8-15-1960

50%-Owned Companies: AICPA Research Memorandum

American Institute of Certified Public Accountants (AICPA)

AICPA RESEARCH MEMORANDUM

50%-Owned Companies

Definition of 50%-Owned Companies

The term "50%-owned companies" will be used to refer to situations where each of two companies owns directly or indirectly exactly 50% of the voting shares of a third company. Other terms which have been used are "50-50 companies," "Associated Companies," and "Jointly-Owned Companies."

The most distinctive feature of this relationship is that neither of the parent companies technically has control of the third company. Thus, it differs significantly from a 51%-49% combination where control can be exercised by one company, and also from situations where voting control is divided equally among three or more companies, since two or more of the owners could combine to control the operations of the jointly-owned company.

The selection of the term "50%-Owned Companies" was made in part because, except for the word "approximately," it conforms closely to the usage of the Securities and Exchange Commission. Rule 1-02 of Regulation S-X defines a "Fifty-percent owned person" as "a person in respect of which the registrant owns directly or indirectly approximately 50% of the voting securities and approximately 50% of the voting securities of such person is owned directly or indirectly by another single interest."

A case which might be an exception to "exactly 50%" would be one where, say, 49% of the voting shares are held by each of two companies, with the small remainder being held by persons who never exercise their voting rights or are equally divided as to their affiliation or interests between the two principal owners. In a case of this general type which came to our attention, an intermediate holding company was set up to hold the 98% of the shares, with its shares being divided equally between the two parent companies.

Extent of the Use of 50%-Owned Companies

The use of 50%-owned companies has come to be fairly common in American business practice and appears to be increasing in importance. Among the 600 companies surveyed in the preparation of Accounting Trends and Techniques, well over 100 companies are involved in the joint ownership of around 300 50%-owned companies.

This arrangement has been used extensively by oil and chemical companies and to a lesser extent in steel, paper and other industries. It has been employed to serve a variety of purposes such as: to conduct research; to assure a supply of basic materials or services; to acquire adequate distribution facilities; to solve the problem of high cost or risk in comparison with the resources of any one company; or to meet the legal requirements of some foreign countries. In some cases the two owners carry on complementary operations; in others they are directly competitive.

SEC Rules

The treatment of 50%-owned companies in filings with the Securities and Exchange Commission is covered by certain rules and instructions.

Rule 4-02(a) of Regulation S-X provides that: "The registrant shall not consolidate any subsidiary which is not a majority-owned subsidiary." This would seem to rule out consolidation of a 50%-owned company.

Instruction 7 of the Instructions as to Financial Statements for Form S-1 relates to the filing of financial statements of

50%-owned companies. It reads as follows:

> If the registrant owns, directly or indirectly, approximately 50 percent of the voting securities of any person and approximately 50 percent of the voting securities of such person is owned, directly or indirectly, by another single interest, there shall be filed for each such person the financial statements which would be required if it were a registrant. The statements filed for each such person shall identify the other single interest.

Rule 4-05(b) covers the reconciliation of the investment and the equity in the net assets of 50%-owned companies. It reads:

> A statement shall be made of the amount of any difference between the investment of the parent and its consolidated subsidiaries, as shown by their books, in the unconsolidated subsidiaries and fifty-percent owned persons for which statements are filed and the equity of such persons in the net assets of such unconsolidated subsidiaries, and fifty-percent owned persons, as shown by the books of the latter.

<u>The Problem</u>

The accounting problem is primarily how to indicate most effectively the relationship with the 50%-owned company and the results of its operations in the annual report to shareholders of each parent company. The principal questions to be considered (assuming materiality of the amounts) are:

1. Should the investment in the 50%-owned company be carried at cost, or should it be adjusted for half of the earnings or losses of the 50%-owned company? (There are variations in the procedure for doing this which will be discussed at a later point.)

2. If the investment is carried at cost, what are the minimum disclosures as to the share in net earnings or losses and in net assets of the 50%-owned company?

3. In any case, what additional disclosures should be made?

4. Should the financial statements of the 50%-owned company be consolidated with those of the parent, either in total or to the extent of 50% of each of the items?

Previous Consideration by Committee on Accounting Procedure

The problem of 50%-owned companies was given considerable attention by the committee on accounting procedure during its preparation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. A paragraph on the subject appeared in several drafts of the bulletin but it was deleted just prior to the preparation of the exposure draft. The latest draft of this section read as follows:

> Companies whose voting shares are owned fifty percent (or approximately fifty percent) by each of two companies are not subsidiaries of either of them, and therefore cannot be included in the consolidated financial statements of either. However, it is appropriate for each of such two companies to take up its share of the undistributed earnings of fifty-percent-owned companies in its accounts and financial statements in the same manner and with the same disclosure as applies to unconsolidated subsidiaries. Separate financial statements of the fifty-percent-owned companies should be furnished where the amounts involved are significant.

Observed Variations in Practice

The annual reports of 102 parent companies, involving eighty-three 50%-owned companies, were examined and a variety of practices were observed. Unless otherwise indicated, the examples are taken from 1959 reports.

I. No indication in annual report of connection with 50%-owned company. Our information as to the existence of a 50%-owned company was obtained from Moody's Manual of Investments, and was presumably based upon filings with the SEC. Undoubtedly, the omission of any reference to the 50%-owned company was frequently due to its lack of materiality, but sometimes sizeable investments were not mentioned. For example, the report of Standard Oil Company (N.J.) does not indicate that the company owns half of Ethyl Corporation with General Motors Corporation owning the other half. The report does provide some information on two more significant 50%-owned companies. Incidentally, the 1959 General Motors report shows that its investment in Ethyl Corporation is carried at $17,519,633, which, as indicated by an earlier report, was its cost adjusted for undistributed earnings to December 31, 1935.

II. Investment in 50%-owned company carried at cost or less. In most cases, the investment was carried at cost or less, but there was considerable variety in the nature and amount of the information disclosed.

a. Merely disclosed that the affiliation existed: Example -- Pittsburgh Plate Glass Co. as to its 50% ownership of Koppers Pittsburgh Co.

b. Disclosure limited to the cost of the investment in 50%-owned companies:

1. Individual company. Example -- Allied Chemical Corporation. A footnote on investments indicates that the investment in Allied-Kennecott Titanium Corporation amounts to $1,350,000.

2. Group of companies. Example -- Scott Paper Company has a 50% interest in Brunswick Pulp & Paper Company. Its report contains a three-column schedule showing "Investments at Cost 1959," "Equity in Estimated 1959 Earnings," and "Dividend Income 1959." Complete individual data are given for three foreign 50%-owned companies, but only the cost of investments is shown for an item labeled

"Other Corporations" which presumably includes Brunswick Pulp and Paper Company. (See Exhibit I)

c. Equity in undistributed current earnings of 50%-owned companies disclosed:

1. Individual company. Example -- Kennecott Copper Corporation presents a schedule of "Equity in Operations of Unconsolidated Companies" and, in the schedule, its half of the earnings of Garfield Chemical & Manufacturing Corporation is shown to be $514,500 in 1959 and $908,404 in 1958. The equity in the net assets was given only for a group as a whole. Also see Scott Paper Company procedure above.

2. Group of companies. Example -- Texaco, Inc. - a footnote breaks up the investment cost by groups of companies and says: "Texaco's equity in the estimated 1959 net earnings of nonsubsidiary companies and subsidiary companies not consolidated exceeded dividends received during the year by approximately $5,000,000, which has not been reflected in the consolidated statements." The equity in net assets is not given.

d. Disclosure of equity in net assets of 50%-owned companies but with no disclosure of equity in current earnings:

1. Individual company. Example -- Allegheny Ludlum Steel Corporation--footnote: "The corporation's equity in the net assets of Titanium Metals Corporation of America (50%-owned company) in respect of the investment and advances aggregating $1,445,000 amounted to $12,400,797 at December 31, 1959."

2. Group of companies. Example -- Champion Paper & Fibre Company--footnote: "The Company's equity in the net tangible assets of foreign affiliated and fifty-percent-owned companies at December 31, 1958 ... exceeded by approximately $2,500,000 the Company's investment therein."

e. Disclosure of equity in both current earnings and net assets. Example -- Stauffer Chemical Company. "Dividends received from the associated companies amounted to $1,445,465 in 1959 and $1,132,500 in 1958. Based on unaudited financial statements, the net earnings of the associated companies applicable to the shares owned by the Company amounted to $1,344,556 in 1959 and $1,566,424 ... in 1958, and at December 31, 1959 the underlying net assets applicable to such shares exceeded the cost of the shares to the Company by $605,676."

III. Investment carried at equity in 50%-owned company.

a. Current income taken up on balance sheet, income statement and in earned surplus. Example -- Atlas Powder Co.--footnote: "The investment therein ... is carried in the consolidated balance sheet at underlying net asset value. Atlas' share of the net income of these companies (less income tax which would have been payable thereon if received as dividend), $472,000, has been included in consolidated earnings for the year and in consolidated retained earnings at December 31, 1959." The equity in the current earnings of the 50%-owned companies appears as a specific item on the income statement. (See Exhibit II)

b. Current income added to investment, but credited to a special surplus account, similar to the treatment by du Pont of its investment in General Motors stock. The example closest to this practice was found in the 1958 annual report of Ayrshire Collieries Corporation. The balance sheet shows under "Investments" -- "Investments in and advances to affiliated companies (owned 50% or more)-- Capital Stock at underlying book value..." and, as a special surplus item under "Stockholders' Equity" -- "Equity in undistributed net income of affiliated companies." The income statement shows an item of "Equity in undistributed net income of affiliated companies" but it is not a part of the "Balance of Net Income" which is transferred to the statement of earned surplus; it is instead added to that figure to arrive at "Net Earnings, including equity in undistributed net income of affiliated companies." In 1959, this company included the equity in earnings of 50%-owned companies in the calculation of net income for the year carried to earned surplus. (See Exhibits III and IV)

c. Current income taken up both on balance sheet and income statement, but undistributed earnings segregated on the balance sheet. Example -- Peabody Coal Co. The balance sheet shows a special surplus item: "Equity in undistributed earnings of 50% owned companies." The statement of retained earnings shows a deduction: "Undistributed earnings of 50% owned companies included in net income (segregated on balance sheet)." The equity in current earnings of 50%-owned companies does not appear as a specific item on the income statement (See Exhibit V)

IV. Consolidation of 50% of each item on financial statements of 50%-owned company.

a. Presented as supplementary or statistical schedule. Example -- Monsanto Chemical Company. The schedule heading is: "Shareowners' Net Interests in Parent Company, Domestic and Foreign Subsidiaries and 50% Owned Associated Companies, Consolidating Only that Percentage of Associated Companies Which is Represented by Monsanto Shareowners' Equity." In the primary financial statements, the investment in 50%-owned companies is carried at cost and there is group disclosure of the equity in current earnings and in net assets.

b. Presented in consolidating or combining three-column statement. Monsanto Chemical Company in its 1960 annual report will present its principal financial statements, covered by its auditor's report, in columnar form. The following headings were used in the March 31, 1960 interim statement: "The Company and Subsidiaries Consolidated," "The Company's Proportionate Share of Fifty Per Cent Owned Companies" and "Combined Total." A footnote to the balance sheet reads as follows: "All intercompany transactions have been eliminated in the above statement and in the accompanying statement of income. As a result, the columns do not necessarily add to the combined totals." (See Exhibit VI)

V. Other Variations in Disclosure

a. Financial statements of 50%-owned companies presented in the annual report of the parent company. Example -- American Viscose Corporation included in its annual report a condensed balance sheet of Chemstrand Corporation, which showed the net income for the year. In its six-months interim statement, dated July 22, 1960, the comments section of the report contained statistical data for sales, net earnings, and earnings per share in which the amounts for American Viscose and 50% of the corresponding figures for two 50%-owned companies were combined. (See Exhibit VII)

b. Financial statements of 50%-owned company distributed to the shareholders of the parent company as a separate document. Example -- Monsanto Chemical Company distributed the annual report of Chemstrand Corporation to its shareholders.

c. Dividends received from 50%-owned companies indicated. Example -- Scott Paper Company. (See Exhibit I)

d. Name of other parent indicated. Example -- National Lead Company. "National Lead Company and Republic Steel Corporation are joint owners of the R-N Corporation which was organized to develop and license a process for the recovery of iron by direct reduction of ore."

e. Significant details of agreement between the two parent companies. Example -- Armco Steel Corporation--Footnote: "The Company owns 50% of the capital stock of Reserve Mining Company, the other 50% being owned by Republic Steel Corporation. The two shareholders are obligated (until the outstanding $127,493,000 principal amount of $4\frac{1}{4}$% First Mortgage bonds due June 1, 1980 of Reserve is paid in full) to take the entire production of Reserve, and as to each half-owner, to pay 50% of Reserve's operating costs and interest charges. If and to the extent that Reserve shall not have made the necessary payments, each shareholder is also obligated to pay one-half of amounts needed by Reserve for (a) fixed sinking fund requirements on the said bonds and (b) certain future capital replacements."

EXHIBIT I

SCOTT PAPER CO.

NOTE 3 — Investments in other companies were:

	Investments at cost 1959	Equity in estimated 1959 earnings	Dividend income 1959
British Columbia Forest Products Limited A Canadian corporation (29% owned).....	$15,530,326	$1,000,000	
Bowater-Scott Corporation Limited An English corporation (50% owned). ..	4,198,578	200,000	
Cia. Industrial de San Cristobal, S.A. A Mexican corporation (50% owned).....	2,951,600	150,000	$ 91,000
Optioned shares	880,000*		
Westminster Paper Company Limited† A Canadian corporation (43% owned). ...	4,356,667	400,000	174,000
Bowater-Scott Australia Pty. Limited An Australian corporation (50% owned)...	870,887	100,000	
Joa Co. A domestic corporation (17% owned)......	283,350		
	$29,071,408	$1,850,000	$265,000
Other Corporations	6,285,315		
	$35,356,723		

*Cost of shares which other shareholders have right to vote and option to purchase at cost plus premium. At December 31, 1959 all options were exercisable. No option extends beyond 1964.

†Scott has agreed to purchase from Westminster on or before October 31, 1963, at $14 (Canadian) per share, 125,000 additional shares which, with 275,000 shares already acquired under that agreement and 12,300 shares acquired by market purchase, will represent a 51% interest.

NOTE 4 — The 3% Convertible Debentures are dated March 1, 1956 and become due March 1, 1971. They are redeemable (at Company option) in whole or in part at any time on 30 days' notice; the redemption price is $102.40 to February 29, 1960, $102.20 to February 28, 1961, and decreases each March 1 thereafter. The Debentures may be surrendered (at principal amount) for conversion into common shares at $77 per share. Conversions to December 31, 1959 totaled $1,921,300; of this amount $1,920,000 was effected in 1959 by issuance of 24,805 common shares and cash payment of $10,722.

NOTE 5 — At December 31, 1959 a total of 1,756,342 common shares was reserved, 1,256,672 for issuance on conversion of 3% Convertible Debentures and 499,670 for issuance under the Company's Stock Option Plan.

At December 31, 1959 officers and other key employees held options for the purchase of 198,610 of the Company's common shares. Option prices were $77 per share with respect to 140,610 shares and $80.63 with respect to the remaining 58,000 shares. Such options with respect to 29,720 shares are presently exercisable and become exercisable with respect to an additional 22,491 shares at various dates in 1960. An option to purchase shares at $77 per share was exercised in 1959 to the extent of 330 shares.

OPINION OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND THE SHAREHOLDERS
OF SCOTT PAPER COMPANY

In our opinion, the foregoing statements present fairly the consolidated financial position of Scott Paper Company and its subsidiaries at December 31, 1959 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

PHILADELPHIA
JANUARY 25, 1960

EXHIBIT II

ATLAS POWDER CO.

ATLAS

CONSOLIDATED BALANCE

ASSETS

	1959	1958
Current Assets		
Cash	$ 1,514,000	$ 3,561,000
Short-term Marketable Securities	247,000	1,502,000
Accounts and Notes Receivable, less allowance for doubtful receivables, $300,000 (1958—$346,000)	10,743,000	9,890,000
Inventories (note 2)		
Raw Materials and Work In Process	4,569,000	3,884,000
Finished Products	5,315,000	5,376,000
Prepaid Expenses and Other Current Assets	407,000	321,000
Total Current Assets	22,795,000	24,534,000
Investments		
50%-Owned Companies, at underlying net asset value (note 1)	2,686,000	25,000
Miscellaneous, at cost	90,000	95,000
	2,776,000	120,000
Plant and Equipment		
Land, at cost	1,485,000	1,487,000
Buildings and Equipment, at cost	52,208,000	49,348,000
	53,693,000	50,835,000
Less Provision for Depreciation and Amortization	26,015,000	23,722,000
	27,678,000	27,113,000
Other Assets		
Goodwill and Patents, less Amortization	526,000	614,000
Deferred Charges	133,000	67,000
	$53,913,000	$52,448,000

See accompanying notes to financial statements.

LIABILITIES

	1959	1958
Current Liabilities		
Accounts Payable	$ 2,124,000	$ 2,565,000
Accrued Liabilities	2,061,000	2,142,000
United States and Foreign Income Taxes, estimated	2,516,000	2,195,000
Current Installments of Long-term Debt	414,000	414,000
Total Current Liabilities	7,115,000	7,316,000
Long-Term Debt		
Note Payable, 3½% (note 3)	3,236,000	3,530,000
General Mortgage 4½% Bonds (note 4)	2,300,000	2,480,000
	5,536,000	6,010,000
Provision For		
Insurance	169,000	225,000
Unfunded Pension Plan	66,000	91,000
Unawarded Bonus	37,000	37,000
	272,000	353,000
Minority Interest	217,000	194,000

SHAREOWNERS' INVESTMENT

	1959	1958
Common Stock—$20 par value (note 5) Authorized: 1,450,000 shares Issued: 761,051.5 (1958-758,133.5)	15,221,000	15,163,000
Additional Paid-in Capital (note 6)	4,500,000	4,447,000
Earnings Retained in the Business, exclusive of amounts capitalized (notes 1 and 3)	21,167,000	19,080,000
	40,888,000	38,690,000
Less 2,056 Shares Common Stock in Treasury	115,000	115,000
Total Shareowners' Investment	40,773,000	38,575,000
	$53,913,000	$52,448,000

STATEMENT OF CONSOLIDATED EARNINGS

YEAR ENDED DECEMBER 31, 1959
with comparative figures for 1958

	1959	1958
Sales and Operating Revenues	$70,721,000	$65,593,000
Equity in Earnings of 50%-Owned Companies (note 1)	472,000	—
Total	71,193,000	65,593,000
Costs and Expenses		
Cost of goods sold and shipping expense	45,929,000	43,972,000
Selling, administrative and general expenses	13,997,000	12,345,000
Depreciation and amortization	3,377,000	3,037,000
Interest and debt expense	266,000	269,000
Total	63,569,000	59,623,000
Earnings before Income Taxes and Minority Interest	7,624,000	5,970,000
United States and Foreign Income Taxes, estimated	3,686,000	3,072,000
	3,938,000	2,898,000
Minority Interest in Net Earnings of Subsidiary	31,000	24,000
Net Earnings for the Year	**3,907,000**	**2,874,000**
Dividends on Common Stock	1,820,000	1,812,000
	2,087,000	1,062,000
Earnings Retained in the Business		
At the beginning of the year	19,080,000	18,018,000
At the end of the year	$21,167,000	$19,080,000
Shares of Common Stock Outstanding at Year-end	758,996	756,078
Net Earnings per Share of Common Stock	$5.15	$3.80
Dividends Paid per Share of Common Stock	2.40	2.40

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. *Principles of Consolidation:*

The consolidated financial statements include the accounts of Atlas Powder Company and all subsidiaries, namely, Atlas-Goldschmidt, G.m.b.H., Atlas de Mexico, S. A., Atlas Powder Company, Canada, Ltd., and Atlas Realty Corporation.

In February 1959 the company acquired 50% of the outstanding capital stock of Solar Nitrogen Chemicals, Inc., a corporation organized to purchase an established, integrated, industrial complex manufacturing anhydrous ammonia and related products. The investment therein and in Honeywill-Atlas, Ltd. (another non-consolidated, 50%-owned company) is carried in the consolidated balance sheet at underlying net asset value. Atlas' share of the net income of these companies (less income tax which would have been payable thereon if received as a dividend), $472,000, has been included in consolidated earnings for the year and in consolidated retained earnings at December 31, 1959.

2. *Inventories:*

The basis of valuation is essentially the lower of average cost or market, except that the cost of certain materials carried at $507,000 is determined by the last-in, first-out method and is approximately $175,000 below replacement cost.

3. *Note Payable, 3½%:*

The 3½% note is payable in annual installments of $294,000 through 1971 and contains a restriction as to the payment of cash dividends on common stock and reacquisition of capital stock. Of the retained earnings at December 31, 1959, an amount of $17,538,000 was free from this restriction.

4. *General Mortgage 4½% Bonds:*

The general mortgage 4½% sinking fund bonds due in 1975, issued by Atlas Realty Corporation, are secured by that company's plant and equipment and its rights as lessor in a twenty-year lease, dated July 1, 1955, of all its properties to Atlas Powder Company.

The related indenture provides, among other things, for fixed quarterly sinking fund payments of $30,000 and optional sinking fund payments not to exceed $150,000 in any one year. Optional sinking fund payments aggregating $290,000 have been accumulated through December 31, 1959 and may be used to satisfy future fixed quarterly sinking fund payments.

5. *Capital Stock:*

Under the stock option plan authorized by the shareowners, options exercisable on a cumulative basis over a period of ten years or less have been granted to officers and key employees to purchase common stock at a price equal to 95% of the market price on the dates of granting. At December 31, 1959, options for 42,756 shares were outstanding and 4,581 shares were reserved for the granting of future options under the plan.

In addition to the shares available for option, 4,636 shares of authorized but unissued common stock are reserved for sale to employees.

There are authorized 100,000 shares of cumulative preferred stock of $100 par value a share; none are outstanding.

6. *Additional Paid-in Capital:*

During 1959, additional paid-in capital was increased by $53,000 representing the excess of the proceeds over par value of 2,918 shares of common stock sold to employees pursuant to exercise of stock options.

7. *Funded Pension Plan:*

Earnings for 1959 have been charged with provision for contributions to the pension trust in the amount of $700,000 compared with $200,000 in the preceding year. The 1959 provision approximates the annual normal cost of the plan with respect to current service and interest on past service as determined by consulting actuaries.

At December 31, 1959 the pension trust held assets having a cost value of $8,091,000 and the unfunded past service liability amounted to approximately $5,400,000.

8. *Commitment:*

Atlas and the other 50% owner of Solar Nitrogen Chemicals, Inc. are parties to a sale and purchase agreement with Solar. The agreement provides that, in certain circumstances, Atlas and the other owner may be required to purchase ammonia, or advance funds in lieu of such purchases, to enable Solar to meet its expenses and obligations. This requirement did not become operative at any time during 1959.

(See note 1 for further information concerning Solar Nitrogen Chemicals, Inc.)

AYRSHIRE COLLIERIES CORPORATION AND SUBSIDIARIES

Comparative Statement of Earnings

	Year Ended June 30, 1958	Year Ended June 30, 1957
REVENUES:		
Sales of coal and coke	$44,492,463	$45,829,321
Income from other products, royalties, interest, rentals, etc.	727,693	808,784
Proceeds from life insurance	—	194,700
	45,220,156	46,832,805
EXPENSES:		
Coal and coke purchased for resale	23,557,424	25,404,837
Coal production costs	11,968,161	12,031,172
Depreciation and depletion	1,728,577	1,772,232
Selling, administrative and general expenses	3,225,754	2,971,247
Interest expense	168,584	234,187
Federal income taxes	1,687,400	1,514,400
	42,335,900	43,928,075
NET INCOME FOR THE YEAR	2,884,256	2,904,730
Provision for price-level depreciation (See note)	195,429	143,587
BALANCE OF NET INCOME	2,688,827	2,761,143
Equity in undistributed net income of affiliated companies	311,226	451,961
NET EARNINGS, including equity in undistributed net income of affiliated companies	$ 3,000,053	$ 3,213,104

NOTE: The provision for price-level depreciation represents the excess of depreciation cost measured by the current purchasing power of the dollar over depreciation cost measured by the purchasing power of the dollar at the dates of acquisition or construction of the companies' depreciable property. Reference is made to the certificate of Arthur Andersen & Co. for approval of this accounting.

AYRSHIRE
COLLIERIES
CORPORATION
AND SUBSIDIARIES

Consolidated

	June 30, 1958	June 30, 1957
ASSETS		
CURRENT ASSETS:		
Cash	$ 5,615,687	$ 3,229,991
U. S. Government securities, at cost	4,858,748	6,433,489
Temporary investments, at cost	995,920	—
Accounts receivable, less reserve	5,033,149	5,900,369
Coal and other products, at market or less	659,639	515,021
	17,163,143	16,078,870
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Operating property	30,265,383	28,733,089
Less—Accumulated depreciation and depletion	16,889,652	14,515,100
	13,375,731	14,217,989
Coal mine, under construction	5,653,708	1,445,488
Undeveloped coal lands	3,454,244	3,016,559
	22,483,683	18,680,036
INVESTMENTS:		
Investments in and advances to affiliated companies (owned 50% or more)—		
Capital stock, at underlying book value	2,662,697	2,351,471
Advances	2,425,000	2,825,000
	5,087,697	5,176,471
Cash surrender value of life insurance	129,842	123,519
Other	82,492	169,762
	5,300,031	5,469,752
PREPAID EXPENSES AND DEFERRED CHARGES:		
Repair parts and supplies	1,303,881	1,338,930
Advance royalties	978,395	972,772
Other	883,886	679,816
	3,166,162	2,991,518
	$48,113,019	$43,220,176

Balance Sheet

	June 30, 1958	June 30, 1957
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
For equipment—mine under construction	$ 3,007,965	$ —
Accounts payable and accrued expenses	3,308,540	3,396,527
Federal income taxes	1,333,725	1,527,248
Current requirements on long-term obligations	669,368	210,108
	8,319,598	5,133,883
LONG-TERM OBLIGATIONS:		
Notes payable—		
4½% first mortgage and collateral trust notes, due serially to 1966	3,100,000	3,580,000
4⅞% unsecured notes, due serially to 1966	4,200,000	4,500,000
4% unsecured notes	—	200,000
Installments under royalty and land purchase contracts	999,586	927,453
Other	92,239	100,181
	8,391,825	9,307,634
RESERVES:		
Work stoppage expense	300,000	300,000
Deferred Federal income taxes	218,500	127,100
	518,500	427,100
STOCKHOLDERS' EQUITY:		
Common stock, par value $3 per share, authorized 800,000 shares; issued and outstanding—689,998 and 657,515 shares, respectively	2,069,994	1,972,545
Paid-in surplus	4,200,976	3,258,969
Capital maintained by recognition of price-level depreciation (See note on statement of earnings)	1,925,528	1,730,099
Earned surplus ($10,429,828 restricted as to payment of cash dividends at June 30, 1958)	21,873,901	20,888,475
Equity in undistributed net income of affiliated companies	812,697	501,471
	30,883,096	28,351,559
	$48,113,019	$43,220,176

AYRSHIRE
COLLIERIES
CORPORATION
AND SUBSIDIARIES

Consolidated Statement of Surplus

FOR THE YEAR ENDED JUNE 30, 1958

	Earned Surplus	Paid-In Surplus
BALANCE, June 30, 1957	$20,888,475	$3,258,969
Balance of Net Income (after provision for price-level depreciation)	2,688,827	
	23,577,302	
DEDUCT:		
Cash dividends, $1.00 per share	655,431	
5% Stock dividend, 32,483 shares—		
Par value	97,449	
Assigned value in excess of par value	942,007	942,007*
Cash—fractional shares	8,514	
	1,703,401	
BALANCE, June 30, 1958 ($10,429,828 of earned surplus restricted as to payment of cash dividends)	$21,873,901	$4,200,976

*Denotes credit

Auditors' Certificate

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO 3

To the Stockholders and Board of Directors,
Ayrshire Collieries Corporation:

We have examined the consolidated balance sheet of Ayrshire Collieries Corporation (a Delaware corporation) and subsidiary companies as of June 30, 1958, and the related statements of earnings and 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 related statements of earnings and surplus referred to above present fairly the consolidated financial position of Ayrshire Collieries Corporation and subsidiary companies as of June 30, 1958, and their consolidated net income for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In our opinion, however, the net income for the year is more fairly presented after deducting the provision for price-level depreciation, since current price levels have been recognized in determining the current cost of property consumed in operations. Generally accepted principles of accounting for cost of property consumed in operations are based on historical costs and do not reflect the effect of price-level changes since dates of acquisition or construction of the companies' depreciable property.

August 15, 1958

Arthur Andersen & Co.

EXHIBIT IV

CONSOLID...

AYRSHIRE COLLIERIES CORPORATION

AND SUBSIDIARIES

	June 30, 1960	June 30, 1959
ASSETS		
CURRENT ASSETS:		
Cash	$ 4,575,124	$ 5,615,687
U. S. Government securities, at cost	3,402,321	4,858,748
Temporary investments, at cost	—	995,920
Accounts receivable, less reserve	6,071,017	5,033,149
Coal and other products, at market or less	470,286	659,639
	14,518,748	17,163,143
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Operating property	30,515,704	30,265,383
Less—Accumulated depreciation and depletion	18,339,250	16,889,652
	12,176,454	13,375,731
Coal mine, under construction	8,115,910	5,653,708
Undeveloped coal lands	3,921,077	3,454,244
	24,213,441	22,483,683
INVESTMENTS:		
Investments in and advances to nonconsolidated affiliates (owned 50% or more), at underlying book value	5,119,990	5,037,697
Cash surrender value of life insurance	136,748	129,842
Other	71,122	82,492
	5,327,860	5,300,031
PREPAID EXPENSES AND DEFERRED CHARGES:		
Repair parts and supplies	1,582,834	1,303,881
Advance royalties	1,050,566	978,395
Other	873,357	883,886
	3,506,757	3,166,162
	$47,566,806	$48,113,019

BALANCE SHEET

	June 30, 1959	June 30, 1958
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
For equipment—mine under construction	$ —	$ 3,007,965
Accounts payable and accrued expenses	3,182,826	3,308,540
Federal income taxes	1,477,768	1,333,725
Current requirements on long-term obligations	1,324,903	669,368
	5,985,497	8,319,598
LONG-TERM OBLIGATIONS:		
Notes payable—		
4½% first mortgage and collateral trust notes, due serially to 1966	2,460,000	3,100,000
4⅞% unsecured notes, due serially to 1966	3,600,000	4,200,000
Installments under royalty and land purchase contracts	1,198,983	999,586
Other	83,989	92,239
	7,342,972	8,391,825
RESERVES:		
Work stoppage expense	300,000	300,000
Deferred Federal income taxes	159,000	218,500
	459,000	518,500
STOCKHOLDERS' EQUITY:		
Common stock, par value $3 per share, authorized 800,000 shares; issued and outstanding—724,184 and 689,998 shares, respectively	2,172,552	2,069,994
Paid-in surplus	5,760,712	4,200,976
Capital maintained by recognition of price-level depreciation (See note on statement of income)	2,182,806	1,925,528
Earned surplus ($11,990,056 restricted as to payment of cash dividends at June 30, 1959)	23,663,267	22,686,598
	33,779,337	30,883,096
	$47,566,806	$48,113,019

STATEMENT OF CONSOLIDATED INCOME

AYRSHIRE COLLIERIES CORPORATION
AND SUBSIDIARIES

	Year Ended June 30, 1959	Year Ended June 30, 1958
REVENUES:		
Sales of coal and coke	$45,274,741	$44,492,463
Income from other products, royalties, interest, rentals, etc.	929,358	727,693
Equity in net income of nonconsolidated affiliates	476,933	311,226
	46,681,032	45,531,382
EXPENSES:		
Coal and coke purchased for resale	24,166,960	23,557,424
Coal production costs	11,594,147	11,968,161
Depreciation and depletion	1,976,682	1,728,577
Selling, administrative and general expenses	3,498,101	3,225,754
Interest expense	155,248	168,584
Federal income taxes	1,695,450	1,687,400
	43,086,588	42,335,900
NET INCOME	3,594,444	3,195,482
Provision for price-level depreciation (See note)	257,278	195,429
NET INCOME, after deducting provision for price-level depreciation	$ 3,337,166	$ 3,000,053

NOTE: The provision for price-level depreciation represents the excess of depreciation cost measured by the current purchasing power of the dollar over depreciation cost measured by the purchasing power of the dollar at the dates of acquisition or construction of the companies' depreciable property. Reference is made to the certificate of Arthur Andersen & Co. for approval of this accounting.

STATEMENT OF CONSOLIDATED SURPLUS

For the Year Ended June 30, 1959

AYRSHIRE COLLIERIES CORPORATION

AND SUBSIDIARIES

	Earned Surplus	Paid-in Surplus
BALANCE, June 30, 1958	$22,686,598	$ 4,200,976
Net Income, after deducting provision for price-level depreciation	3,337,166	
	26,023,764	
DEDUCT:		
Cash dividends, $1.00 per share	687,923	
5% Stock dividend, 34,186 shares—		
Par value	102,558	
Assigned value in excess of par value	1,559,736	1,559,736*
Cash—fractional shares	10,280	
	2,360,497	
BALANCE, June 30, 1959 ($11,990,056 of earned surplus restricted as to payment of cash dividends)	$23,663,267	$ 5,760,712

*Denotes credit

AUDITORS' CERTIFICATE

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET

CHICAGO 3

To the Stockholders and Board of Directors,
Ayrshire Collieries Corporation:

We have examined the consolidated balance sheet of AYRSHIRE COLLIERIES CORPORATION (a Delaware corporation) and subsidiaries as of June 30, 1959, and the related statements of income and 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 related statements of income and surplus referred to above present fairly the consolidated financial position of Ayrshire Collieries Corporation and subsidiaries as of June 30, 1959, and their consolidated net income for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Generally accepted principles of accounting for cost of property consumed in operations are based on historical costs and do not recognize the effect of changes in the purchasing power of the dollar since dates of acquisition or construction of the companies' depreciable property. In our opinion, therefore, the consolidated net income for the year is more fairly presented after deducting the provision for price-level depreciation because such provision does recognize the effect of changes in the purchasing power of the dollar.

ARTHUR ANDERSEN & CO.

August 14, 1959

EXHIBIT V

PEABODY COAL COMPANY

Consolidated Balance Sheets

DECEMBER 31, 1959 AND 1958

ASSETS	1959	1958
CURRENT ASSETS:		
Cash	$ 10,200,939	$ 10,296,048
U. S. Government securities, at cost	4,339,833	4,064,651
Receivables, less reserves of $85,000 and $75,000	16,944,491	14,066,451
Inventories, at lower of cost or market—		
Coal	1,552,418	860,540
Maintenance and operating supplies	3,281,977	3,356,388
	$ 36,319,658	$ 32,644,078
INVESTMENTS, principally at cost	$ 7,601,270	$ 7,373,131
PROPERTY, PLANT AND EQUIPMENT, at cost: Coal and surface lands, plant and equipment, less reserves for depreciation and depletion of $64,309,762 and $56,765,081	$124,223,469	$108,939,549
DEFERRED CHARGES AND PREPAID EXPENSES	$ 3,201,413	$ 2,352,595
	$171,345,810	$151,309,353

PEABODY COAL COMPANY

AND SUBSIDIARIES

LIABILITIES

	1959	1958
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 6,246,456	$ 5,164,317
Accounts payable	6,081,270	5,000,368
Accrued expenses	3,368,186	3,489,178
Dividends payable	967,984	942,192
Federal and state income taxes	6,750,079	5,448,915
	$ 23,413,975	$ 20,044,970
LONG-TERM DEBT, less current maturities:		
5¼% sinking fund debentures, due 1976; payable $1,950,000 annually	$ 31,100,000	$ 33,050,000
Notes payable to banks, average interest rate 5¼%; due in quarterly installments to 1964	12,475,000	5,300,000
Other notes payable	5,371,253	5,243,200
	$ 48,946,253	$ 43,593,200
SHAREHOLDERS' INVESTMENT:		
5% prior preferred shares, cumulative, $25 par value, authorized, issued and outstanding 188,071 shares	$ 4,701,775	$ 4,701,775
Common shares, $5 par value, authorized 12,000,000 shares; outstanding 9,679,847 shares and 9,421,924 shares (Note 1)	48,399,235	47,109,620
Additional paid-in capital (Note 2)	17,689,965	14,949,512
Retained earnings	26,999,276	20,071,342
Equity in undistributed earnings of 50% owned companies	1,195,331	838,934
	$ 98,985,582	$ 87,671,183
	$171,345,810	$151,309,353

The accompanying notes are an integral part of these statements.

Statements of Consolidated RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1959 AND 1958

	1959	1958
BALANCE BEGINNING OF YEAR	$20,071,342	$14,611,449
ADD—Net income	11,339,772	9,796,571
	$31,411,114	$24,408,020
DEDUCT:		
Cash dividends—		
Preferred stock	$ 235,088	$ 235,088
Common stock—$.40 per share	3,820,353	3,769,255
Undistributed earnings of 50% owned companies included in net income (segregated on balance sheet)	356,397	332,335
	$ 4,411,838	$ 4,336,678
BALANCE END OF YEAR	$26,999,276	$20,071,342

The accompanying notes are an integral part of these statements.

Statements of Consolidated INCOME

FOR THE YEARS ENDED DECEMBER 31, 1959 AND 1958

	1959	1958
TONS OF COAL SOLD:		
Own production	25,779,891	22,175,365
Other producers	1,127,487	1,044,698
	26,907,378	23,220,063
COAL SALES, OTHER OPERATING REVENUES AND MISCELLANEOUS INCOME	$109,370,386	$ 93,977,202
COSTS AND EXPENSES:		
Cost of coal sales, operating, selling and general expenses	$ 81,044,206	$ 69,733,818
Interest on long-term debt	2,506,430	2,518,628
	$ 83,550,636	$ 72,252,446
Income before depreciation, depletion and income taxes	$ 25,819,750	$ 21,724,756
PROVISIONS FOR DEPRECIATION AND DEPLETION	9,552,978	7,412,185
Income before income taxes	$ 16,266,772	$ 14,312,571
PROVISION FOR INCOME TAXES	4,927,000	4,516,000
NET INCOME	$ 11,339,772	$ 9,796,571

The accompanying notes are an integral part of these statements.

EXHIBIT VI

QUARTERLY REPORT AND ANNUAL MEETING REPORT

To Shareowners of
Monsanto Chemical Company:

Combined sales for the first quarter of 1960 amounted to $212,114,000 compared to $197,842,000 for the same period in 1959. Combined sales include those of the parent company, its domestic and foreign subsidiaries and one-half of the sales of 50 per cent-owned associated companies.

Net income from such sales was $16,131,000, a decrease of three per cent from earnings of $16,615,000 for the first quarter of 1959. The 1960 earnings were equivalent to 70 cents a common share on 23,170,315 shares outstanding. In 1959, earnings amounted to 72 cents a share on 23,156,857 shares. The 1959 earnings have been restated as explained below.

For several years we have been reporting to shareowners the financial position and income of the parent company and its domestic and Canadian subsidiaries as well as the combined financial position and income of the parent company, all of its subsidiaries and its proportionate share of 50 per cent-owned companies. This latter presentation was made in the belief that it more adequately reported the total interests of Monsanto shareowners.

Beginning this year our reports to shareowners will be on the combined basis. The accompanying statements show the financial position and income of the parent company and all of its subsidiaries as well as of the combined enterprise.

Further, in adopting this combined presentation, a change has been made in accounting for Monsanto's equity in the earnings of subsidiary and 50 per cent-owned companies. Formerly, in the statistical presentations of the combined enterprise, there was included in each year's income taxes a provision for additional income taxes which would have been payable had our share of the earnings of such subsidiary and 50 per cent-owned companies been received as dividends. Since the undistributed earnings of these companies are retained to finance growth, a continuation of this practice would result in the accumulation of a substantial tax reserve which under normal circumstances would never be required. Therefore, in the future, and with the approval of Haskins & Sells, our independent public accountants, a tax provision will be made only for the dividends received in the then current year. The income for 1959 has been restated accordingly to provide comparability with the current year. On the revised basis, net income for 1959 was $63,981,000, equivalent to $2.76 a common share.

The statements which will appear in the annual reports to shareowners will be prepared on the above basis and will be certified by Haskins & Sells.

Charles Allen Thomas

Chairman, Board of Directors

St. Louis, Missouri
April 28, 1960

Charles H. Sommer

President

STATEMENT OF INCOME

Three Months Ended March 31

(In Thousands)

	The Company and Subsidiaries Consolidated	The Company's Proportionate Share of Fifty Per Cent Owned Companies	Combined Total 1960	Combined Total 1959
Income:				
Net sales	$178,288	$37,228	$212,114	$197,842
Dividends	217		5	15
Other	1,868	91	1,776	1,759
	180,373	37,319	213,895	199,616
Deductions:				
Cost of goods sold	132,543	23,679	152,796	141,129
Selling, administrative and research expenses	22,054	4,878	26,932	23,248
Interest	2,041	644	2,526	2,464
Minority interests	400		400	193
Other	224	196	420	255
	157,262	29,397	183,074	167,289
Income Before Income Taxes	23,111	7,922	30,821	32,327
Provision for Income Taxes	10,530	4,160	14,690	15,712
Net Income	$ 12,581	$ 3,762	$ 16,131	$ 16,615

Depreciation, obsolescence and depletion for the combined companies for 1960 and 1959 amounted to $16,714,438 and $15,286,738.

STATEMENT OF FINANCIAL
(In Tho

ASSETS

	The Company and Subsidiaries Consolidated	The Company's Proportionate Share of Fifty Per Cent Owned Companies	Combined Total
Current Assets:			
Cash	$ 22,976	$ 5,570	$ 28,546
Marketable securities	67,397	12,956	80,353
Net receivables	105,361	19,405	122,848
Inventories	110,408	19,147	129,397
	306,142	57,078	361,144
Investments and Miscellaneous Assets:			
Investment in and advances to associates	43,358		
Miscellaneous investments and receivables	44,327	2,396	47,106
	87,685	2,396	47,106
Property, Plant and Equipment	754,203	162,998	917,201
Less accumulated depreciation and depletion	345,586	54,060	399,646
Net property	408,617	108,938	517,555
Deferred Charges	17,649	2,127	23,462
Total	$820,093	$170,539	$949,267

All intercompany transactions have been eliminated in the above statement and in the accompanying statement of income. As a result, the columns do not necessarily add to the combined totals.

POSITION, MARCH 31, 1960
usands)

LIABILITIES

	The Company and Subsidiaries Consolidated	The Company's Proportionate Share of Fifty Per Cent Owned Companies	Combined Total
Current Liabilities:			
Notes payable		[illegible]	[illegible]
Accounts payable and accruals	$ 62,373	12,070	72,525
Income taxes	27,597	8,875	36,472
Sinking fund payments	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Long Term Debt—Less Current Portion Above	209,793	64,279	258,313
Other Liabilities:			
Deferred income taxes	19,230	7,556	26,786
Other	2,036	814	2,850
	21,266	8,370	29,636
Minority Interests in Subsidiary Companies	20,570		20,570
Shareowners' Equity:			
Common shares—authorized, 35,000,000 shares, par value $2 each; outstanding, 23,170,315 shares	46,341	8,807	46,341
Paid-in surplus	224,053	15,915	226,231
Retained earnings	206,310	42,048	247,214
	476,704	66,770	519,786
Total	$820,093	$170,539	$949,267

EXHIBIT VII

AMERICAN VISCOSE CORPORATION

1617 PENNSYLVANIA BOULEVARD

PHILADELPHIA 3, PENNSYLVANIA

July 22, 1960

To Our Shareholders:

The combined earnings of American Viscose and its 50% equity in those of its associated companies—The Chemstrand Corporation and Ketchikan Pulp Company—were equal to $1.17 per share in the second quarter of 1960 compared with $1.61 per share in the same period of 1959. The combined earnings in the first six months of 1960 were $2.29 per share versus $3.14 per share in the first half of 1959. The sales and earnings of American Viscose and those of its associated companies are shown below:

	Second Quarter		Six months ending June 30,	
	1960	1959	1960	1959
Net sales:				
American Viscose	$53,350,000	$64,133,000	$108,175,000	$126,710,000
50% of Chemstrand and Ketchikan	29,468,000	29,686,000	58,024,000	60,093,000
Together	$82,818,000	$93,819,000	$166,199,000	$186,803,000
Net earnings:				
American Viscose	$ 1,712,000	$ 4,140,000	$ 3,723,000	$ 7,784,000
50% of Chemstrand and Ketchikan	3,795,000	4,038,000	7,325,000	8,249,000
Together	$ 5,507,000	$ 8,178,000	$ 11,048,000	$ 16,033,000
Earnings per share:				
American Viscose	$ .36	$ .82	$ .77	$1.53
50% of Chemstrand and Ketchikan	.81	.79	1.52	1.61
Together	$1.17	$1.61	$2.29(a)	$3.14(a)

Note (a): Based on outstanding capital stock at June 30, 1960—4,808,265 shares, and at June 30, 1959—5,098,377 shares.

The decline in sales and earnings at American Viscose is attributable to decreased shipments of its rayon yarns and staple and to lower prices received for these products. Competition continues to be very intensive in the markets in which these products are sold. In the case of Tyrex viscose tire yarns and fabrics, prices were reduced in September and again in December, 1959 following the price reductions then made by the producers of nylon tire yarns. Imports of rayon staple, although less than in the first half of 1959, continue to be brought into our country in large quantities and sold at prices which have a depressing effect on our market. In contrast with our rayon operations, acetate yarn and cellophane have been in increasing demand. Shipments of acetate yarn in the first half of 1960 were substantially greater than in the same period of 1959 and were the best that the Corporation has had in several years. Cellophane continued its expected growth with increased shipments in the first half of 1960.

Our associated companies, formed to diversify and expand our business, are making excellent progress. The Chemstrand Corporation, a large producer of nylon yarns and Acrilan staple, shipped larger quantities of these products in the first six months of 1960 than in the first half