement of financial position, the related statements of consolidated income and ownership interest and the consolidated statement of employment of funds present fairly the position of Gulf Oil Corporation and its consolidated subsidiaries at December 31, 1966, 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 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 24, 1967.*

Principles of Consolidation: The consolidated financial statements include the accounts of Gulf Oil Corporation and all subsidiary companies.

Pittsburgh Plate Glass Company:

We have examined the financial statements of Pittsburgh Plate Glass Company and its consolidated subsidiaries for the year ended December 31, 1966. 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, 1966 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 with that of the preceding year.—*Accountants' Opinion—February 1, 1967.*

The Torrington Company:

We have examined the Consolidated Balance Sheet of The Torrington Company and all wholly-owned domestic and foreign subsidiaries as of June 30, 1966 and the related Consolidated Statements of Income and Retained Earnings for the year then ended. Our examination of the domestic corporations 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 opinion expressed herein, insofar as it relates to the amounts included for all wholly-owned foreign subsidiaries, is based upon the reports of other independent accountants who examined the financial statements and expressed an opinion thereon.

In our opinion, the accompanying Consolidated Balance Sheet and Consolidated Statements of Income and Retained Earnings present fairly the financial position of The Torrington Company and all wholly-owned subsidiaries at June 30, 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. Our examination also included the statement of Source and Use of Funds, which in our opinion presents fairly the information shown therein.—*Independent Auditors' Report—August 3, 1966.*

To the Stockholders of
Veeder Industries Inc.:

We have examined the consolidated balance sheet of Veeder Industries Inc. and consolidated subsidiaries as at December 31, 1966 and the related statements of consolidated income and retained earnings and 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. We did not examine the financial statements of the consolidated British, West German, and Australian subsidiaries, which were examined and reported on by other independent accountants.

In our opinion, based upon our examination and reports of other independent accountants, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the consolidated financial position of Veeder Industries Inc. and its consolidated subsidiaries at December 31, 1966, 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 for the year ended December 31, 1966 presents fairly the information shown therein.—*Opinion of Independent Certified Public Accountants—February 6, 1967.*

Domestic and Foreign Subsidiaries—Consolidated

*To the Board of Directors and Shareholders,
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 operations and retained earnings, and the statement of funds present fairly the consolidated financial position of Art Metal, Inc. and its subsidiaries at May 31, 1966, 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, Inc. (consolidated subsidiaries of Art Metal, Inc.) which statements were examined by other independent accountants whose reports thereon have been furnished to us.—*Accountants' Report—August 2, 1966.*

*To the Board of Directors and the Shareholders of
Schenley Industries, Inc.:*

We have examined the consolidated balance sheets of Schenley Industries, Inc. (a Delaware corporation) and subsidiary companies consolidated as of August 31, 1966 and August 31, 1965, and the related statements of consolidated income, retained earnings and changes in working capital for the fiscal 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 have not examined the financial statements of The Buckingham Corporation (52.66% owned) and certain wholly-owned subsidiaries in Canada, which are included in consolidation, or the financial statements of Seager Evans & Co. Ltd., a 75% owned British subsidiary not consolidated. We have been furnished with the reports of other auditors with respect to such subsidiaries, which in the aggregate accounted for 17% of total consolidated assets as of August 31, 1966 and 16% as of August 31, 1965.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the accompanying consolidated balance sheets and statements of consolidated income, retained earnings and changes in working capital present fairly the financial position of Schenley Industries, Inc. and subsidiary companies consolidated as of August 31, 1966 and August 31, 1965, and the results of their operations and changes in working capital for each of the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.—*Auditors' Report—October 21, 1966.*

Domestic and/or Foreign Subsidiaries—Unconsolidated

*To the Stockholders of
National Lead Company:*

We have examined the consolidated balance sheet of National Lead Company and its Consolidated Subsidiaries as of December 31, 1966 and the related consolidated statements 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 were furnished reports of other public accountants upon their examinations of the financial statements of certain consolidated and major unconsolidated subsidiaries. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports. We made a similar examination for the year 1965.

In our opinion, the afore-mentioned financial statements present fairly the consolidated financial position of National Lead Company and its consolidated subsidiaries at December 31, 1966 and 1965 and the consolidated 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 24, 1967.*

*To the Board of Directors of
Rheem Manufacturing Company:*

In our opinion, based on our examination and the reports mentioned below of other independent accountants, the accompanying consolidated balance sheet and the related consolidated statements of earnings and retained earnings and statement of source and application of funds present fairly the financial position of Rheem Manufacturing Company and consolidated domestic subsidiaries at December 31, 1966, and 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 the consolidated financial 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 did not examine the financial statements of certain 50% or more owned companies operating in foreign countries, which statements were examined by other independent accountants whose reports thereon have been furnished to us.—*Opinion of Independent Accountants—March 10, 1967.*

Notes to Financial Statements

Note 1 (in part): *Principles of Consolidation*—Domestic subsidiaries have been consolidated. Investments in foreign companies owned 50 per cent or more are stated at the Company's equity in underlying net assets, and the Company's share of the profits and losses of such companies is included in the consolidated statement of earnings.

*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, 1966 and the related consolidated statements of income and retained earnings and of cash flow 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 certain foreign subsidiaries not consolidated, but we were furnished with reports of other accountants on their examinations of the financial statements of those subsidiaries. Our opinion expressed below, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports.

In our opinion, the accompanying statements present fairly the financial position of the companies at December 31, 1966 and the results of their operations and cash flow 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—January 27, 1967.*

Branches or Divisions

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, 1966 and 1965 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 financial statements of E. J. Brach & Sons for the year ended September 30, 1965 (see Note 1), 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 25) present fairly the consolidated financial position of American Home Products Corporation and Subsidiaries at December 31, 1966 and 1965 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 3, 1967.*

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, 1966. 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. A similar examination was made for the preceding year, except that the financial statements of certain subsidiaries and divisions were examined by other public accountants, whose report thereon was furnished to us. Our opinion expressed herein relating to the year ended March 31, 1965 is based upon our examination and upon the aforementioned report of other public accountants.

In our opinion, the accompanying balance sheets, subject to the outcome of the tax matters described in Note B 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, 1966 and 1965, 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 19, 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 1966 included in this survey, that is, 580 reports, listed the titles of the statements examined. However, 20 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 368 auditors referred in their reports to additional statements examined; 16 others, however, instead of such reference in their regular report, expressed an opinion on additional statements in a separately presented auditors' report.

Of the total of 98 reports referring to the accompanying footnote or footnotes, 51 reports included references to specific footnotes rather than to the footnotes in general.

Of the total of 489 reports using the recommended short-form, 261 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. In the modified form, of course, the statements are identified in the opening sentence only, although in 18 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 368 in 1966. 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 1966 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 Board of Directors, City Stores Company:

We have examined the consolidated statement of financial condition of City Stores Company and consolidated subsidiaries as at January 29, 1966, the related consolidated statements of income and income reinvested in business for the year (52 weeks) then ended and the combined summary of net assets of unconsolidated real estate subsidiaries as at January 29, 1966. 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, together with the notes to financial statements, present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January

TABLE 6: IDENTIFICATION OF FINANCIAL STATEMENTS

	Statements Identified in Auditors' Reports* by:	1966	1965	1960	1950
A:	Title listing of customary statements	196	265	396	469
B:	Title listing of customary statements and specific mention of accompanying footnote(s)	35	41	96	66
	Title listing of customary statements and specific mention of accompanying footnote(s) with:				
C:	Title listing of additional statements	54	52	3	—
	Group reference to additional statements	—	1	3	1
	Title listing of customary statements with:				
D:	Title listing of additional statements	294	218	17	12
	Group reference to additional statements	1	2	4	7
		580	579	519	555
	Group reference to customary statements	1	2	65	35
	Group reference to customary statements and specific mention of accompanying footnote(s)	—	—	11	3
	Group reference to customary statements with:				
	Title listing of additional statements	1	3	2	1
E:	Title listing of additional statements and specific mention of accompanying footnote(s)	3	2	—	—
F:	Group reference to additional statements	9	7	3	6
G:	Group reference to additional statements and specific mention of accompanying footnote(s)	6	7	—	—
		20	21	81	45
	Total	600	600	600	600
	Number of Reports Referring to:				
	Additional statements	368	292	32	27
	Accompanying footnote(s)	98	103	113	70

*Refer to Company Appendix Section—A: 29, 103, 244, 326, 438, 528; B: 37, 119, 292, 371, 493, 574; C: 41, 130, 226, 396, 472, 590; D: 63, 156, 277, 354, 448, 599; E: 492; F: 105, 169, 518; G: 185.

29, 1966, the consolidated results of their operations for the year (52 weeks) then ended and the combined net assets of the unconsolidated real estate subsidiaries at January 29, 1966, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.—*Accountants' Report—April 14, 1966.*

The Board of Directors and Stockholders,
Interco Incorporated:

We have examined the consolidated balance sheet of Interco Incorporated and subsidiaries as of November 30, 1966 and the related statements of income and retained earnings and capital in excess of stated amount 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 and retained earnings and capital in excess of stated amount present fairly the financial position of Interco Incorporated and subsidiaries at November 30, 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—January 9, 1967.*

Opinions on "Funds" Statements

The Board of Directors and Shareholders of
Abex Corporation:

We have examined the consolidated balance sheet of Abex Corporation and its subsidiaries as of December 31, 1966, and the related statements of consolidated earnings and earnings reinvested in the business (note 9) 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 previously examined and reported upon the consolidated financial statements of the Company and its subsidiaries for the year 1965.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1966 and 1965 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have also examined the consolidated statement of source and disposition of funds of the Company and its subsidiaries for the years ended December 31, 1966 and 1965, which statement, in our opinion, is fairly presented. —*Accountants' Opinion—February 3, 1967.*

Board of Directors,
Basic Incorporated:

We have examined the statement of financial position of Basic Incorporated and consolidated subsidiaries as of December 31, 1966, and the related statements of income, retained earnings 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 statements of income and retained earnings present fairly the consolidated financial position of Basic Incorporated and consolidated subsidiaries as of December 31, 1966, 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 summary of source and application of funds presents fairly the information therein shown.—*Independent Accountants' Report—February 20, 1967.*

Board of Directors,
Eversharp, Inc.:

We have examined the accompanying consolidated balance sheet of Eversharp, Inc. and subsidiary companies as of December 31, 1966 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, 1966 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 statement of changes in working capital presents fairly the information therein set forth.—*Auditors' Report—February 15, 1967.*

To the Directors and Stockholders of
General Baking Company:

In our opinion, the accompanying consolidated balance sheet, the related statement of consolidated income and retained earnings and the statement of source and application of working capital present fairly the financial position of General Baking Company and its subsidiaries at December 31, 1966, the results of their operations and the supplementary information on working capital for the fiscal 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—February 17, 1967.*

To the Board of Directors and Stockholders of
Wagner Electric Corporation:

We have examined the consolidated statement of financial position of Wagner Electric Corporation (formerly Tung-Sol Electric Inc.) and subsidiaries as of December 31, 1966, and the related statements of capital stock and capital in excess of par value, and of earnings and earnings reinvested 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 previously examined and reported upon the consolidated financial statements for the year 1965 which have been restated as described in Note 8 to the financial statements.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Wagner Electric Corporation and subsidiaries at December 31, 1966 and 1965 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 a similar examination of the accompanying consolidated summary 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 Wagner Electric Corporation and subsidiaries for the years ended December 31, 1966 and 1965.—*Auditors' Report—February 16, 1967.*

Board of Directors and Stockholders,
Sundstrand Corporation:

We have examined the consolidated statement of financial condition of Sundstrand Corporation and Subsidiary Companies as of December 31, 1966, and the related consolidated statement 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. We made a similar examination for the year ended December 31, 1965.

In our opinion, the accompanying consolidated statement of financial condition and consolidated statement of earnings and retained earnings present fairly the financial position of Sundstrand Corporation and Subsidiary Companies at December 31, 1966, 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. Our examination also encompassed the consolidated statement of change in working capital for the year ended December 31, 1966 and, in our opinion, that statement presents fairly the information shown therein.—*Auditors' Opinion—February 4, 1967.*

The Board of Directors and Shareholders,
Textron Inc.:

We have examined the accompanying consolidated balance sheet of Textron Inc. at December 31, 1966 and the related consolidated statements of income, earned surplus, capital surplus and 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, the statements mentioned above present fairly the consolidated financial position of Textron Inc. at December 31, 1966 and the consolidated results of operations and changes in 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.—*Auditors' Report—February 15, 1967.*

To the Stockholders of
Union Tank Car Company:

We have examined the consolidated balance sheet of Union Tank Car Company (a New Jersey corporation) and subsidiaries as of December 31, 1966, and the related consolidated statements of income, retained earnings, additional 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. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income, retained earnings, additional capital and source and use of funds present fairly the financial position of Union Tank Car Company and its subsidiaries as of December 31, 1966, and the results of their operations and the sources and uses 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' Report—January 20, 1967.*

To the Board of Directors and Stockholders of Standard Screw Company:

In our opinion, the accompanying balance sheet, and the related statement of income and earnings reinvested in the business, and the statement of source and disposition of working capital, present fairly the financial position of Standard Screw Company at December 31, 1966, the results of its 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. 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 3, 1967.*

To the Stockholders and Board of Directors, Stanray Corporation:

We have examined the consolidated balance sheet of Stanray Corporation (a Delaware corporation) and Subsidiaries as of December 31, 1966, and the related statements of earnings, 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 accompanying financial statements present fairly the financial position of Stanray Corporation and Subsidiaries as of December 31, 1966, 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 on a basis consistent with that of the preceding year.—*Auditors' Report—February 6, 1967.*

REFERENCE TO COMPANY

All 600 of the survey auditors' reports contained the corporate name of the client, and, although inference is usually made to consolidated subsidiaries, their names were given in only 17 auditors' reports. Of 25 auditors' reports in which reference was made to unconsolidated subsidiaries, names of subsidiaries were mentioned in only 17.

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 1966 reports are given below.

Reference to Corporate Name of Company

To the Board of Directors, The Coca-Cola Company:

We have examined the consolidated financial statements of The Coca-Cola Company and subsidiaries as of December 31, 1966. 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 profit and loss and earned surplus present fairly the consolidated financial position of The Coca-Cola Company and subsidiaries at December 31, 1966, 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 28, 1967.*

To the Stockholders of Peden Iron & Steel Co.:

We have made an examination of the consolidated balance sheet of Peden Iron & Steel Co. and its subsidiary, Peden Builders Hardware Co., both Texas corporations, Houston, Texas, as of December 31, 1966 and the related statement of consolidated income and retained earnings for the calendar year 1966. 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 fairly reflect the financial position of Peden Iron & Steel Co. and its subsidiary, Peden Builders Hardware Co., at December 31, 1966 and the results of their operations for the calendar year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Opinion—March 8, 1967.*

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, 1966 and the results of their operations for the year ended December 31, 1966 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.—*Auditors' Certificate—February 6, 1967.*

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, 1966, 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, 1966, 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, 1967.*

To the Stockholders and Board of Directors of
West Virginia Pulp and Paper Company:

In our opinion, the statements on pages 19 through 24 present fairly the financial position of West Virginia Pulp and Paper Company and its consolidated subsidiary companies at October 31, 1966, 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. 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 23, 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 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	478
B: 52-53 weeks	26
C: Two years or more in recommended short-form report	93
Two years or more in modified short-form report	2
Period of less than one year, because of change of fiscal period	1
Total	600

*Refer to Company Appendix Section—A: 24, 133, 291, 353, 448, 596; B: 4, 195, 269, 349, 406, 535; C: 20, 137, 280, 347, 488, 576.

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 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.

TABLE 7: PERIOD OF EXAMINATION

Auditors Refer to:	1966	1965	1960	1950
One year in *scope* and *opinion* paragraphs	302	337	387	443
One year in *scope* and *opinion* paragraphs, with reference to examination of prior year contained in *scope* paragraph	68	50	46	31
One year in *opinion* paragraph—No period mentioned in *scope* paragraph	2	2	1	4
Modified short-form of report	102	97	87	60
Modified short-form of report, with additional comment referring to examination of prior year(s)	3	4	2	3
One year, with reference to *examination of prior year* in scope paragraph; two years in *opinion* paragraph	69	64	5	14
Two or three years in *scope* and *opinion* paragraphs	22	13	36	22
Two or three years in *opinion* paragraph only; in modified short-form of report	2	3	7	3
Period of 52 or 53 weeks in *scope* and *opinion* paragraphs	17	20	18	12
Period of 52 or 53 weeks in *opinion* paragraph (modified short-form of report)	4	4	5	3
Period of 52 or 53 weeks, and reference to examination of prior year, in *scope* paragraph; two periods of 52 or 53 weeks in *opinion* paragraph	2	—	—	—
Period of 52 or 53 weeks in *scope* and *opinion* paragraphs, with reference to examination of prior year contained in *scope* paragraph	3	3	—	—
Period of days stated simply as "period from October 3, 19xx to October 1, 19xx" in *scope* and *opinion* paragraph	2	1	—	—
Other variations	1	2	3	1
Changes in Fiscal Years:				
Periods of more than one year in *scope* and *opinion* paragraphs	—	—	—	4
Period of less than one year in *scope* and/or *opinion* paragraphs	1	—	3	—
Total	600	600	600	600

The following examples illustrate the references in auditors' reports to period of examination covering two years.

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, 1966 and the related consolidated statements of earnings retained for use in the business, income and 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. We previously examined and reported upon the financial statements of Associated Brewing Company and Subsidiaries for the year ended December 31, 1965.

In our opinion, the above referred to financial statements present fairly the consolidated financial position of Associated Brewing Company and Subsidiaries at December 31, 1966 and 1965 and the consolidated results of operations and changes in working capital for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Certified Public Accountants—March 8, 1967.*

The Board of Directors and Stockholders, Lockheed Aircraft Corporation:

We have examined the accompanying consolidated balance sheet of Lockheed Aircraft Corporation and subsidiaries at December 25, 1966, the related consolidated statements of earnings, retained earnings and additional capital and the statement of source and disposition 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. It was not practicable to confirm certain amounts included in receivables from the U.S. government, as to which we satisfied ourselves by means of other auditing procedures. We have previously made a similar examination of the consolidated financial statements for the prior years.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Lockheed Aircraft Corporation and subsidiaries at December 25, 1966 and December 26, 1965, the consolidated results of their operations and the source and disposition of their consolidated working capital for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.—*Auditors' Report—February 17, 1967.*

To the Board of Directors and Stockholders of Raybestos-Manhattan, Inc.:

We have examined the consolidated balance sheets of Raybestos-Manhattan, Inc., and subsidiaries as of December 31, 1966 and 1965, and the related consolidated statements of income and earned 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.

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of income and earned surplus present fairly the consolidated financial position of Raybestos-Manhattan, Inc., and its subsidiaries at December 31, 1966 and 1965, 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—February 10, 1967.*

To the Board of Directors and Stockholders of National Dairy Products Corporation:

We have examined the consolidated balance sheets of National Dairy Products Corporation (a Delaware corporation) and subsidiaries as of December 31, 1966 and December 25, 1965, and the related consolidated statements of income, retained earnings and source and application of funds for the fiscal 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.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of income, retained earnings and source and application of funds present fairly the financial position of National Dairy Products Corporation and subsidiaries as of December 31, 1966 and December 25, 1965, and the results of their operations and the source and application of funds for the fiscal periods then ended, in conformity with generally accepted accounting principles consistently applied during the periods. —*Auditors' Report—February 23, 1967.*

To the Stockholders of Frank G. Shattuck Company:

We have examined the consolidated balance sheets of Frank G. Shattuck Company and subsidiaries as of December 31, 1966 and December 31, 1965 and the related statements of income (loss) and retained earnings 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 financial statements present fairly the financial position of Frank G. Shattuck Company and subsidiaries at December 31, 1966 and December 31, 1965 and the results of their operations for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the exclusion of the results of operations of a significant former subsidiary, as explained in note 1 of the notes to financial statements.—*Report of Certified Public Accountants—May 8, 1967.*

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 1966 annual reports. Although there were many variations in the titles assigned, the word "report" was the usual term of reference. It was used in 339 annual reports in 1966, as compared with 213 in 1950. Against this it may be noted that the use of the word "certificate" has declined to 23 in 1966 from 119 in 1950. Also, the number of reports with "no title" has gradually declined to 77 in 1966, from 224 reports in 1950.

The word "opinion" was used in 160 instances in 1966, compared with 15 in 1950. In this connection the following quotation from *Accounting Terminology*

TABLE 8: TERMINOLOGY IN TITLE OF REPORT

Title Used to Identify Auditors' Report*	1966	1965	1960	1950
A: Accountant's (or accountants') report	160	155	178	114
Accountant's (or accountants') certificate	2	3	8	64
B: Accountant's (or accountants') opinion	46	50	45	3
C: Auditor's (or auditors') report or report of auditors	103	62	83	57
D: Auditor's (or auditors') certificate	17	18	45	43
E: Auditor's opinion	11	41	N/A	N/A
Auditors' statement	1	2	N/A	N/A
F: Report of independent public accountants	9	8	16	12
G: Opinion of independent public accountants	6	10	17	7
H: Certificate of independent public accountants	3	3	1	12
I: Report of independent certified public accountants	12	11	10	10
J: Opinion of independent certified public accountants	7	7	5	4
K: Report of certified public accountants	31	29	21	5
L: Opinion of certified public accountants	3	3	—	—
M: Independent auditor's (or auditors') report or report of independent auditors	9	9	13	10
Opinion of independent auditors	2	2	N/A	N/A
N: Report of independent accountants	15	17	16	5
O: Opinion of independent accountants	85	80	4	1
Other variations	1	1	42	29
	523	511	504	376
No title shown	77	89	96	224
Total	600	600	600	600

1966 Reference to Auditor's(s')	1966 Reference to Report: Report	Certificate	Opinion	Other Terms	Total 1966
Accountant's(s')	160	2	46	—	208
Auditor's(s')	103	17	11	1	132
Certified public accountant's(s')	31	—	3	—	34
Independent certified public accountant's(s')	12	—	7	—	19
Independent public accountant's(s')	9	3	6	—	18
Independent accountant's(s')	15	—	85	—	100
Independent auditor's(s')	9	—	2	—	11
Auditor's(s') not referred to	—	1	—	—	1
Total	339	23	160	1	523
No title shown					77
Total					600

*Refer to Company Appendix Section—A: 36, 117, 220, 355, 412, 548; B: 18, 119, 200, 310, 443, 515; C: 82, 151, 286, 394, 421, 554; D: 43, 212, 267, 393, 447, 537; E: 153, 262, 386, 498; F: 48, 118 502; G: 143, 561; H: 456; I: 45, 127, 194, 383, 556, 598; J: 238, 497; K: 30, 147, 225, 332, 435, 504; L: 315; M: 31, 247, 451; N: 76, 110, 278, 399, 459, 517; O: 3, 116, 205, 304, 432, 516.
N/A—Not Available.

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:

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.

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

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 405 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 1965, 1964, 1963, and 1962. They are, for the most part, fairly consistent with those of prior years.

Three companies changed their fiscal years during 1966. One company changed from a calendar year to a fiscal year, another from one fiscal year ending to another and a third company from a fiscal year to a calendar year.

TABLE 9: COMPANIES' FISCAL YEAR ENDINGS

Number of Companies with fiscal years ending in	1966	1965	1964	1963	1962
December	405	406	408	404	410
November	14	16	16	17	19
October	37	36	35	35	36
September	35	36	34	34	33
August	16	15	14	15	15
July	13	13	13	13	14
June	28	27	26	28	25
May	6	6	6	6	6
April	5	5	5	6	6
March	14	14	14	14	10
February	10	10	11	11	10
January	17	16	18	17	16
Total	600	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.

Earlier 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 was addressed to the President and Board of Directors. One other report (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 statement 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 275 reports in 1966. Twenty-one companies used both the printed form and the handwritten facsimile in 1966.

TABLE 10: TERMINOLOGY USED TO IDENTIFY AUDITORS, AND LOCATION OF REFERENCE

	Number of Companies		
Terminology Used*	1966	1965	1961
A: Certified Public Accountants	225	227	250
B: Independent Certified Public Accountants	14	13	N/O
C: Auditors	154	148	149
D: Independent Auditors	10	9	N/O
E: Accountants	89	91	104
F: Independent Accountants	76	70	N/O
G: Independent Public Accountants	20	22	32
Accountants and Auditors	1	5	29
Public Accountants	2	3	N/O
No designation	9	12	14
Other	—	—	22
Total	600	600	600
Location of Reference in Annual Report*			
H: Auditors' letterhead or with signature	183	194	240
I: Title of auditors' report	240	223	213
J: With officers, directors, registrars, etc.	160	160	119
K: President's letter or financial review	8	12	14
No reference	9	11	14
Total	600	600	600

N/O—Not Obtained in years prior to 1963.
*Refer to Company Appendix Section—A: 58, 183, 294, 387, 478, 595; B: 63, 127, 234, 436, 521, 598; C: 44, 175, 227, 358, 449, 575; D: 31, 247, 377, 425; E: 10, 134, 212, 378, 479, 536; F: 61, 168, 273, 364, 494, 583; G: 77, 167, 205, 367, 444, 561; H: 70, 150, 290, 380, 460, 550; I: 94, 174, 274, 384, 474, 584; J: 17, 197, 277, 337, 467, 587; K: 86, 213, 507.

TABLE 11: ADDRESSEE OF AUDITORS' REPORT

Combined Addressee	1966	1965	1960	1950
The Company and Its:				
Directors	146	162	224	309
Directors and President	1	1	2	10
Directors and Shareholders	105	93	58	10
Directors and Stockholders	208	201	162	87
Directors and Shareowners	15	16	17	—
Stockholders	51	53	67	85
Shareholders	37	35	33	22
Shareowners	6	6	4	1
Single Addressee				
The Company	30	32	32	72
No Addressee	1	1	1	4
Total	600	600	600	600
Frequency of Reference to:				
Company—with other addressees	569	567	567	524
Company—with no other addressee	30	32	32	72
Directors	475	473	463	416
President	1	1	2	10
Stockholders	259	254	229	172
Shareholders	142	128	91	32
Shareowners	21	22	21	1

Number of Accounting Firms Represented

There were 36 certified public accounting firms or individual practitioners represented among the 600 companies included in the current survey. This is a net decrease of 2 for the year 1966.

It was noted that 12 companies had made a change of auditors during the year. However, it may be mentioned that a change of auditors does not necessarily mean a change in the number of accounting firms represented.

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	Abex Corporation	12
3	ACF Industries, Incorporated	4
4	Acme Markets, Inc.	3
5	Adams-Millis Corporation	12
6	Addressograph Multigraph Corporation	7
7	Admiral Corporation	12
8	Air Products and Chemicals, Inc.	9
9	Air Reduction Company, Incorporated	12
10	Alan Wood Steel Company	12
11	Allegheny Ludlum Steel Corporation	12
12	Allen Industries, Inc.	12
13	Allied Chemical Corporation	12
14	Allied Kid Company	6
15	Allied Mills, Inc.	6
16	Allied Stores Corporation	1
17	Allis-Chalmers Manufacturing Company	12
18	Alpha Portland Cement Company	12
19	Aluminum Company of America	12
20	The Amalgamated Sugar Company	9
21	Amerada Petroleum Corporation	12
22	American Air Filter Company, Inc.	10
23	American Bakeries Company	12
24	American Bank Note Company	12
25	American Biltrite Rubber Co., 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 Motors Corporation	9
37	American Optical Company	12
38	American Potash & Chemical Corporation	12
39	American Radiator & Standard Sanitary Corporation	12
40	American Saint Gobain Corporation	12
41	American Seating Company	12
42	The American Ship Building Company	6
43	American Smelting and Refining Company	12
44	American Sugar Company	12
45	The American Tobacco Company	12
46	American Zinc, Lead and Smelting Company	6
47	Ametek, Inc.	12
48	Ampex Corporation†	4
49	AMP Incorporated and Pamcor, Inc.†	12

Co. No.		*Month in which fiscal year ends
50	Ampco Metal, Inc.	12
51	Amsted Industries Incorporated	9
52	The Anaconda Company	12
53	Anchor Hocking Glass Corporation	12
54	Anchor Post Products, Inc.	12
55	Anderson, Clayton & Co.	7
56	Anheuser-Busch, Incorporated	12
57	Apco Oil Corporation	12
58	Archer Daniels Midland Company	6
59	Arden-Mayfair, Inc.	12
60	Armco Steel Corporation	12
61	Armour and Company	10
62	Armstrong Cork Company	12
63	Art Metal, Inc.	5
64	The Arundel Corporation	12
65	Arvin Industries, Inc.	12
66	Ashland Oil & Refining Company	9
67	Associated Brewing Company	12
68	Associated Dry Goods Corporation	1
69	Atlantic Richfield Company	12
70	Atlas Chemical Industries, Inc.	12
71	Avco Corporation	11
72	Avon Products, Inc.	12
73	The Babcock & Wilcox Company	12
74	Baker Oil Tools, Inc.	9
75	The Barden Corporation†	10
76	Basic Incorporated	12
77	Bates Manufacturing Company, Incorporated	12
78	Bath Iron Works Corporation	12
79	Bausch & Lomb Incorporated	12
80	Bayuk Cigars Incorporated	12
81	Beatrice Foods Co.	2
82	Beaunit Corporation	3
83	Beech Aircraft Corporation	9
84	Beech-Nut Life Savers, Inc.	12
85	Belding Hemingway Company, Inc.	12
86	Bell & Howell Company	12
87	Bemis Company, Inc.†	12
88	The Bendix Corporation	9
89	Bethlehem Steel Corporation	12
90	Bigelow-Sanford, Inc.	12
91	The Black and Decker Manufacturing Company	9
92	Bird & Son, inc.†	12
93	Blaw-Knox Company	12
94	E. W. Bliss 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	Briggs & Stratton Corporation	12
104	The Bristol Brass Corporation	12
105	Bristol-Myers Company	12
106	Brockway Glass Company, Inc.	9
107	Brown & Sharpe Manufacturing Company	12
108	Brown Shoe Company, Inc.	10
109	Brunswick Corporation	12
110	Bucyrus-Erie Company	12
111	The Budd Company	12
112	The Bullard Company	12
113	Burlington Industries, Inc.	9
114	Burndy Corporation	12
115	Burroughs Corporation	12
116	California Packing Corporation	2
117	Calumet & Hecla, Inc.	12
118	Campbell Soup Company†	7
119	Canada Dry Corporation	3
120	Cannon Mills Company	12
121	Canteen Corporation	9
122	The Carborundum Company†	12
123	Carnation Company	12
124	Carrier Corporation	10
125	J. I. Case Company	10
126	Caterpillar Tractor Co.	12
127	Celanese Corporation	12
128	Central Soya Company, Inc.	8
129	Century Electric Company	12
130	Certain-teed Products Corporation	12
131	The Cessna Aircraft Company	9
132	CF&I Steel Corporation	12
133	Champion Spark Plug Company†	12
134	Chemetron Corporation	12
135	Cherry-Burrell Corporation	10
136	Chicago Pneumatic Tool Company	12
137	Chock Full O'Nuts Corporation	7
138	Chrysler Corporation	12
139	Cities Service Company	12
140	City Stores Company	1
141	Clark Equipment Company	12
142	The Cleveland-Cliffs Iron Company	12
143	Clevite Corporation	12
144	Cluett, Peabody & Co., Inc.	12
145	The Coca-Cola Company	12
146	Colgate-Palmolive Company	12
147	Collins & Aikman Corporation	2
148	Collins Radio Company	7
149	Colonial Stores Incorporated	12
150	The Colorado Milling & Elevator Company	5
151	Colt Industries Inc	12
152	Columbia Broadcasting System, Inc.	12
153	Combustion Engineering, Inc.	12
154	Commercial Solvents Corporation	12
155	Congoleum-Nairn Inc.	12
156	Consolidated Cigar Corporation	12
157	Consolidated Electronics Industries Corp.†	12
158	Consolidated Foods Corporation	6
159	Consolidated Laundries Corporation	12
160	Consolidated Packaging Corporation	12

Co. No.		*Month in which fiscal year ends
161	Container Corporation of America	12
162	Continental Baking Company	12
163	Continental Can Company, Inc.	12
164	Continental Motors Corporation	10
165	Continental Oil Company	12
166	Continental Steel Corporation	12
167	Control Data Corporation	6
168	Cook Paint and Varnish Company	11
169	Cooper Industries, Inc.	12
170	Copperweld Steel Company	12
171	Corning Glass Works†	12
172	Corn Products Company	12
173	Craddock-Terry Shoe Corporation	9
174	Crane Co.	12
175	Crown Central Petroleum Corporation	12
176	Crown Cork & Seal Company, Inc.	12
177	Crown Zellerbach Corporation	12
178	Crucible Steel Company of America	12
179	Cudahy Company	10
180	Cummins Engine Company, Inc.	12
181	The Cuneo Press, Inc.	1
182	The Curtis Publishing Company	12
183	Curtiss-Wright Corporation	12
184	Cutler-Hammer, Inc.	12
185	Cyclops Corporation	12
186	Dan River Mills, Incorporated	12
187	Dayco Corporation	10
188	Deere & Company	10
189	Dennison Manufacturing Company	12
190	Detroit Steel Corporation	12
191	Diamond International Corporation	12
192	Diana Stores Corporation	7
193	Dictaphone Corporation	12
194	Digitronics Corporation	3
195	Walt Disney Productions	9
196	Douglas Aircraft Company, Inc.	11
197	The Dow Chemical Company	12
198	Dravo Corporation	12
199	Dresser Industries, Inc.	10
200	Drexel Enterprises, Inc.	11
201	The Duplan Corporation	9
202	E. I. du Pont de Nemours & Company	12
203	Duffy-Mott Company, Inc.†	8
204	Eagle-Picher Industries, Inc.	11
205	The Eastern Company	12
206	Eastern Stainless Steel Corporation	12
207	Eastman Kodak Company	12
208	Eaton Yale & Towne Inc.	12
209	Elastic Stop Nut Corporation of America	11
210	The Electric Storage Battery Company	12
211	Electrolux Corporation	12
212	Elgin National Watch Company	2
213	Eltra Corporation	9
214	Emerson Electric Co.	9
215	Emhart Corporation	12
216	Endicott Johnson Corporation	11
217	Erie Forge & Steel Corporation	4
218	Evans Products Company	12
219	Eversharp, Inc.	12
220	Ex-Cell-O Corporation	11
221	Fairchild Camera and Instrument Corporation	12
222	Fairchild Hiller Corporation	12
223	Falstaff Brewing Corporation	12

*Months numbered in sequence, January through December.
†Companies new to the survey.

Co. No.		*Month in which fiscal year ends
224	Fansteel Metallurgical Corporation	12
225	Fedders Corporation	8
226	Federated Department Stores, Inc.	1
227	The Firestone Tire & Rubber Company	10
228	First National Stores Inc.	3
229	M. H. Fishman Co., Inc.	12
230	The Flintkote Company	12
231	FMC Corporation	12
232	Foote Mineral Company	12
233	Ford Motor Company	12
234	Foremost Dairies, Inc.	12
235	Freeport Sulphur Company	12
236	Fruehauf Corporation	12
237	Gar Wood Industries, Inc.	10
238	Garlock Inc.	12
239	General American Transportation Corporation	12
240	General Aniline & Film Corporation	12
241	General Baking Company	12
242	General Box Company	12
243	General Bronze Corporation	12
244	General Cable Corporation	12
245	General Cigar Co., Inc.	12
246	General Dynamics Corporation	12
247	General Electric Company	12
248	General Foods Corporation	3
249	General Mills, Inc.	5
250	General Motors Corporation	12
251	General Plywood Corporation	10
252	General Refractories Company	12
253	General Signal Corporation	12
254	The General Tire & Rubber Company	11
255	Genesco Inc.	7
256	Georgia-Pacific Corporation	12
257	Gerber Products Company	3
258	Giddings & Lewis Machine Tool Company	12
259	The Gillette Company	12
260	Gimbel Brothers, Inc.	1
261	The Glidden Company	8
262	Goldblatt Bros., Inc.	1
263	The B. F. Goodrich Company	12
264	The Goodyear Tire & Rubber Company	12
265	The Grand Union Company	2
266	Granite City Steel Company	12
267	Graniteville Company	12
268	W. T. Grant Company	1
269	The Great Atlantic & Pacific Tea Company, Inc.	2
270	The Great Western Sugar Company	2
271	Gruen Industries, Inc.	3
272	Grumman Aircraft Engineering Corporation	12
273	Gulf Oil Corporation	12
274	Halliburton Company	12
275	W. F. Hall Printing Company	3
276	Hamilton Watch Company	1
277	Harbison-Walker Refractories Company	12
278	Harnischfeger Corporation	10
279	Harris-Intertype Corporation	6
280	Harsco Corporation	12
281	The Harshaw Chemical Company	9
282	Hart Schaffner & Marx	11
283	Hat Corporation of America	10
284	Hazeltine Corporation	12
285	H. J. Heinz Company	4
286	Hercules Incorporated	12
287	Hershey Chocolate Corporation	12
288	Hewlett-Packard Company	10
289	Heywood-Wakefield Company	12
290	The Hobart Manufacturing Company	12
291	Hoffman Electronics Corporation	12
292	Holly Sugar Corporation	3
293	Honeywell Inc.	12
294	Hooker Chemical Corporation	11
295	The Hoover Company	12
296	Geo. A. Hormel & Company	10
297	Houdaille Industries, Inc.	12
298	Howmet Corporation	12
299	Hudson Pulp & Paper Corp.	8
300	Hunt Foods and Industries, Inc.	6
301	Hupp Corporation	9
302	Hygrade Food Products Corporation	10
303	Indian Head Inc.	11
304	Ingersoll-Rand Company	12
305	Inland Steel Company	12
306	Interchemical Corporation	12
307	Interco Incorporated	11
308	Interlake Steel Corporation	12
309	International Business Machines Corporation	12
310	International Harvester Company	10
311	International Minerals & Chemical Corporation	6
312	International Paper Company	12
313	The International Silver Company	12
314	Interstate Bakeries Corporation	12
315	Jantzen Inc.	8
316	Jim Walter Corporation	8
317	Johns-Manville Corporation	12
318	Johnson & Johnson	12
319	Jones & Laughlin Steel Corporation	12
320	Joslyn Mfg. and Supply Co.	12
321	Joy Manufacturing Company	9
322	Kaiser Aluminum & Chemical Corporation	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

*Months numbered in sequence, January through December.

Co. No.		*Month in which fiscal year ends
349	Lukens Steel Company	12
350	The Macke Company	9
351	Mack Trucks, Inc.	12
352	R. H. Macy & Co., Inc.	7
353	The Magnavox Company†	12
354	P. R. Mallory & Co. Inc.	12
355	Marathon Oil Company	12
356	Maremont Corporation	12
357	Marshall Field & Company	1
358	Martin Marietta Corporation	12
359	Masonite Corporation	8
360	Maxson Electronics Corporation	9
361	The May Department Stores Company	1
362	Oscar Mayer & Co. Inc.	10
363	The Maytag Company	12
364	MCA Inc.	12
365	McCall Corporation	12
366	McCormick & Company, Incorporated	11
367	McDonnell Aircraft Corporation†	6
368	McGraw-Edison Company†	12
369	McGraw-Hill, Inc.	12
370	The McKay Machine Company	12
371	McKesson & Robbins, Incorporated	3
372	The Mead Corporation	12
373	Medusa Portland Cement Company	12
374	Melville Shoe Corporation	12
375	Merck & Co., Inc.	12
376	Meredith Publishing Company	6
377	Metro-Goldwyn-Mayer Inc.	8
378	Midland-Ross Corporation	12
379	Midwest Rubber Reclaiming Company	10
380	Minnesota Mining and Manufacturing Company	12
381	Mirro Aluminum Company	12
382	Mobil Oil Corporation	12
383	Mohasco Industries, Inc.	12
384	The Mohawk Rubber Company	12
385	Monsanto Company	12
386	Montgomery Ward & Co., Incorporated	1
387	Moore Drop Forging Company	6
388	John Morrell & Co.	10
389	Motorola, Inc.	12
390	Mount Vernon Mills, Inc.	12
391	MSL Industries, Inc.	12
392	Munsingwear, Inc.	12
393	G. C. Murphy Company	12
394	National Biscuit Company	12
395	The National Cash Register Company	12
396	National Company, Inc.	12
397	National Dairy Products Corporation	12
398	National Distillers and Chemical Corporation	12
399	National Gypsum Company	12
400	National Lead Company	12
401	National Presto Industries, Inc.	12
402	National Starch and Chemical Corporation	12
403	National Steel Corporation	12
404	The National Sugar Refining Company	12
405	National Tea Co.	12
406	Nebraska Consolidated Mills Company	6
407	Neptune Meter Company	12
408	J. J. Newberry Co.	1
409	The New Britain Machine Company	12
410	Newport News Shipbuilding and Dry Dock Company	12
411	The New York Air Brake Company	12
412	Nopco Chemical Company	12

Co. No.		*Month in which fiscal year ends
413	North American Aviation, Inc.	9
414	North American Sugar Industries Incorporated	9
415	Northrop Corporation	7
416	Olin Mathieson Chemical Corporation	12
417	O'Sullivan Rubber Corporation	12
418	Otis Elevator Company	12
419	Outboard Marine Corporation	9
420	Owens-Illinois, Inc.	12
421	Oxford Paper Company	12
422	Parke, Davis & Company	12
423	Parker-Hannifin Corporation	6
424	The Parker Pen Company	2
425	Peabody Coal Company	12
426	Peden Iron & Steel Co.	12
427	J. C. Penney Company	1
428	Penn Fruit Co., Inc.	8
429	Pennsalt Chemicals Corporation	12
430	Peoples Drug Stores, Incorporated	12
431	PepsiCo, Inc.	12
432	Pet Milk Company	3
433	Chas. Pfizer & Co., Inc.	12
434	Phelps Dodge Corporation	12
435	Philadelphia and Reading Corporation	12
436	Philip Morris Incorporated	12
437	Phillips Petroleum Company	12
438	Phoenix Steel Corporation	12
439	The Pillsbury Company	5
440	Piper Aircraft Corporation	9
441	Pitney-Bowes, Inc.	12
442	Pittsburgh Brewing Company	10
443	Pittsburgh Plate Glass Company	12
444	Pittsburgh Steel Company	12
445	The Pittston Company	12
446	Plough, Inc.	12
447	Polaroid Corporation	12
448	Poor & Company	12
449	H. K. Porter Company, Inc.	12
450	Pratt & Lambert, Inc.	12
451	The Procter & Gamble Company	6
452	Pullman Incorporated	12
453	Purolator Products, Inc.	12
454	The Quaker Oats Company	6
455	Quaker State Oil Refining Corporation	12
456	Radio Corporation of America	12
457	Ralston Purina Company	9
458	Ranco Incorporated	9
459	The Rath Packing Company	9
460	Raybestos-Manhattan, Inc.	12
461	Rayonier Incorporated	12
462	Raytheon Company	12
463	The Reliance Electric and Engineering Company	10
464	Remington Arms Company, Inc.	12
465	Republic Steel Corporation	12
466	Revere Copper and Brass Incorporated	12
467	Rexall Drug and Chemical Company	12
468	Rex Chainbelt Inc.	10
469	Reynolds Metals Company	12
470	R. J. Reynolds Tobacco Company	12
471	Rheem Manufacturing Company	12
472	Richardson-Merrell Inc.	6
473	Riegel Paper Corporation	12
474	Ritter Pfaudler Corporation	12
475	H. H. Robertson Company	12

*Months numbered in sequence, January through December.
†Companies new to the survey.

Co. No.		*Month in which fiscal year ends
476	Rohm and Haas Company	12
477	The Ruberoid Co.	12
478	The Ryan Aeronautical Co.	10
479	Safeway Stores, Incorporated	12
480	St. Joseph Lead Company	12
481	St. Regis Paper Company	12
482	Schenley Industries, Inc.	8
483	SCM Corporation	6
484	Scott Paper Company	12
485	Scoville Manufacturing Company	12
486	Screw and Bolt Corporation of America	12
487	Seaboard Allied Milling Corporation	5
488	G. D. Searle & Co.	12
489	Sears, Roebuck and Co.	1
490	The Seeburg Corporation	10
491	Servel, Inc.	10
492	Sharon Steel Corporation	12
493	Frank G. Shattuck Company	12
494	Shell Oil Company	12
495	The Sherwin-Williams Company	8
496	Shoe Corporation of America	1
497	Signal Oil and Gas Company	12
498	Signode Corporation	12
499	Simmons Company	12
500	Simplicity Pattern Co. Inc.	12
501	Sinclair Oil Corporation	12
502	The Singer Company	12
503	Skelly Oil Company	12
504	A. O. Smith Corporation	12
505	Snap-On Tools Corporation	12
506	Sola Basic Industries, Inc.	7
507	Sonotone Corporation	12
508	A. G. Spalding & Bros. Inc.	10
509	Sparton Corporation	6
510	Sperry Rand Corporation	3
511	Sprague Electric Company	12
512	Square D Company	12
513	A. E. Staley Manufacturing Company	9
514	Standard Brands Incorporated	12
515	Standard Kollsman Industries, Inc.	12
516	Standard Oil Company of California	12
517	Standard Oil Company (Indiana)	12
518	Standard Oil Company (New Jersey)	12
519	The Standard Oil Company, an Ohio Corporation	12
520	Standard Packaging Corporation	12
521	Standard Pressed Steel Co.	12
522	Standard Screw Company	12
523	Stanray Corporation	12
524	The L. S. Starrett Company	6
525	J. P. Stevens & Co., Inc.	10
526	Stewart-Warner Corporation	12
527	Stokely-Van Camp, Inc.	5
528	Stone Container Corporation†	12
529	Studebaker Corporation	12
530	Sun Chemical Corporation	12
531	Sunstrand Corporation	12
532	Sun Oil Company	12
533	Sunray DX Oil Company	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	Tidewater Oil Company	12
543	Time Incorporated	12
544	The Timken Roller Bearing Company	12
545	Tobin Packing Co., Inc.	10
546	The Torrington Company	6
547	Triangle Conduit & Cable Co. Inc.	12
548	TRW Inc.	12
549	Twentieth Century-Fox Film Corporation	12
550	UMC Industries, Inc.	12
551	Union Camp 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	U. S. Plywood-Champion Papers Inc.	12
567	Uniroyal, Inc.	12
568	The United States Shoe Corporation†	10
569	United States Smelting Refining and Mining Company	12
570	United States Steel Corporation	12
571	United States Tobacco Company	12
572	United Whelan Corporation	12
573	Universal American Corporation	12
574	Universal Leaf Tobacco Co., Inc.	6
575	Utah-Idaho Sugar Company	2
576	Varian Associates	9
577	Veeder Industries Inc.	12
578	The Vendo Company	12
579	Wagner Electric Corporation (formerly Tung-Sol Electric Inc.)†	12
580	Walgreen Co.	9
581	Walworth Company	12
582	Ward Foods, Inc.	12
583	Warner Bros. Pictures, Inc.	8
584	Warner-Lambert Pharmaceutical Company	12
585	Westinghouse Air Brake Company	12
586	Westinghouse Electric Corporation	12
587	West Point-Pepperell, Inc.	8
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

American Broadcasting Companies, Inc.
American Metal Products Company
Barber Oil Corporation
Bell Intercontinental Corporation
The Blackstone Cigar Company
E. J. Brach & Sons
Champion Papers Inc.
City Products Corporation
Consolidation Coal Company
Dura Corporation
Emerson Radio & Phonograph Corporation
The E. Kahn's Sons Company
Paramount Pictures Corporation
Simonds Saw and Steel Company
Struthers Wells Corporation
Sunshine Biscuits, Inc.
Thatcher Glass Manufacturing Company, Inc.
Vasco Metals Corporation
Wagner Electric Corporation

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