A Proposal to Safeguard Investors in Unregistered Securities

Supplemental Report to Congress

RECOMMENDING AN AMENDMENT TO THE SECURITIES EXCHANGE ACT OF 1934 WHICH WOULD EXTEND TO INVESTORS IN UNREGISTERED SECURITIES THE PROTECTION NOW AFFORDED TO INVESTORS IN REGISTERED SECURITIES BY REASON OF SECTIONS 12, 13, 14 AND 16 OF THE ACT.

Securities and Exchange Commission
Washington, D.C.

1950
Sirs:

On June 19, 1946, the Securities and Exchange Commission transmitted to the Congress "A Proposal to Safeguard Investors in Unregistered Securities" by amending the Securities Exchange Act of 1934 to extend to investors in certain unregistered securities the basic protection now afforded by that Act to investors in securities registered by their issuers with this Commission. This proposal was received and printed as House Document No. 672, 79th Congress, 2d Session.

The then Chairman of this Commission, in his letter submitting the Commission's report on the proposal stated:

"The purpose of the amendment is to eliminate a double standard with respect to the protection of investors which—more as a result of accident than of design—has developed over the past 13 years. The effect of the securities acts adopted by Congress since 1933 has been to afford various essential protections to investors in certain companies while leaving unprotected the investors who buy and sell securities issued by other companies of comparable size, importance, and public interest.

"As a result of existing legislation, it is possible for investors to obtain reliable information with respect to securities which are registered by their issuers on securities exchanges, and with respect to registered public utility holding companies and subsidiaries and registered investment trusts. Corporations issuing such securities file with the Commission current reports on their financial position. Since these reports are public information, the investor can buy or sell on the basis of something other than 'tips' and 'trends.' The investor in these securities also enjoys a more effective voice in the management of his corporation. When his proxy is solicited he is not faced with the alternatives of giving a blank check to the soliciting persons or of foregoing the right to vote altogether. The Commission's proxy rules require that the security
holder be given the information necessary to an intelligent exercise of his voting rights; he must be given an opportunity to indicate his wishes separately with respect to all matters which are expected to arise at the meeting; and he is also given a reasonable opportunity to present his own proposals and views to the other security holders. Another of the basic protections enjoyed by the investor in such registered securities is the safeguard against trading abuses by 'corporate insiders'—that is, by officers, directors, and principal stockholders. Short-term trading profits by corporate insiders in the equity issues of the registrant may be recovered by the corporation. Such insiders are forbidden to sell short the equity securities of their own corporations. Moreover, any trading in these securities in which such insiders engage must be promptly reported and is made public at once.

"These protective provisions are contained in sections 12, 13, 14, and 16 of the Securities Exchange Act and in parallel provisions of the Public Utility Holding Company Act and the Investment Company Act. As a result of the limited coverage of these provisions, a security which is not listed on a national securities exchange, unless it happens to be a registered public utility or investment company security, lacks these vital protective features. Commission surveys show that these unregistered securities are commonly bought and sold on the basis of information which is at best inadequate and sometimes misleading. Financial statements of the issuers of such securities are bare and uninformative; they lack much of the information needed for an informed appraisal of the issuer's securities. Proxies are usually powers of attorney conferring blanket authority upon the soliciting persons, and the information to guide the security holder in the execution of the proxy instrument is withheld. The stockholder is provided with so little information that at times, when solicited for his proxy in connection with the election of directors, even the names of the nominees are not disclosed. Moreover, the stockholder has no way of knowing whether and to what extent corporate insiders are utilizing their inside information at his expense.

"The only provisions of the securities acts applicable to unregistered securities are those which outlaw fraudulent and manipulative practices. Within the limits of its manpower, the Commission has sought to carry out the statutory mandate with respect to unregistered securities. It has discovered, however, that in this as in other matters, correction is not as effective as prevention; that security holders are much more adequately protected when issuers and corporate insiders are under an obligation to supply information.

"The importance of requiring such information is considerably enhanced by current and prospective conditions in the business world. The manner in which some corporate insiders have taken advantage of their private knowledge during the war years illustrates what may be expected in years to come. Insiders having advance information have frequently been enabled to exploit their advantage to buy up publicly held unregistered securities at depressed prices. This and similar patterns of fraud recur again and again in the files of the Commission.
"The Commission proposes at this time that the safeguards relating to registered securities be extended to cover the securities of large unregistered corporations which have one or more issues widely held. Specifically, we propose that the provisions of sections 12, 13, 14, and 16 of the Securities Exchange Act be made applicable to securities of unregistered corporations having at least $3,000,000 in assets and at least 300 security holders. The legislative history of the Securities Exchange Act discloses that the proposal which the Commission is making at this time is simply a means of attaining Congress' original objectives as declared in 1934--the objective of providing equal protection to all investors, whether on the organized exchanges or over the counter. The principal factor which prevented Congress from carrying out this intention at that time was its uncertainty as to the nature and scope of the issuers of unregistered securities and the conditions under which such securities were traded. The feasibility of extending the protective disclosure provisions to securities which were not traded upon the exchanges was not then established.

"Since 1934, however, the Congress has from time to time extended the registration provisions, and the attendant provisions relating to proxies and insiders' trading, to important classes of securities which had not originally been subject to those provisions. Thus, with the enactment of the Public Utility Holding Company Act of 1935, many holding company and operating company issues became subject to these safeguards. And in 1936, with the amendment of the Securities Exchange Act, a requirement for periodic financial statements was laid down in connection with the registration of large issues thereafter offered to the public. Again, when the Investment Company Act was adopted in 1940, another important group of issues was subjected to protective provisions similar to those contained in sections 12, 13, 14, and 16 of the Securities Exchange Act. The measure proposed here is the logical ultimate step which would safeguard investors in all corporations of substantial size the securities of which have achieved a significant degree of public distribution.

* * * *

"The proposed amendment, it should be noted, would put an end to any tendency on the part of corporate management to select that market for its security holders which is available with fewest restrictions upon management. Any tendency on the part of management to deny security holders the facilities of an organized securities exchange in order to avoid the attendant disclosure responsibilities would disappear. The exchanges and over-the-counter markets would then be on a truly competitive basis with the governing consideration being the service which each can supply the investor. That investors would benefit from such increased competition can scarcely be questioned. The New York exchanges have gone on record in the past in support of a program comparable to that proposed here.

"Moreover, the benefits of requiring the registration of all substantial issuers with publicly-held securities would not be limited
to investors and the exchanges. They would inure to every broker or dealer whose principal concern was to serve the interests of his customers. This proposal would end the necessity on the part of dealers in the over-the-counter markets to choose securities for their customers on half-facts and hunches. It would afford brokers and dealers the tools with which to select securities on a truly informed basis. It should also be noted that one consequence of the proposed amendment may be a decrease in private placements. To the extent that companies reluctant to yield information to investors may have resorted to private financing to supply their new capital needs, thereby avoiding public offerings of new securities and the attendant duty of registration, the amendment with its uniform registration requirements would redound to the benefit of securities dealers, for there would be no incentive to avoiding public offerings on account of the disclosure provisions of the Securities Act of 1933.

"In essence, what is proposed is a moderate and overdue extension of provisions which are at the heart of the Securities Exchange Act and which are basic to the Public Utility Holding Company Act and the Investment Company Act--provisions which are essentially informational, which have operated smoothly and successfully, and with which there can be no quarrel in principle. It is an extension which is badly needed and easily effected."

Since our 1946 report there appears to have been no diminution in the basic need for the legislation. Rather, the problems which the proposal is designed to alleviate have been accentuated by economic developments in the past three years, and the need for legislation has become more urgent. As of December 31, 1945, holdings by individuals of cash, deposits and United States Government securities stood at 178 billions of dollars. These highly liquid holdings have increased since that time to almost 200 billions, creating a vast reservoir of capital available for investment. It is important that adequate information be made available to guide the investment of these funds.

In addition to the protections which would be afforded by the proposed legislation, the Commission believes it may well spur legitimate investment in equity securities. The 1949 survey of consumer finances sponsored by the Board of Governors of the Federal Reserve System and conducted by the Survey Research Center of the University of Michigan discloses that the
most important deterrent to investment in common stocks is a lack of familiarity. The only other significant reason advanced against such investment was the feeling that it was not safe (Federal Reserve Bulletin, October 1949). To some extent, we believe, this legislation would assist the securities industry, on which, of course, the chief burden for selling such securities must fall, to remove from large corporations much of the secrecy which sometimes enshrouds their financial activities and renders their securities more desirable as investments.

Approximately 1,100 companies not now required to file any reports with the Commission and about 650 additional companies which file some but not all of the reports required by sections 12, 13, 14, and 16 of the Securities Exchange Act would be affected by the proposed amendment. Although, in terms of numbers, these corporations constitute a relatively small segment of our economy, they represent a considerable portion of the larger aggregations of capital and they have a very significant effect upon the national welfare.

The accompanying report, which sets out in detail the results of a study made by the staff of the Commission in 1949, is earnestly recommended to the consideration of the Congress.

By direction of the Commission:

Harry A. McDonald,
Chairman

THE PRESIDENT OF THE SENATE.
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.
SUPPLEMENTAL REPORT TO CONGRESS

RECOMMENDING AN AMENDMENT TO THE SECURITIES EXCHANGE ACT OF 1934 WHICH WOULD EXTEND TO INVESTORS IN UNREGISTERED SECURITIES THE PROTECTION NOW AFFORDED TO INVESTORS IN REGISTERED SECURITIES BY REASON OF SECTIONS 12, 13, 14 AND 16 OF THE ACT.
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I. THE PROPOSAL

Experience with the various acts administered by the Commission has demonstrated that there exists a serious gap in the protections afforded investors by those acts. Any issuer which has registered a security for trading on a national securities exchange must, under the provisions of Sections 12 and 13 of the Securities Exchange Act of 1934, make public reports of its financial condition, its earnings, its capital structure, and such other information as is essential to a determination of the merits of its securities.

Such companies must also, pursuant to Section 14 of the Securities Exchange Act, file with the Commission a copy of any material used to solicit proxies from holders of registered securities. The Commission reviews this material to determine whether there are any false, misleading, or inadequate statements, so that the persons to whom the proxy materials are addressed may be in a position to exercise an informed judgment. Opportunity is also afforded security holders not connected with management to present their views upon management proposals, and to initiate any proposal which is an appropriate subject for stockholder action, in such manner as to enable the entire body of voting security holders to consider competing contentions and make their decision in accordance with democratic traditions. We think it no exaggeration to say that without some such implementation of the rights of corporate security holders our modern corporate system could not long endure consistently with our free economic traditions.
In addition, Section 16 of the Securities Exchange Act provides that officers, directors and principal stockholders of issuers with any equity security registered on a national securities exchange must report purchases and sales of their company's securities; they are prohibited from engaging in any short selling; and profits made as the result of purchases and sales within six months inure to the company. By these provisions the Congress sought to prevent the unfair use of inside information obtained by officers, directors and principal stockholders to the detriment of the public investor.

Although these safeguards were first applicable only with respect to those issuers which chose to register their securities under the Securities Exchange Act for trading on a national securities exchange, it soon became apparent that there existed no logical reason for such a limitation. Accordingly, when the Congress enacted the Public Utility Holding Company Act of 1935 it included substantially similar protections for investors of public utility holding companies. Again, in 1936, by an amendment to the Securities Exchange Act, reporting requirements similar to those in Section 13 of the Act were made applicable to any issuer thereafter registering a public offering under the Securities Act of 1933 where the amount of the particular class of securities outstanding aggregated $2,000,000. Again in 1939, when the Trust Indenture Act was passed, the Congress included a provision subjecting issuers which qualified indentures in connection with public bond offerings to reporting requirements similar to those governing securities registered on exchanges. And then again, in 1940, the Congress provided in the Investment Company Act for the extension of all the protections afforded by Sections 12, 13, 14 and 16 of the Securities Exchange Act to investment companies, without regard to whether the securities of the companies were registered on exchanges.
It thus appears that the various Acts have quite fortuitously dis-
criminated against those security holders whose securities do not happen
to be registered on a national securities exchange and do not come within
the specific legislation adopted in 1935, 1936, 1939 and 1940. Indeed,
only partial protection is provided with respect to those companies which
are subject only to the reporting requirements of the 1936 and 1939
legislation. Protection or lack of protection is therefore dependent upon
such irrelevant factors as type of industry and type of market. Clearly,
there is no basis in logic for such a hit-or-miss scheme of investor
protection.

In a report to the Congress in 1946 the Commission proposed -- and
this report reiterates the proposal -- that the situation be remedied by
the adoption of an amendment to the Securities Exchange Act of 1934 which
would extend the protective provisions of Sections 12, 13, 14 and 16 to
all corporations having at least $3,000,000 in assets and at least 300
security holders. If such an amendment were adopted, the distinction be-
tween protected and unprotected investors would then depend upon the size
of the corporation and the degree of public ownership as measured by the
number of security holders. The proposal, therefore, in outlining the pro-
tections to be afforded substitutes a rational distinction based on public
interest for the irrelevant distinctions resulting from the present gap
in regulation.

In order to avoid any possibility of hardship where a company, though
within the financial and stockholder limits prescribed by the legislation,
does not have the type of security distribution affected by a public
interest, the Commission suggests that it be given a wide discretion to

1/ Printed as House Doc. No. 672, 79th Cong., 2d Sess.
exempt by rule "any issuer, security, transaction, or person" which it deems "not comprehended within the purposes" of the legislation.

The text of the proposed amendment is set forth infra as Appendix A, and a discussion of its specific provisions is contained at pages 23 to 25 of the 1946 report.

This report is intended as a supplement rather than as a substitute for the 1946 report. It includes the results of the study undertaken by the staff of the Commission in 1949 to determine the present need for the recommendations then made. Since it was found that the same abuses present in 1946 existed in 1949 similar recommendations have resulted from the 1949 study. However, no attempt has been made in this report to repeat matters adequately discussed in the 1946 report.

II. PRESENT NEED FOR THE PROTECTIONS

A. Reporting Practices

In 1946 the staff of the Commission examined the financial reporting practices of a representative group of companies which did not file their financial statements with the Commission and compared their statements with the standards of fair and adequate disclosure set forth in Commission rules and regulations. In all, 119 companies were examined, each of which had at least $3,000,000 in assets and 300 security holders. On the basis of the minimum standards established by the Commission, it was discovered that most of the 119 companies issued financial reports which were in some degree misleading or inadequate.

In order to verify the conclusions reached in the 1946 studies, a new study was undertaken in 1949. This study covered 61 of the 119 companies examined in 1946 and 98 new companies, each of which possessed assets in
excess of $3,000,000 and at least 300 security holders. We believe these companies to be a representative sample of such corporations as would fall within the scope of the proposed legislation.

In Appendix B there is set forth the memorandum prepared by the Commission staff which discusses in detail the results of the new studies. Only a summary of the more significant findings is included in the body of this report. In general, the new study discloses that no significant variation in the reporting practices of a substantial proportion of the companies considered has taken place since 1946.

(1) The absence of non-financial information

As in 1946, it was discovered that there was a general failure to disclose important non-financial information. None of the companies made any mention of material transactions between the company and its management, and there was little discussion of impending developments which might affect the company or the industry, although there was generally voluminous material in the president's letter, which preceded most reports, about the history of the company, its products, and the sales trend.

(2) The scope of financial statements

Of the 159 companies studied it was found that 19 of them, or fully 12 percent, did not publish one or more of the three basic statements which are essential to any analysis of the condition of a business -- the balance sheet, the profit and loss statement, and the statement of surplus. One of these companies which did not furnish a balance sheet of its stockholders had 1,960,000 shares of $25 par value stock outstanding, was earning almost $10,000,000 per year, and had 7,231 stockholders. There was no way of ascertaining its assets. Purchasing or selling under such circumstances at best entails a high degree of speculation in which the insider who knows the undisclosed information possesses an unfair trading advantage.
The balance sheets of 89 of the 159 companies were patently deficient when judged by standards which the Commission imposes upon registered companies. Of these, 32 were deficient in a number of important respects. It should be emphasized that these deficiencies were so obvious they could be detected by a casual inspection of the balance sheet, without the aid of inquiries concerning suspicious items. Although the deficiencies related primarily to disclosures with respect to fixed assets, inventories, reserves and capital stock, there were also such omissions as the failure to report restrictions against the declaration of dividends in instances where such restrictions were known to exist, and the failure to segregate receivables into amounts due from officers and employees and amounts due from customers.

The pattern followed was found to be identical with that found in the 1946 study. Fixed assets were shown in a lump sum, without any indication whether they were land, buildings, machinery, equipment, or some other type, in 101 or 64 percent of the balance sheets studied. Also, there was often no separate deduction shown for depreciation, so that the investor was unable to ascertain the carrying value of plant property and the extent to which provision for depreciation had been made. In 13 instances it was stated that depreciation had been deducted but the amount so deducted was not shown. Frequently there was no mention of the basis upon which the company carried its assets.

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These disclosures are not required in balance sheets filed pursuant to Regulation S-X, the Commission regulation governing the form and content of financial statements, but a supporting schedule is required which subdivides fixed assets by major classes.
The inventory amounts, too, were lumped together so as to give no indication of the liquidity of the items in 88, or 56 percent, of those balance sheets studied which contained such an account. Sound accounting practice requires the classification of inventory so as to indicate separately finished goods, work in process and raw materials. This division is of utmost importance in any analysis of the financial position of a company which has large inventories. Even more important is a disclosure of the basis upon which the inventories were valued, e.g., "cost," or "cost or market, whichever is lower," and whether in determining "cost" or "market" a system of "average cost," "last in - first out," or some other system was used. Widely divergent results may be obtained by using one or another of these techniques of valuation. Nevertheless, 20 companies did not indicate the method adopted.

The balance sheets were also inadequate in their statements of reserves. It was impossible to ascertain, in 52, or 50 percent, of the 104 statements that showed reserves other than for depreciation, the purpose for which the reserves had been established. They were described merely as "reserves," or "reserve for contingencies," or in some other very general language.

Capital stock and treasury stock were often presented in a misleading or inadequate manner. Sixteen reports failed to show the number or classes of capital stock outstanding, or combined the capital stock liability with the surplus account, and in 4 instances treasury stock was improperly shown as an asset. Indeed, one of these reports showed dividends on treasury stock as income to the company.
(4) The income statement

Unless an adequate profit and loss statement is furnished, the investor is helpless to make an adequate estimate of the efficiency of management or the future trend of the business. Consequently he cannot, under such circumstances, reach a sound decision upon his investment policies with respect to the company. If sales and cost of sales are not known there is no possibility of gauging the effect of changes in operating costs such as wage rates and material costs which may determine the desirability of acquiring or retaining an interest in the enterprise. Similarly, the width of the profit margin and the detailed revenues and costs, when compared with those of similar enterprises, help determine the efficiency of the management and thus assist the stockholders in reaching a determination whether to continue management in office.

In spite of the obvious necessity for a full and complete income statement 7 percent of the companies (11) furnished no income statement at all and 52 percent (83) furnished statements deficient in several material respects. Seventy-nine companies failed to disclose sales or cost of sales, 40 of them furnishing neither item. Other companies combined cost of goods sold with operating expenses, so that only the total amount of costs was available.

(5) Explanatory material

Even if the financial statements have no readily detectable inadequacy, they may be a vehicle for misleading information. Financial statements are rarely understandable without explanations, which usually appear in footnotes. For example, the accounting policies, principles and practices followed by a company with respect to the disclosure of restrictions on surplus, the basis for determining the depreciation provisions, valuation of inventories,
and many other matters are highly essential to a proper interpretation of
the financial statements. Such explanatory material, however, was absent
from the great majority of the statements examined.

(6) Deficiencies in the certification of financial statements

One hundred forty-eight of the 159 companies, or 93 percent, attached
accountant's certificates to their reports. Of these, 135 or 91 percent,
were expressed substantially in accordance with the standard form of certif-
icate, which meets the Commission requirements. The remaining 13 were
deficient, chiefly in that the certificates contained statements that no
physical tests of inventories were made, a standard auditing practice whose
importance was dramatically illustrated in the McKesson & Robbins case a
few years ago, when such omissions contributed to the failure to detect
that the company had substantially inflated its assets and earnings.
Nevertheless, the certificates stated that the examinations had been made
in accordance with generally accepted auditing standards.

In appraising the effect of lack of regulation of financial statements
it should be borne in mind that statements -- correct within their own
framework -- may nevertheless distort each other when it is attempted to
compare them unless they are based on a consistent application of uniform
standards such as the Commission insists on in administering the dis-
closure requirements.

B. Proxy Soliciting Practices

In 1946 the staff of the Commission examined the proxy soliciting
material sent out in 1943 and 1944 by all domestic industrial corporations
having assets of $3,000,000 or more whose voting securities had unlisted
3/ See Report of the Securities and Exchange Commission In the Matter of
McKesson & Robbins, Inc. (1940).
trading privileges on the New York Curb Exchange and were traded during the calendar year 1944 in a volume exceeding 5,000 shares. The material examined related to a total of 152 meetings by 76 companies.

In order to determine whether any significant change had occurred since this study and in order to check upon the results then obtained, the Commission staff made a new study in 1949 of the proxy soliciting materials used during 1948 and 1949 by all domestic industrial corporations not subject to the Commission's proxy rules whose voting securities enjoyed unlisted trading privileges on the New York Curb Exchange regardless of size of company, number of security holders or volume of trading. It was found that there were 97 such corporations, but one of these held no meetings during the two years covered so that the material of only 96 corporations was examined. All but one of these held two annual meetings during the period under review. In addition to the 191 annual meetings, these corporations also held 11 special meetings at which proxies were solicited. Thus, a total of 202 meetings was held, each of which involved some representation to voting security holders on the basis of which a proxy was requested. Of the 76 corporations included in the 1946 study, 61 were included also in the 1949 study. A comparison of the information disclosed in the materials studied in 1946 with that disclosed in the materials studied in 1949 indicates that many of these companies undertook to remedy inadequacies cited by the Commission. Thus, it became more common to send out annual reports before or concurrently with the solicitation rather than after the meeting itself.

The annual reports were sent to stockholders before the proxy material in 32 instances, they were sent out concurrently with the proxy material in 132 instances, and they were sent out after the meeting in 27 instances. In the 1946 study it was found that in fully 20 percent of the cases the annual reports were sent out after the annual meeting had been held.
Indeed, by 1949 three of the 61 companies (but only three) included in their notice, proxy, annual report, and proxy statement substantially all of the information the Commission would have required them to disclose if they had been subject to the Commission's proxy rules.

However, by far the majority of these 61 companies continued to request their security holders to exercise their corporate franchise without providing them with adequate information on which to base the exercise of this right, and the other 35 companies covered by the 1949 study appeared to be equally remiss. Only one of these 35 companies furnished its security holders with substantially all the information they needed to exercise an informed judgment about the management of their corporation's affairs.

The subject matter with respect to which proxies were solicited may be classified as follows:

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<thead>
<tr>
<th>Number of Meetings</th>
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<tbody>
<tr>
<td>Election of directors</td>
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<tr>
<td>Approval of auditors</td>
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<tr>
<td>Approval of all acts of management</td>
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<tr>
<td>Bonus and profit-sharing plans, including stock options</td>
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<tr>
<td>Pension and insurance plans</td>
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<tr>
<td>Management employment contracts</td>
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<tr>
<td>Compensation of directors</td>
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<tr>
<td>By-law and charter amendments providing for indemnification of officers and directors</td>
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<tr>
<td>Supervisory contract with an affiliate</td>
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<tr>
<td>Modification of an underwriting contract</td>
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<tr>
<td>Purchase and sale of property</td>
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<tr>
<td>Merger agreement</td>
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<tr>
<td>Authorization for new or additional securities</td>
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<tr>
<td>Modification or exchange of securities</td>
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<tr>
<td>Authorization for purchase of outstanding securities</td>
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<tr>
<td>Retirement of treasury shares</td>
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<tr>
<td>Approval of charitable contributions</td>
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<tr>
<td>Miscellaneous by-law and charter amendments</td>
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In only ten of the 114 meetings where action was taken upon matters other than the election of directors were the stockholders accorded a right to
vote with respect to the specific item to be considered at the meeting. In
the other 104 instances the stockholders were compelled either to vest
absolute discretion in the proxy holder or be disenfranchised. Some typical
inadequacies which the staff of the Commission found to exist are set forth
below:

1) Election of directors

The Commission believes that requests for proxies to select directors
should disclose at least the names of the persons for whom the proxy solici-
tors intend to vote. Without this information it would seem impossible for
the stockholder to exercise an intelligent judgment in connection with the
request. Nevertheless, on 84 per cent or 160 of the 191 occasions on which
proxies were sought in connection with the election of directors, the nominees
were not disclosed. Indeed, in 33 instances not even the officers and
directors in office were disclosed.

The Commission also believes it is of paramount importance to the owners
of a business to know what remuneration management receives and how much of
the company's securities it owns. But the remuneration of management was
not disclosed, either individually or compositely, in 97 per cent or 185 of
the 191 instances, and the security holdings of the officers and directors
were not disclosed in 95 per cent or 181 of the 191 instances.

2) Approval of the selection of independent auditors

In substantially all of the 30 instances where stockholders were asked
to approve the selection of independent auditors for the ensuing year, the
name of the proposed auditing firm was not disclosed. Obviously, a proxy
given for this purpose without such a disclosure would have as little basis
as proxies solicited in connection with the election of directors without
disclosure of the nominees. Such information is particularly relevant where the Company intends to change auditors, an intention which seems to have been present in a number of instances.

(3) Approval of all acts of management

In 54 instances stockholders were requested to execute proxies for the purpose of ratifying and approving all acts of management since the preceding annual meeting. None of the requests disclosed the nature of the acts, although it was evident from other available information that many acts of a material nature had occurred, such as the sale and purchase of property, the sale of treasury shares to key employees, the adoption of a pension plan, and the borrowing of substantial amounts of money. One company phrased its request in terms of the approval and ratification of all acts of the board of directors, including all contracts, acts, votes, proceedings, elections and appointments made since the preceding annual meeting, and, as a separate item in the same notice, all acts of the stockholders taken at the last annual meeting and all acts of management taken pursuant thereto. That company, it should be noted, followed the practice of submitting uncertified financial statements to its stockholders after the annual meeting had been held.

(4) Bonus and profit-sharing plans

In one case where the stockholders were asked to endorse a bonus and profit-sharing plan for officers and directors, that plan had already been put into effect by management during the year. The only information furnished to stockholders was contained in the company's annual report which accompanied the proxy solicitation. It stated:
"For several years it has been a Company practice to distribute bonuses to eligible employees, in addition to established salaries, in recognition of their special contributions to the Company during the year.

"The Board of Directors on June 11, 1947, voted in favor of a formalized plan for the distribution of bonuses. In accordance therein with a bonus plan, based upon profits, was adopted, which, in the judgment of your directors, should have a substantial and beneficial effect on its recipients and thereby on the future operations of the Company."

The Commission's proxy rules would have required information to be furnished at least with regard to (1) the method of computing the amount of bonuses and the approximate number of eligible recipients so that stockholders would have some idea of what proportion of the profits was involved, and (2) the amounts payable to management personnel. Such minimum disclosure is essential to the exercise of an informed judgment.

(5) **Pension plans**

In about 80 per cent of the cases where stockholders were asked to approve pension plans, the management did not reveal the amount of pensions payable to directors and officers at retirement, either individually or in the aggregate, and their cost to the company. This highly relevant information is required by the Commission's rules.

(6) **Employment contracts**

In every instance in which stockholder approval was sought for existing employment contracts, no information was given as to the identity of the persons involved, the number of such contracts, the terms thereof, or the compensation payable thereunder.

(7) **Compensation of directors**

The soliciting material used by management in asking for proxies from stockholders authorizing them to fix the compensation of directors did not indicate the current compensation of the directors and failed to designate
the compensation to be fixed pursuant to the authority conferred by the proxies.

(8) Indemnification proposals

Not one of the five notices sent out by management asking for stockholder approval of by-law or charter amendments to provide for the indemnification of directors and officers by the company stated whether there were any actions pending or threatened which might bring the indemnification provision into play.

(9) Authorization for new securities and modifications of existing securities.

The Commission's proxy rules require that stockholders be furnished financial statements when their proxies are solicited for the authorization or issuance of senior securities or the modification of the rights of existing securities. In about half of the cases examined where this type of transaction was to be voted upon, it was found that financial statements were omitted entirely from any of the proxy soliciting material. In the balance of the cases financial statements, inadequate under the Commission's rules, were included in the accompanying annual report. In no instance did the directors and officers indicate whether they themselves intended to make the exchange of securities for which they solicited stockholder approval. In fact, in only one instance did management list its holdings. A stockholder faced with a request for a proxy who does not know of the self-interest of management is obviously at a disadvantage. The Commission rules require disclosure of this interest.

In Appendix C are listed the 104 companies whose proxy materials were studied.
C. Insiders' Trading Practices

The provisions of the Securities Exchange Act, the Holding Company Act and the Investment Company Act designed to protect investors against trading by corporate insiders on the basis of information not available to the public have been, as they were intended to be, largely automatic in operation. Reports are filed by the tenth day of the month following any purchase or sale, and the recapture provision comes into play whenever both a purchase and a sale take place within six months of each other. It is unnecessary to prove either the actual existence of evil intent or the possession and use of inside information. Any profit realized goes to the corporation regardless of the existence of an evil intent or the actual possession and use of inside information.

The Commission observed in 1946 that most of the cases of market abuses by insiders which had come to its attention involved unregistered securities. That same observation is appropriate in connection with the 1949 study. In a recent case, which came to the Commission's attention when a stockholder registered a complaint, the controlling stockholders in a bridge company purchased all the stock in the company from the other stockholders, knowing that negotiations were in progress under which the stock would be purchased by a public authority at a vastly increased price. Such a purchase was made by the insiders, and a substantial profit realized within two months of the time the first stock offers were solicited from the public.

Abuse of inside information, the Congress found in 1934, was of all too frequent occurrence. It has been largely suppressed by reason of the present legislation insofar as the exchange markets are concerned. The Commission

5/ In the formal complaint filed in court under which a public stockholder sought recovery from the insider the profit was calculated at $47.35 per share. The total profit realized by the insider was estimated, in the complaint, to be $3,459,000.
believes investors in unregistered securities are also entitled to protection against abuse of inside information.

III. CORPORATIONS AFFECTED

In the 1946 study it was estimated that approximately 1,000 companies with at least $3,000,000 in assets and 300 securityholders did not report at all to federal or state agencies. The 1949 study, which was based upon a count of all corporations listed in the various financial manuals, indicates that there are 1,118 companies within this classification which do not file reports with the Commission. None of the safeguards discussed in this report is afforded investors in these corporations. Some additional companies afford only partial protection. Thus, 435 companies with at least $3,000,000 in assets and 300 securityholders have registered securities under the Securities Act of 1933 since the adoption of the 1936 amendment requiring the filing of reports in certain such cases, and are therefore required to file periodic financial reports with the Commission substantially similar to what would be required under the proposed legislation; but these companies are not required to file any proxy materials nor are their officers, directors and ten per cent stockholders subject to the insider trading provisions of the Securities Exchange Act. An additional 192 companies have one or more classes of stock listed on a registered exchange and one or more classes not listed. These companies are therefore now subject to the reporting and insider trading provisions of the Securities Exchange Act and any proxy solicitation of holders of a listed issue must comply with Commission rules; the proposed legislation would also accord the benefits of the Act to the holders of the unlisted issues.

6/ It should be noted, however, that holders of ten percent of the stock of an unlisted issue are not subject to Section 16 unless, of course, they are also officers and directors of the company.
There are also 19 public-utility holding companies which are registered with the Commission under the Public Utility Holding Company Act but which have stock with a total market value of $537,000,000 that is not registered on a national securities exchange. The only effect of the proposed legislation upon these companies would be to subject ten percent stockholders to the insider trading provisions of the Securities Exchange Act and bring into play the prohibitions against short selling by insiders. Set out below, classified according to type of issuer, is a table showing the number of companies which would be affected by the proposed legislation:

**NUMBER OF DOMESTIC ISSUERS WITH $3,000,000 OR MORE ASSETS HAVING STOCKS NOT LISTED ON A REGISTERED EXCHANGE**

<table>
<thead>
<tr>
<th>Type of Issuer</th>
<th>1933</th>
<th>1934</th>
<th>1935</th>
<th>Not reporting</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>263</td>
<td>135</td>
<td>0</td>
<td>701</td>
<td>1,099</td>
</tr>
<tr>
<td>Utility</td>
<td>132</td>
<td>40**</td>
<td>19</td>
<td>125</td>
<td>316</td>
</tr>
<tr>
<td>Insurance</td>
<td>24</td>
<td>0</td>
<td>0</td>
<td>132</td>
<td>156</td>
</tr>
<tr>
<td>Finance</td>
<td>13</td>
<td>10</td>
<td>0</td>
<td>45</td>
<td>68</td>
</tr>
<tr>
<td>Real Estate</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>90</td>
<td>95</td>
</tr>
<tr>
<td>Railroad</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>435</td>
<td>192</td>
<td>19</td>
<td>1,118</td>
<td>1,764</td>
</tr>
</tbody>
</table>

* Including 1,551 issuers whose stockholders are reported at 300 or more and 213 issuers whose stockholders are probably 300 or more.

** Four of these issuers are also registered under the 1935 Act.

It is estimated that the proposed legislation would extend the protections of Sections 12, 13, 14 and 16 of the Securities Exchange Act to investors in securities with a total market value of approximately 19 billions of - 18 -
dollars, traded, at the present time, at the rate of approximately a billion and one-half dollars per year. The corporations affected are large and their effect upon the economy is great. The six largest companies, in terms of assets, are:

<table>
<thead>
<tr>
<th>Company</th>
<th>Assets</th>
<th>Number of Stockholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Humble Oil &amp; Refining Co.</td>
<td>$861,426,325</td>
<td>11,617</td>
</tr>
<tr>
<td>Creole Petroleum Corp.</td>
<td>618,977,000</td>
<td>4,600</td>
</tr>
<tr>
<td>Aluminum Company of America</td>
<td>503,606,275</td>
<td>4,923 (pfd.)</td>
</tr>
<tr>
<td>Great Atlantic &amp; Pacific Tea Company of America</td>
<td>322,848,969</td>
<td>Not disclosed</td>
</tr>
<tr>
<td>Weyerhauser Timber Company</td>
<td>210,180,106</td>
<td>9,438</td>
</tr>
<tr>
<td>Singer Manufacturing Company</td>
<td>202,980,063</td>
<td>3,800</td>
</tr>
</tbody>
</table>

The burden of compliance with the proposed legislation would be slight, for no large corporation with $3,000,000 in assets and substantial public investor interest can do business today without the accounts and records from which all the information required by the proposed legislation may be readily ascertained. The question posed by the proposed legislation is not whether such records should be maintained, but whether they should be made available to the public stockholders - the owners of the enterprise.
APPENDIX A

Proposed Amendment

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 12 of the Securities Exchange Act of 1934, as amended, is hereby amended by adding thereto a new subsection (g) reading as follows:

"(g) (1) Every issuer which is engaged in interstate commerce or in business affecting interstate commerce, or the securities of which are regularly traded by use of the mails or any means or instrumentality of interstate commerce, shall file with the Commission, with respect to each of its securities not registered pursuant to subsection (b), a registration statement containing such information and documents as may be required in respect of an application to register a security pursuant to subsection (b), and such supplementary and periodic information, documents and reports as may be required pursuant to section 13 of this title in respect of a security so registered. Whether or not a registration statement has been filed pursuant to this subsection, the provisions of sections 14 and 16 of this title shall apply with the same force and effect as if all the securities of any such issuer were registered pursuant to subsection (b).

"(2) The provisions of this subsection shall not apply in respect of any security issued by:

(A) Any issuer which has less than $3,000,000 in assets;

(B) Any issuer all the securities of which are held directly or indirectly by fewer than 300 persons;

(C) Any issuer all the securities of which are exempted securities;

(D) Any issuer which is a bank;

(E) Any issuer organized and operated exclusively for religious, educational, benevolent, fraternal, charitable, or reformatory purposes and not for pecuniary profit, and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

"(3) The provisions of this subsection shall not apply in respect to any issuer, security, transaction, or person which the Commission may by rules and regulations exempt, either unconditionally or upon such terms and conditions as may appear to be necessary or appropriate in the public interest or for the protection of investors, as not comprehended within the purposes of this subsection. The Commission may so exempt any issuer, whether or not it is engaged in interstate commerce or in business affecting interstate commerce, if substantially all
its securities are held within a single State. In respect of foreign issuers, considerations relevant to the granting of such exemption may include the extent to which the provisions of this subsection are susceptible of enforcement with respect to such issuers, and the extent to which there may exist a substantial interest in the securities of such issuers among investors located within the United States or any State.

"(4) The provisions of section 14 of this title shall not apply to any solicitation of a proxy or consent or authorization in respect of any security not registered pursuant to subsection (b) where all the securities in respect of which the solicitation is made are held directly or indirectly by fewer than 300 persons. Failure to comply with the provisions of section 14 of this title in respect of any security not registered pursuant to subsection (b) shall not invalidate any corporate action, but the provisions of this paragraph shall not be construed to prevent the granting of injunctions in any proper proceeding, or to exempt any person from any penalty or prohibition provided by this title with respect to violations of this title or of any rules or regulations thereunder, or to alter or modify any rights or remedies which would otherwise exist at law or in equity.

"(5) The rules and regulations of the Commission shall provide that an issuer may adopt in compliance with the registration and reporting requirements of this subsection information, documents and reports filed with the Commission under any statute and substantially equivalent to that required of an issuer having a security registered pursuant to subsection (b).

"(6) This subsection shall remain applicable in respect of any security registered hereunder until the Commission, upon its own motion or upon the application of such an issuer, by order cancels such registration. The Commission shall enter such an order, subject to such terms and conditions as it may deem necessary to impose for the protection of investors, if it finds, after appropriate notice and opportunity for hearing, that by reason of change of circumstances since the date of registration otherwise the issuer is not subject to this subsection.

"(7) The Commission, for the purposes of this title, may by rules and regulations define the phrases 'less than $3,000,000 in assets' and 'held directly or indirectly by fewer than 300 persons,' and any portion thereof."

Sec. 2. Subsection (f) of section 12 of the Securities Exchange Act of 1934, as amended, is hereby amended as follows:

(a) By inserting between the fourth and fifth sentences of the second paragraph of that subsection the following new sentence: "The issuer of any security which is the subject of an application to extend unlisted trading privileges pursuant to clause (3) of this subsection
shall be given an opportunity to appear as a party and be heard on such application; and, if the issuer so appears and opposes the application, it shall not be approved unless the Commission finds that the continuation or extension of unlisted trading privileges pursuant to such application is necessary or appropriate in the public interest or for the protection of investors notwithstanding any showing of detriment to the issuer which may be made."

(b) By amending the second sentence of the fourth paragraph of such subsection to read as follows: "On the application of the issuer of any security for which unlisted trading privileges on any exchange have been continued or extended pursuant to this subsection, or of any broker or dealer who makes or creates a market for such security, or of any other person having a bona-fide interest in the question of termination or suspension of such unlisted trading privileges, or on its own motion, the Commission shall by order terminate, or suspend for a period not exceeding twelve months, such unlisted trading privileges for such security if the Commission finds, after appropriate notice and opportunity for hearing, that by reason of inadequate public distribution of such security in the vicinity of said exchange, or by reason of inadequate public trading activity or of the character of trading therein on said exchange, or by reason of detriment to the issuer, such termination or suspension is necessary or appropriate in the public interest or for the protection of investors."

Sec. 3. This Act shall become effective six months after approval.
APPENDIX B

Study of Stockholders' Reports
of Unregistered Companies

PURPOSE OF THIS STUDY

The Commission's "Proposal to Safeguard Investors in Unregistered Securities" presented to Congress in 1946 included as Appendix C a "Study of Stockholders' Reports of Unregistered Companies, March, 1945" and a "Supplemental Study of Stockholders' Reports of Unregistered Companies, May 15, 1945." Each of the companies included in these studies had total assets in excess of $3,000,000 and 300 or more stockholders. Banks, insurance companies and investment companies were excluded from the list. These studies indicated that the financial statements included in the reports examined were, in most cases, seriously deficient when judged by the disclosure standards that must be met by companies filing annual reports with the Commission under the Securities Exchange Act of 1934.

The present study covers the examination of stockholders' reports of two groups of companies. The first group includes 61 current reports of companies included in the 1946 studies and is considered an adequate proportion for comparison with the earlier reports of the same companies. Of the original 119 companies, 13 have registered with the Commission and hence are excluded from the comparison, and we have been informed that four companies have been sold or merged with other companies since the 1946 studies were made. The second group consists of stockholders' reports of 98 companies none of which was included in the 1946 studies. This group conforms to the first group as to minimum size and type of companies. The examination of these groups of stockholders' reports was undertaken to determine to what extent current reports of the first group of companies reveal the same type of deficiencies in reporting as was disclosed in 1946 and whether a new group of reports of unregistered companies would disclose similar characteristics.

1/ The two studies have been combined for comparison purposes in connection with the current study, and will be referred to hereafter as the 1946 study.

2/ The number of stockholders in the present study was determined from Moody's Investors Service Manuals (1949). In three cases this figure was not reported. These companies were nevertheless included since it appeared probable from the size of the company, the volume of its outstanding securities, and the existence of an over-the-counter market for its securities, that more than 300 security holders held an interest in the company. Also, two companies whose assets fell below $3,000,000 since the 1946 study have been included in this study for comparative purposes.
As the following pages will show, although the three years since the publication of the Commission's report referred to above have seen a commendable improvement in the financial statements furnished to stockholders, a substantial proportion of reports to stockholders of unlisted companies is deficient in significant respects when judged by the disclosure standards which must be met by companies filing annual reports with the Commission under the Securities Exchange Act of 1934. The necessity for compliance with the Commission's reporting requirements by registered companies gives to investors, financial reporting services, financial analysts and other interested persons the assurance that certain basic information is available to them, whereas such information is not assured to such persons with respect to companies not registered with the Commission.

STOCKHOLDERS' REPORTS OF 61 COMPANIES

Procedure in Analyzing Reports

The same procedure was adopted in analyzing the present reports as was followed in the 1946 study. The report of each company was reviewed in detail with a view to determining if the financial information was reasonably adequate and informative enough to enable a reader to ascertain the financial status of the company. As a standard the financial reporting requirements of the Commission under the 1934 Act for commercial and industrial companies were adopted. Requirements as to the particular financial statements to be filed are found in the forms prescribed by the Commission for this purpose; Regulation S-X prescribes the form and content of all financial statements to be filed with the Commission under the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Company Act of 1940.

Regulation S-X prescribes, among other things, that "the information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading." As the detailed discussion will indicate, it is something less than this minimum requirement that we have used in this study as a basis for appraising the adequacy of published reports to stockholders.

Following the publication of the 1946 study it was suggested that a fairer basis of comparison of financial reports of unlisted companies would have been similar reports of listed corporations. This basis was rejected then, and has again been rejected in this study, because the Commission, by adopting Regulation S-X, has set a minimum standard for financial statements for investors. Although the financial statements contained in reports to
stockholders are not subject to Commission jurisdiction and hence may not in all cases meet the requirements of Regulation S-X, investors, financial reporting services, financial analysts and other persons interested in the financial condition of companies registered with the Commission may consult its files or purchase for a nominal sum photocopies of statements for registered companies which do meet these requirements. This privilege is not available at present to persons interested in the affairs of unlisted companies. Furthermore, the reader of this report has readily available to him the uniform standard by which the financial statements considered herein were judged. It should be noted that in developing Regulation S-X the Commission considered the comments of many members of the public accounting and legal professions, investment bankers, financial analysts, corporation executives and other interested persons.

It is pertinent to observe also that although the period since our 1946 study has not been free from criticism of corporate reporting practices, the general level of financial reporting has risen substantially. The period has brought forth significant additions to the literature of the subject. "Accountants' Reports" by William H. Bell, earlier editions of which have been standard references since 1921, appeared in a fourth edition in 1949. In referring to financial statements required by the Securities and Exchange Commission under the Securities Act of 1933, Mr. Bell says that "the requirements conform to generally recognized standards for the preparation of financial statements which are appropriate for the particular purpose." 2/ With respect to the accountant's certificate Mr. Bell comments upon the Securities and Exchange Commission's influence in the following language:

"There has been a marked development and improvement in accountants' certificates in recent years, especially from the standpoint of clarity. This is attributable to the efforts of the American Institute of Accountants, the New York Stock Exchange, and the Securities and Exchange Commission. While the Securities and Exchange Commission literally has jurisdiction only over registration statements and periodic reports filed with it under certain Federal laws, its requirements have such a far-reaching effect as substantially to set a pattern for general use." 4/

A forthright appraisal of present day corporate reporting standards is found in "Annual Reports to Stockholders" by N. Loyall McLaren, former president of the American Institute of Accountants and of the California Society of Certified Public Accountants. This book is a study of annual reports of sixty-four corporations selected, as the author states, because each one in his opinion contained one or more noteworthy features of reporting techniques, some commendable and some deficient. In the concluding chapter the author notes that the principal organizations of public accountants, accounting teachers and accounting executives in business

2/ At pp. 19-20.
4/ At p. 292.
"have recognized the need for more precise financial accounting standards for the guidance of all concerned" but that "progress has been retarded because of the complex nature of the problem and the natural resistance on the part of public accounting firms and individual companies to drastic changes in procedures that heretofore have appeared satisfactory to them." A warning is expressed that "industry should note . . . that even its staunchest supporters are far from satisfied with current reporting procedures." Reference is also made to the results of a questionnaire as to which the responses of more than one hundred twenty security analysts and other authorities on investments expressed dissatisfaction with the content of annual reports. "The reports," it is stated, "were repeatedly criticized as obscure, infrequent, incomplete, late, often devoid of sales and other pertinent figures, lacking in clarity, or biased." These comments are clearly in accord with our findings in this study.

Attention should also be called to the action of the Council of the American Institute of Accountants in 1946 in authorizing a long-term program for the analysis of corporate annual reports. The results of a survey of 525 corporate reports made by the Institute's Research Department was published in 1948 and called attention to the fact that 440 of the companies had filed registration statements with the Securities and Exchange Commission whereas 85 had not filed such statements. The report is factual and avoids critical comment. The statistics presented cover many of the points considered in this study and at several places compares results for the two groups indicated. For example: 54% of the companies failed to indicate the method of determining cost of inventories (42% of registered companies and 73% of non-registered), no basis of property valuation was indicated in 11% of registered companies and in 20% of the non-registered companies, 8% of registered companies did not report sales while 21% of non-registered companies failed in this respect. A second report along similar lines was published in 1949. This report compared results with the first report for the same companies noting improvement in some items, including more companies disclosing sales. However, the report observed that "Omission from the income statement of the amount of sales was more prevalent in the reports of companies which did not have to file registration statements with the Securities and Exchange Commission than in the reports of companies registered with that agency."

Of the 119 companies included in the Commission's 1946 study, 13 have since registered with the Commission, and we are informed that 4 companies have been sold to or merged with other companies, leaving 102 still eligible for comparison. The reports of 61 of these were obtained and used in this study. These reports covered fiscal years ending in 1948, except for a few which covered the fiscal years ending in 1947. The reports

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2/ At p. 323.
6/ At p. 323.
7/ At p. 324.
8/ Accounting Survey of 525 Corporate Reports (Fiscal Year ending July 1946 to June 1947).
9/ Accounting Trends in Corporate Reports, a study of corporate reports with closing dates in the twelve months ending June 30, 1948, by the Research Department, American Institute of Accountants.
examined in the 1946 study related to fiscal years ending in 1943 and 1944 and to a few for 1942. A list of the 61 companies included in this study and the classification of these companies by industry groups, size and number of stockholders are shown in Exhibit B to this Appendix.

The results of the study of the most recent reports of the 61 companies and their comparison with respect to the more important items follow:

**Failure to Furnish a Full Set of Financial Statements**

The basic statements necessary for financial analysis of an enterprise are the balance sheet, income statement and statement of surplus. All are essential to an understanding of the financial status and results of operation of a business. A financial report that does not include these basic statements is seriously deficient since the lack of one of them deprives the reader of an adequate knowledge of the financial affairs of the enterprise.

Registrants with the Commission are required to file a full set of consolidated financial statements where such statements are needed to exhibit clearly the financial condition and results of operation of the registrant and its subsidiaries.

Registrants filing consolidated financial statements may be required under certain circumstances to file individual financial statements of the registrant. It is possible that under the requirements footnoted below some of the companies that filed consolidated financial statements should also have filed financial statements of the parent company. In the present study only one company included in its report both consolidated and parent company financial statements. Since the 1946 study the requirements with respect to filing parent company statements in addition to the consolidated statements have been amended. The former requirements prescribed that registrants filing consolidated financial statements with the Commission must also file unconsolidated financial statements for the parent corporation, except that the income statement of the parent might ordinarily be omitted if the parent was primarily an operating company and each of the subsidiaries included was in practical effect an operating division of the parent.

No individual financial statements need be filed for the registrant, however, if (1) consolidated financial statements of the registrant and one or more of its subsidiaries are filed; (2) registrant's total assets, exclusive of investments in and advances to the consolidated subsidiaries, constitute 85% or more of the total assets as shown by the consolidated balance sheet filed for the registrant and such subsidiaries; and (3) registrant's total gross revenue for the period for which its profit and loss statement would be filed, exclusive of interest and dividends received from the consolidated subsidiaries, constitutes 85% or more of the total gross revenue as shown by the consolidated profit and loss statement filed for the registrant and such subsidiaries.
In addition, as stated in the 1946 report, registrants must file, in support of each balance sheet and income statement (both consolidated and unconsolidated), supporting schedules giving additional details concerning significant balance sheet items and important elements of income and expense. These schedules give detailed information on a number of matters including affiliates, fixed assets, reserves, outstanding securities, and certain profit and loss items. While these schedules are required in annual reports filed under the 1934 Act and registration statements filed under the 1933 Act, they are not, for the most part, required in prospectuses issued under the 1933 Act. Also, they are seldom included in the annual reports to stockholders of listed companies. Therefore, omission of the type of information required by these schedules has not been considered, in this study, a basis for criticism of the disclosures made in the financial reports examined. However, it is an important fact that such information is publicly filed under the Securities Acts. The detailed information thus provided permits the staff to examine the propriety of accounting practices that would otherwise not be subject to review. Moreover, this detailed information is utilized to an important degree by investors and investors' services.

None of the 61 companies in the present and previous studies filed information comparable to that required in these supporting schedules. Hence, an investor in these companies not only lacks this information but also lacks the additional protection that is derived from having an impartial and expert body, such as the Commission, review the propriety of the accounting practices disclosed therein.

Thirty-five, or 57%, of the 61 companies presented consolidated financial statements, of which 34 companies included a full set of financial statements and one company did not present an income statement. Twenty-six, or 43%, of the companies presented financial statements on a corporate entity basis (i.e., unconsolidated); 22 of these companies included a full set of financial statements, one company included only a balance sheet, two companies did not present a statement of surplus, and one did not present an income statement.

The 1946 study indicated that 29 of these same 61 companies presented consolidated financial statements. Of these, 22 companies included a full set of statements; 2 companies did not present a statement of surplus; 3 companies did not include an income statement; and 2 companies did not present an income statement and statement of surplus. Thirty-two companies presented financial statements on a corporate entity basis (unconsolidated). Of these 21 companies presented a full set of statements; 5 companies did not include a surplus statement; 3 companies did not include an income statement; and 3 companies did not present an income statement and a statement of surplus.

Deficiencies in the Form and Content of the Balance Sheets

The following table summarizes the general conclusions as to the extent to which the balance sheets examined in the present study conformed to the requirements of Regulation S-X and shows a comparison of such conclusions with those reached in the 1946 study for comparable reports:
### 1946 Study

<table>
<thead>
<tr>
<th></th>
<th>1946 Study</th>
<th>1949 Study - Comparable Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Reports</td>
<td>Substantially the same</td>
</tr>
<tr>
<td>1. Substantially the same</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>2. Partially different</td>
<td>24</td>
<td>9</td>
</tr>
<tr>
<td>3. Materially different</td>
<td>35</td>
<td>10</td>
</tr>
<tr>
<td>Total, 1946 study</td>
<td>61</td>
<td>21</td>
</tr>
<tr>
<td>Totals, 1949 study</td>
<td>61</td>
<td>21</td>
</tr>
</tbody>
</table>

A company's statement was not judged to be "materially different" unless there were several important faults relating to significant items on the balance sheet. The deficiencies found in the second and third categories were alike in kind but companies were placed in one or the other category depending on the number of the deficiencies and the extent to which they impaired the utility of the balance sheet.

It should also be pointed out that the tabulation reflects only patent omissions or inadequacies that could be readily detected on the face of the balance sheet. It is impossible to say how many additional deficiencies would have been found if more details had been available. For example, a few companies failed to report restrictions against the declaration of dividends although from Moody's manuals it was determined that such restrictions in fact existed. Similarly there was no way of determining whether amounts due from officers or employees had been included in accounts receivable without separate disclosure, or whether fully amortized emergency plant facilities had been blanketed under the general plant accounts.

The more frequent deficiencies found related to disclosures with respect to fixed assets, inventories, reserves and capital stock (including treasury stock) which are explained hereafter.

**Inventories.** This asset represents one of the major assets of a company. As a result, Regulation S-X requires a classification of inventories by major groups, such as finished goods, work in process and raw material, to be shown. 11/ This is considered essential since, as stated

11/ Caption 6 of Rule 5-02 of Regulation S-X provides: "Inventories—(a) State separately in the balance sheet, or in a note therein referred to, major classes of inventory such as (1) finished goods; (2) work in process; (3) raw materials; and (4) supplies. Any other classification that is reasonably informative may be used. (b) The basis of determining the amounts shown in the balance sheet shall be stated. If a basis such as 'cost,' 'market,' or 'cost or market whichever is lower' is given, there shall also be given, to the extent practicable, a general indication of the method of determining the 'cost,' or 'market'; e.g., 'average cost' or 'first-in, first-out.'"
in the 1946 report, it gives investors some idea of the general composition of this asset, indicates its relative liquidity and permits comparison of the inventory position between years. Notwithstanding the importance of this asset the major classifications were not disclosed in most of the reports. Thirty-one (54%) of 57 reports did not indicate the inventories by major classes. In the 1946 study 41 (71%) of the reports did not classify inventories.

Widely divergent valuations for inventories may be obtained by the use of different bases of valuing inventories. Inventories reflected on a "cost basis" may differ materially from the same inventories valued on a "market basis." Also, the method used in costing out sales may cause serious differences in determining the cost of sales; that is, the costing out of sales by the first-in, first-out method may vary materially from costing out sales on the method of last-in, first-out. Therefore, it is of importance that both the basis of valuation of inventories and the method used in costing out sales should be disclosed. The basis of pricing inventories, such as "cost," "market," or "cost or market whichever is lower," was not stated in 6 reports or 10% of the 57 reports; this compares with 22 reports, representing 38%, in 1946. The method used in costing out sales was not disclosed in 40 reports or 70% of the 57 reports now examined; the number was the same (40) in 1946.

Fixed Assets. These assets constituted one of the principal assets in nearly all of the balance sheets examined, yet little information was disclosed with respect to them. In 34 (or 55%) of the 61 reports reviewed this important item was shown in a lump sum. The 1946 study indicated that 45 (73%) of the reports did not classify the fixed assets. The major classes of assets, such as land, buildings, and machinery and equipment, were not indicated. Also, the basis at which the assets were carried such as cost, appraisal or some other basis, was not stated. Sixteen (26%) of the reports in the recent study did not show the basis at which these assets were carried. One of 13 companies which showed in the 1946 study that fixed assets were carried at appraised values shows no basis now. In the previous study 25 reports (or 40%) failed to state the basis.

As stated in the 1946 report, these disclosures are not required in balance sheets filed pursuant to Regulation S-X but a supporting schedule subdivides fixed assets by major classes. Also additions to fixed assets at other than cost must be explained in this schedule. Balance sheets examined in the course of this study were not, however, deemed deficient because of a failure to classify fixed assets or state the basis of valuation used.

12/ Four companies had no inventory.
The Commission's regulations prescribe that the reserves for deprecia-
tion of fixed assets shall be shown separately in the statements as deduc-
tions from such assets. 13/ In two of the reports it was indicated that
these reserves had been deducted but the amount so deducted was not shown.
In the 1946 study the amount of reserves was similarly concealed in 8 re-
ports. One report presented the reserve for depreciation on the liability
side as compared with two reports in the previous study. This procedure
overstated the balance sheet totals of $12,616,000 by $3,864,000.

The existence and amount of emergency plant facilities were not
properly disclosed in four reports of the present study as compared with
three reports in the 1946 study. One of the four companies failed to dis-
close the amount of emergency plant facilities in the 1946 study. Whether
other companies failed to disclose such facilities, if they existed, was
not determinable.

Reserves. 14/ Eighteen (42%) of the 42 reports that showed reserves
did not adequately describe the purpose for which certain reserves had
been established. A clear description of the purpose for which the re-
serve was created is required to be disclosed in financial statements filed
with the Commission. 15/ Twelve of the 18 reports merely described the
reserve as a "reserve for contingencies"; one reported "reserves" with no
description; and 5 described the reserve as being for two or more purposes
such as "engineering, development and plant rehabilitation and contingen-
cies." Through the improper creation and use of such reserves it is possi-
bly to increase or decrease current income at the fancy of management.
The reports of 15 of these companies had reserves of a substantial amount.
The 1946 study indicated that 29 (69%) of the 42 companies that reported
reserves did not show specifically the purpose for which each reserve was
created.

Charges and credits made against reserves during the fiscal year were
disclosed by very few companies. Annual reports filed under the 1934 Act
contain a schedule that sets out changes in reserves in detail. Conse-
quently the propriety of a registrant's reserve accounting practices is
subject to staff review.

Capital Stock. The description of the capital stock was inadequate
in 6 of the reports. In one instance three classes of stock, two classes
of preferred and one common stock issue, were shown in one amount as
"stated capital." The information as to capital shares shown immediately
below capital and surplus did not disclose the number of authorized shares
for each class of stock or the aggregate amount applicable to each issue.
One report showed "capital stock" with no further information and the re-
main ing four did not specify the authorized shares or dividend rate. In
the 1946 study 18 reports did not adequately describe the capital stock.

13/ Rule 3-11 of Regulation S-X.
14/ This section relates to reserves other than reserves for depreciation,
which have been considered under fixed assets.
Twenty-four companies reported that they had reacquired their own stock and held it in the treasury. Two of these companies had improperly reflected such stock as assets and one included the dividends attributable to this stock in its income. Both of these procedures are contrary to the Commission's rules, 16/ which reflect generally accepted accounting practice. The 1946 report indicated that nine companies had followed similar procedures.

Other Deficiencies in the Balance Sheet

In addition to the deficiencies already indicated, the balance sheets included certain other items which were not properly disclosed. These items, while individually of a material nature, have occurred with less frequency. Clear disclosure of the amounts due from officers, directors and principal stockholders is required in financial statements filed with the Commission. Two of the reports indicated the existence of amounts due from such persons, but the amounts due were not disclosed. The 1946 study stated that only one report did not properly disclose this item.

With respect to marketable securities, the Commission requires that the aggregate cost and aggregate market value shall be shown. 17/ The market value of the securities is needed to determine whether there is any material amount of unrealized loss or profit. In 15 (36%) of the 41 reports which showed marketable securities (exclusive of U. S. Government securities), the market value was not disclosed. The 1946 study indicated that 18 of the 34 companies reporting marketable securities did not show the market value.

With respect to the surplus account, it is required, in general, that classification as among earned, capital, revaluation and paid-in surplus be made. 18/ Seven companies did not indicate the class of surplus. This account was merely reported as "Surplus." The 1946 report indicated that 13 companies did not classify the surplus account.

Deficiencies in the Form and Content of the Income Statement

The income statements were materially deficient in most of the 61 reports examined. Three companies did not include an income statement. A summarization of the general conclusions as to whether the income statement substantially conformed to the requirements of Regulation S-X on major matters is as follows:

16/ Rules 3-16 and 5-03, caption 16(c).
17/ Rule 5-02, caption 2.
18/ Rule 5-02, caption 34.
This statement like the balance sheet was not judged to be "materially deficient" unless the deficiencies were major faults relating to significant items of the income statement. Nearly all of the deficiencies related to the adequacy of disclosure. This same condition was found in the 1946 study.

The most frequent material deficiency found was a failure to disclose the amount of sales or cost of goods sold. As stated in the previous study, these two amounts represent basic data of considerable importance to investors. A comment by Mr. Enders M. Voorhees, Chairman of the Finance Committee, United States Steel Corporation, in his Statement before the Presidential Steel Board on August 22, 1949, is pertinent here. In discussing the accounts of U. S. Steel, Mr. Voorhees said: "The first financial fact and the most important one that appears on a statement of income, whether it be that of the butcher, baker, candlestick maker, or U. S. Steel, is sales -- receipts from customers." 19/ The volume of sales is a measure of the level of operations achieved during the year; and over the years it becomes a significant barometer of the trend of the company's operations. Moreover, it is a key figure in analyzing the significance of changes in those operating costs that vary with the volume of business. The amount of "cost of goods sold" for the year is also a fact of considerable importance in financial analysis. It is often the largest single item of expense. Its relationship to sales is a matter that ordinarily receives the closest sort of attention from management throughout the year.

19/ At page 25 of the "Statement." See also the discussion in American Sumatra Tobacco Corp., 10 S.E.C. 1033 (1939), aff'd, American Sumatra Tobacco Corp. v. S.E.C., 68 App. D. C. 77, 110 F. 2d 117 (1940).
Twenty-eight companies, or 48% of the 58 companies that furnished income statements, failed to disclose sales or cost of sales. Fifteen of these companies reported neither item; 7 of them began their income statement with a figure such as "gross profit" after sales and cost of sales, and 8 began with a "net income figure" after all but a few deductions. These (ordinarily, depreciation and income taxes, and a provision for contingencies) were then set out and the residual balance shown as the final net income figure. The remaining 13 companies showed sales, but combined cost of goods sold with other operating expenses so that the only information available as to ordinary operations was the amount of sales (and in some cases other income) and total amount of operating expenses.

In the 1946 study 29 companies or 57% of the 51 companies that furnished income statements failed to disclose sales or cost of sales. Twenty-one of these companies disclosed neither item; 13 of these companies began their statements with a figure such as "gross operating profit" (sales less cost of sales), and eight began with a "net income figure" after all but a few deductions. The remaining eight companies combined cost of goods sold with other operating expenses.

Regulation S-X (Rule 5-03) requires that the amount of net income before income taxes shall be stated separately in the income statements filed with the Commission. Twelve of the 58 reports failed to state the amount of net income before income taxes. In the 1946 study ten of the 51 companies did not state the income before income taxes.

Nine of the reports examined in the 1949 study included what is generally termed a "single-step" income statement instead of the conventional income statement. This form of statement consists, usually, of only two sections. Sales and other income items are included in the first section; and all costs and expenses are shown in the second section. The difference between the totals of the two sections is net profit or loss. Occasionally, income taxes or extraordinary items are reported separately in a third section, but usually they are included with the other items of income and expense.

Four of the nine statements disclosed substantially all the items called for by Regulation S-X. These were considered satisfactory. The other five, however, reported certain expense items in different classifications from those in which they are ordinarily reported. One of the most significant items on the income statement, "cost of goods sold," was not shown on these statements. Instead, individual items of cost and expense were shown, the components of which were so indeterminate as to make a determination of "cost of sales" impossible. These five statements were considered to be deficient.
Deficiencies in Footnote Disclosures

In general, footnotes are essential to an adequate understanding of the information presented in financial statements. The accounting policies and principles and practices followed by a company on major matters included in financial statements are required by Regulation S-X to be clearly explained; also, other information of a material nature not specifically prescribed which may affect the statements is required to be stated. These requirements relate to many items and matters affecting the financial statements. The footnotes that should have been presented with respect to a particular balance sheet or income statement could not be determined from an examination of the face of the statement itself, but it was apparent in many instances that the statements were incomplete without explanatory notes.

The balance sheets of 35 companies representing 57% of the 61 companies examined did not appear to meet substantially the minimum requirements prescribed by Regulation S-X with respect to footnote disclosures. This compares with 49 reports or 80% of the 61 reports included in the 1946 study.

As to footnotes affecting the income statement, 56 of the reports representing 96% of the 58 reports that included formal income statements did not appear to meet the minimum requirements of Regulation S-X. The 1946 study showed that 49 reports or 96% of the 51 companies submitting income statements did not seem to meet the minimum requirements.

Deficiencies in the Certification of Financial Statements

Forty-eight (or 86%) of the 56 accountants' certificates examined, which accompanied the financial statements included in the present reports which were certified, were expressed substantially in accordance with the standard form of certificate which meets the requirements of the Commission. The 1946 report indicated that 45 (or 82%) of the 55 accountants' certificates were substantially in accordance with the Commission's requirements. Eight (or 14%) of the 56 certificates examined in the present study were found deficient as compared with 10 (or 18%) of the 55 certificates examined in the 1946 study. The financial statements of 5 of the 61 companies were not certified in the 1949 study as against 6 of 61 reports examined in the 1946 study.

Five of the eight deficient certificates were considered materially deficient for the reason that in two cases the accountant stated that no verification had been made of the inventory and that the accounts receivable had not been confirmed; and in three cases no physical tests had been made of the inventory quantities. The amounts involved were material, yet no exception was taken by the accountants in their opinion paragraph. The physical testing of inventories and confirmation of receivables are considered generally accepted auditing procedures. Notwithstanding such
deficiencies in auditing procedures, the certificates stated that the ex-
aminations were made in accordance with generally accepted auditing stan-
dards. The other three certificates were considered partially deficient
for the reason that attention was directed to certain circumstances affect-
ing earnings in one case and the valuation of assets in the other two,
but the certificates did not clearly indicate whether an exception was be-
ing taken to the accounting practices followed.

The financial statements included in the 56 certified stockholders' reports were certified by 26 different public accountant or certified public accountant firms.

Copies of Annual Reports

The 1946 report included as Exhibit A examples of uninformative stock-
holders' reports and as Exhibit B examples of condensed income statements of certain companies. These exhibits included 8 companies whose reports were included in the 61 reports examined in the present study. Of these 8 companies the financial statements included in 4 of the reports were found to be materially deficient and uninformative or condensed as were their statements included in the reports examined in the 1946 study. Since their earlier statements have been exhibited, the present statements are not resubmitted as exhibits.

Three of the four remaining companies did not submit income state-
ments in their reports included in the 1946 study, but they did include them in the reports examined in the present study. In one of these cases the income statement was materially deficient, and the balance sheet had not improved. In the two other instances the income statements were partially deficient; the balance sheet of one was still materially deficient, and the other was somewhat improved. Since the earlier reports of these companies have been submitted as exhibits in the 1946 studies, their current reports are not being exhibited again this time.

The financial statements of the one remaining company were considered as substantially in accord with the requirements of Regulation S-X.

Photocopies of several of the less informative financial statements examined in the course of this study are presented in Exhibit A in place of those excluded as noted above.

STOCKHOLDERS' REPORTS OF 98 COMPANIES

Introduction

This study extends to a new group of companies examination of the adequacy of the financial reporting practices included in reports to stockholders by unregistered companies having total assets in excess of $3,000,000 and more than 300 stockholders, exclusive of banks, insurance companies and investment companies. The purpose is to determine further whether companies not registered with the Commission make available to investors reasonably adequate information.
Procedure in Selecting Companies

The reports selected for this study were obtained through the facilities of another Governmental agency. Its files contained stockholders' reports for approximately 2,000 companies, including some companies registered with this Commission and some not so registered. These reports were found to include those of 98 companies not registered with the Commission and having in excess of $3,000,000 of assets and more than 300 stockholders. A list of the companies and the classification of these companies by industry groups, size and number of stockholders are shown in Exhibit B.

Procedure in Analyzing Reports

The procedure followed in analyzing this group of 98 reports and the standards adopted in the determination of the adequacy of the financial reporting practices were the same as those applied in previous studies.

The deficiencies found are classified under major groups similar to previous studies. However, since the significance of the particular types of deficiencies was discussed in detail in the earlier portion of this report, this discussion is not repeated.

Failure to Furnish Full Set of Financial Statements

Fourteen (representing 14%) of the 98 companies included in this study failed to present a full set of financial statements - balance sheet, income statement and statement of surplus - which would have been required by companies filing under the 1934 Act. Companies filing consolidated financial statements with the Commission are required under certain conditions to file also financial statements of the parent company. While some of the companies that presented consolidated statements may not have been required to furnish parent company statements under the 1934 Act, it is not improbable that certain of the 53 companies that presented consolidated statements also should have presented parent company statements. Only one of these companies included certain consolidated and parent company statements. Also a number of companies failed to present one or more of the three basic statements as stated below.

<table>
<thead>
<tr>
<th>Companies Presenting</th>
<th>Consolidated Statements (53 Companies)</th>
<th>Un consolidated Statements (45 Companies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omitted income statements</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Omitted an income statement and statement of surplus</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Omitted a balance sheet and statement of surplus</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Omitted a balance sheet</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Omitted a statement of surplus</td>
<td>2</td>
<td>2 21/</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

20/ Supra, note 10.
21/ One of these omitted the statement of capital surplus, although there was an unexplained decrease in the balance shown on the balance sheet.
Deficiencies in the Form and Content of the Balance Sheet

Nineteen per cent of the 96 balance sheets examined were judged materially deficient because of several significant faults relating to important items.

A summary of the general conclusions of the extent to which the balance sheets reviewed conformed to the requirements of Regulation S-X is as follows:

<table>
<thead>
<tr>
<th>Companies</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantially the same</td>
<td>47</td>
</tr>
<tr>
<td>Partially different</td>
<td>31</td>
</tr>
<tr>
<td>Materially different</td>
<td>18</td>
</tr>
<tr>
<td>No balance sheet</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
</tr>
</tbody>
</table>

The above tabulation indicates that two companies did not furnish balance sheets to their stockholders. One of these companies has 1,960,000 shares of $25 par value capital stock outstanding amounting to a stated capital of $49,000,000, and has 7231 stockholders. The only financial statements included in the 1948 report to stockholders were a consolidated statement of earnings for the year 1948 and a consolidated statement of earnings for the fourth quarter ended December 31, 1948.

The other company did present a parent company balance sheet and consolidated income and surplus statements, but no consolidated balance sheet. The balance sheet published therefore was not properly related to the other statements presented.

The more frequent deficiencies in the balance sheets examined, as in previous studies, related to inventories, fixed assets, reserves and capital stock. These are discussed below.

Inventories. This significant asset was not classified in most instances by major groups to give the investor some idea of the composition of this item and of the relative liquidity of the major groups, and to enable a comparison between years. The basis at which these assets were carried and the method by which sales were costed out were not shown in many instances.

The major classes of inventories were not disclosed in 57 reports. Fourteen companies failed to disclose the basis at which inventories were carried and 59 companies failed to disclose the method of costing out sales.

Fixed Assets. Fixed assets represented one of the major groups of assets in nearly all balance sheets examined, yet in most reports no classification of the major items composing the group, such as land, buildings, equipment, or leaseholds, was disclosed; nor was there disclosure of the basis at which these assets were carried.

Sixty-seven or 70% of the reports did not show a breakdown of fixed assets into major classifications. Twenty-five companies did not state the basis at which these assets were carried. As indicated previously, it is to 22/ Per Moody's Investors Service Manual.
be noted that such major classifications are not required in balance sheets
filed pursuant to Regulation S-X, but a supporting schedule is required
which subdivides fixed assets by major classes. Also, balance sheets in-
cluded in prospectuses issued under the 1933 Act do not have to classify fixed
assets, but the supporting schedule showing the major classes of assets must
be filed with the Commission. Balance sheets examined in this study were
not considered deficient for failure to show such classifications and the
basis at which the assets were carried.

Twelve companies improperly disclosed the reserve for depreciation of
fixed assets. Of these, 11 companies showed the amount of fixed assets net
of the amount of the reserve for depreciation without disclosing the amount.
The other company showed the reserve on the liability side of the balance
sheet thereby increasing the balance sheet totals by $1,166,248. The total
assets shown were $5,178,824. By showing the reserve on the liability side
the total assets and total liabilities were inflated by 29%.

**Reserves.** Thirty-four of the 62 reports which showed reserves other
than for depreciation did not adequately describe the purpose for which
certain of these reserves had been established. A clear description of
the purpose for which each reserve is created is required to be disclosed in
financial statements filed with the Commission. 23/ Twenty-six reports
described reserves under the general term "reserve for contingencies";
three reports described the reserves as "reserve for inventories and con-
tingencies"; and the remaining five reports described the reserves in
various other general terms.

Reserves for possible losses on accounts receivable and other re-
ceivables were not properly shown in 14 reports. The asset amounts were
disclosed net of the reserve amount in 13 instances. One report included
such reserve on the liability side of the balance sheet.

**Capital Stock.** This item was not properly described in ten reports.
Two of the companies failed to show the capital share liability, the amount
being combined with the surplus account. The remaining eight companies did
not disclose the number of shares authorized or outstanding, or the par or
stated value per share.

Capital stock reacquired and held in treasury was improperly shown as
an asset in two of the 46 reports which disclosed the holding of treasury
stock.

**Other Deficiencies.** Other deficiencies occurred infrequently in the
balance sheets examined but in some cases they were of a material nature.
In the balance sheets of five companies the surplus account was not clearly
designated to indicate the particular class of surplus account, such as
capital surplus and earned surplus. In two of the five reports the surplus
account was combined with the capital stock account. One report showed a
combined amount for paid-in surplus and earned surplus, and two merely
designated the account as surplus. Only one of these companies furnished
a statement of surplus.


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APPENDIX B
The cash surrender value of life insurance policies was classified as a current asset in two reports and in 24 reports the market value of marketable securities was not indicated.

**Deficiencies in Form and Content of the Income Statement**

The income statements included in 52 of the 90 reports which contained such statements reflected material deficiencies when compared with the standards of reporting required by Regulation S-X, as indicated by the following summary:

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantially the same</td>
<td>38</td>
</tr>
<tr>
<td>Materially different</td>
<td>52</td>
</tr>
<tr>
<td>None furnished</td>
<td>8</td>
</tr>
</tbody>
</table>

The most common types of deficiencies disclosed in this study, as in the previous study, were failure to show the amount of sales or cost of sales and the net income before Federal income taxes.

Fifty-one companies, or 56% of the 90 companies that furnished income statements, failed to disclose the sales or cost of sales. Twenty-five (49%) of these companies reported neither item; nine (36%) of the 25 companies began the income statement with a figure such as "gross profit" after sales and cost of sales, and 16 (64%) began with a designation such as "earnings from operations" which represented a figure after all deductions save for a few items such as Federal income taxes and depreciation. The remaining 26 companies showed sales, but combined cost of goods sold with selling, general and administrative and other expenses, thus failing to disclose either cost of goods sold or gross profit on sales.

**Footnotes**

Footnotes are highly important for an adequate understanding of the information presented in financial statements. Sixty-nine reports (72%) did not show any footnotes to the balance sheet and in six reports (9%) the footnotes to such statements were only partly adequate. Footnotes to the income statements were most rare. Eighty-six of the income statements showed no footnotes and four statements showed only one or two notes.

**Deficiencies in the Certification of Financial Statements**

The financial statements contained in 92 (94%) of the reports were certified and 86 (93%) of the certificates relating thereto were in standard form. Five (5%) of the 92 certificates were deemed to be deficient under the Commission's rules. These deficiencies related to the representations made as to the scope of the audit and accounting principles, the effect of the qualifications made on the financial statements and the omission of certain auditing procedures. Six of the reports were not certified.

**Copies of Uninformative Financial Statements**

Photocopies of some of the less informative financial statements included in these stockholders reports are set forth in Exhibit A.
Examples of Uninformative Financial Statements
SUMMARY OF PROFIT AND LOSS AND SURPLUS
BIRTMAN ELECTRIC COMPANY

Year ended December 31, 1947

Operating profit .................................................. $1,010,014.48
Other income, including discount on purchases ($62,588.10) .... 71,178.69
 ........................................................................... $1,081,193.17

Other deductions, including discounts on sales (57,300.60) .... 85,363.20
and interest paid ($28,008.65) ........................................ 995,829.97

PROFIT BEFORE TAXES ON INCOME  ................................ $995,829.97

 Provision for federal taxes on income—estimated ................. 445,000.00

NET PROFIT .............................................................. $550,829.97

Earned surplus—balance at January 1, 1947 ....................... $1,689,757.32

Add: 
Transfer from surplus arising from revaluation of properties, representing depreciation on appreciation charged to expense for the year .. 2,662.15

Deduct: 
Cash dividends paid: 
On common stock ($3.00 per share) ............................... 378,200.00 1,314,219.47

EARNED SURPLUS—BALANCE AT DECEMBER 31, 1947 ........ $1,865,049.44

Paid-in surplus—balance at January 1, 1947 ............... $189,184.72

Excess of fair value over par value of 1,000 common shares sold to an officer of the Company ........................................ 16,000.00 205,184.72

Surplus arising from revaluation of properties—balance at January 1, 1947 ......................................................... $256,352.75

Deduct transfer to earned surplus, representing depreciation on appreciation charged to expense for the year ................ 2,662.15 253,690.60

SURPLUS—BALANCE AT DECEMBER 31, 1947 .................. $2,323,924.76

Provision for depreciation included in costs and expenses for the year ........................................... $89,692.14

See Notes to Financial Statements

Presented only as an example of a condensed profit and loss statement. The above statement was certified.
HART-CARTER COMPANY AND SUBSIDIARY COMPANIES

SUMMARIES OF CONSOLIDATED PROFIT AND LOSS
AND EARNED SURPLUS FOR THE YEAR ENDED
NOVEMBER 30, 1948

PROFIT AND LOSS

Gross Profit before deducting provision for depreciation .................. $2,028,281

Deduct:
- Selling, advertising, shipping and general and administrative expenses, etc. $530,856
- Provision for depreciation ........................................... 118,715 649,571

Profit before income taxes ......................................... $1,378,710

Provision for Federal, State and Canadian income taxes .................. 586,000

Net profit for the year .................................................. $ 792,710

EARNED SURPLUS

Balance at beginning of year ........................................... $1,228,595

Net Profit for the year .............................................. 792,710

Deduct:
- Cash dividends paid—
  Preference stock ($2.00 per share) .................................. $ 143,800
  Common stock (75 cents per share) .................................. 225,075 368,875

Balance at end of year .............................................. $1,652,430

Example of a condensed profit and loss statement. The above statements were certified.
## Example of a statement of income, presented as part of the surplus statement. This statement was certified.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Surplus, December 31, 1946</strong></td>
<td>$5,692,573.90</td>
</tr>
<tr>
<td><strong>Changes During the Year Ended December 31, 1947:</strong></td>
<td></td>
</tr>
<tr>
<td>Net Profit from Operations</td>
<td>$1,873,978.60</td>
</tr>
<tr>
<td>(After Depreciation of $858,932.06)</td>
<td></td>
</tr>
<tr>
<td>Income from Investments</td>
<td>$32,384.99</td>
</tr>
<tr>
<td>Gain on Sale of Securities</td>
<td>22,055.46</td>
</tr>
<tr>
<td></td>
<td>54,440.45</td>
</tr>
<tr>
<td></td>
<td>$1,928,419.05</td>
</tr>
<tr>
<td>Less Other Non-Operating Expense</td>
<td>18,877.06</td>
</tr>
<tr>
<td></td>
<td>$1,909,541.99</td>
</tr>
<tr>
<td>Less Contribution to Employees' Profit-Sharing Plan</td>
<td>190,954.20</td>
</tr>
<tr>
<td></td>
<td>$1,718,587.79</td>
</tr>
<tr>
<td>Provision for Federal Taxes Based on Income</td>
<td>626,865.00</td>
</tr>
<tr>
<td>Net Income for Year</td>
<td>1,091,722.79</td>
</tr>
<tr>
<td>Other Additions to Surplus Applicable to Prior Years - Tax Adjustments, Renegotiation, Etc.</td>
<td>46,996.38</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,831,293.07</td>
</tr>
<tr>
<td>Dividends Declared and Paid</td>
<td>630,000.00</td>
</tr>
<tr>
<td><strong>Surplus, December 31, 1947</strong></td>
<td>$6,201,293.07</td>
</tr>
</tbody>
</table>
### Exhibit A to Appendix B

**DRAPER CORPORATION ° HOPEDALE ° MASSACHUSETTS**

**BALANCE SHEETS—DECEMBER 27, 1947 AND JANUARY 1, 1949**

#### ASSETS

<table>
<thead>
<tr>
<th>December 27, 1947</th>
<th>January 1, 1949</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets at Depreciated Values:</strong></td>
<td></td>
</tr>
<tr>
<td>Land, Buildings and Building Equipment</td>
<td>$3,900,664.82</td>
</tr>
<tr>
<td>Machinery and Tools</td>
<td>5,748,637.15</td>
</tr>
<tr>
<td>Office Furniture and Fixtures</td>
<td>26,002.00</td>
</tr>
<tr>
<td>Patents</td>
<td>1,00</td>
</tr>
<tr>
<td><strong>TOTAL FIXED ASSETS</strong></td>
<td>$9,675,304.97</td>
</tr>
<tr>
<td><strong>Miscellaneous Securities, at Market or Lower</strong></td>
<td>2,578,935.00</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td>408,555.55</td>
</tr>
<tr>
<td><strong>Accounts and Notes Receivable</strong></td>
<td>4,290,193.11</td>
</tr>
<tr>
<td><strong>Inventories—at or below the lower of cost or market, as in prior years</strong></td>
<td>6,610,032.04</td>
</tr>
<tr>
<td><strong>Federal Tax Refund Claims (Estimated)</strong></td>
<td>694,932.52</td>
</tr>
<tr>
<td><strong>Treasury Stock</strong></td>
<td>205,900.00</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$24,463,853.19</td>
</tr>
</tbody>
</table>

#### LIABILITIES

| Accounts Payable | $1,644,116.55 | $2,636,907.63 |
| Reserve for Doubtful Accounts, Allowances, etc. | 318,550.02 | 494,785.01 |
| Reserve for Prior Years' Taxes | | 350,000.00 |
| Reserve for Federal and State Taxes | 2,203,000.00 | 4,337,000.00 |
| Capital Stock (392,625 shares of no par value) | 13,741,875.00 | 13,741,875.00 |
| Surplus—Paid in or Earned | 6,556,311.62 | 8,798,172.31 |
| **TOTAL LIABILITIES** | $24,463,853.19 | $30,358,739.95 |

This is the only financial statement included in the report. The statement was not certified.
DUNCAN ELECTRIC MANUFACTURING COMPANY—LAFAYETTE, INDIANA

STATEMENT OF FINANCIAL CONDITION

February 29, 1948

STOCKHOLDERS' INVESTMENT

PAR VALUE STOCK (300,000 shares of $2.10 par value)
Outstanding 123,120 shares $ 307,800.00

INCOME SET ASIDE FOR CONTINGENCIES 100,000.00
INCOME REINVESTED IN THE BUSINESS 1,784,617.30

TOTAL STOCKHOLDERS' INVESTMENT $2,192,417.30

USED IN THE BUSINESS AS FOLLOWS:

ASSETS UTILIZED TO CARRY ON DAILY TRANSACTIONS:
Cash ................................................. $797,042.77
United States Government Bonds—At Cost 224,000.00
Amounts receivable from customers and others, less reserve for amounts which may not be collected 715,872.14
Inventories of purchased materials and finished and partly finished products 973,173.97
Expenses paid in advance 6,390.02

TOTAL CURRENT ASSETS ........................................... 2,716,478.90

AMOUNTS OWING BY THE COMPANY FOR PURCHASES, WAGES, TAXES, ETC.:
Unpaid bills for materials and services $231,580.64
Wages and commissions owing to employees 44,710.39
Estimated Income Taxes United States Government 561,136.30
Owing for social security, property, and other taxes 51,185.27
Dividends declared but unpaid 30,780.00

TOTAL CURRENT LIABILITIES .................................... 919,392.60

WORKING CAPITAL ............................................. $1,797,086.30

COST OF LAND, BUILDINGS AND EQUIPMENT used for the production and sale of products, reduced by the estimated cost of wear and exhaustion (depreciation) caused by the continuous use of these facilities .................. 385,918.36

OTHER ASSETS ............................................. 9,372.64

NET WORTH .......................................................... $2,192,417.30

STATEMENT OF DISTRIBUTION OF INCOME

Year ended February 29, 1948

Net income for year ($6.46 per share) ................................ $ 795,383.10
Dividends paid in cash ($1.75 per share) .................. 215,460.00

Balance of income reinvested in business $ 579,923.10
Income of prior years reinvested in business 1,204,694.20

Income at end of year reinvested in business $1,784,617.30

This page constitutes all the financial statements published. The above statements were certified.
CONCENTRATED STATEMENT
FOR
FISCAL YEAR ENDED FEB. 28, 1949

EARNINGS OF THE GREAT ATLANTIC & PACIFIC TEA CO. OF AMERICA
AND SUBSIDIARY COMPANIES
Fiscal Year Ended February 28, 1949

Total Earnings: $71,457,030.33
Less Depreciation: $7,295,279.04
Federal Income Tax: $25,500,000.00
Net Earnings: $38,661,751.29
Less Dividends: Preferred: $1,815,500.00
Common: $14,600,684.00
Plus: Surplus Adjustments: $20,364.37
Balance, Appropriated for Additions to Fixed Assets: $22,265,931.66

SALES FOR YEAR ENDED FEB. 28, 1949: $2,837,291,185.

This is the complete report to stockholders. The above statements were not certified.
TO THE STOCKHOLDERS:

THE NEW JERSEY ZINC COMPANY

February 10, 1949

Consolidated earnings for the year amounted to $9,435,813.93 after Federal Income Taxes of $4,709,190.61, and after deducting $1,000,000 for reserve for contingencies, compared with $8,243,305.61 after Federal Income Taxes of $3,947,679.64, and after deducting $1,000,000 for reserve for contingencies for the year 1947.

The per share quarterly earnings of 1948 compared with 1947 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Quarter</td>
<td>.93</td>
<td>1.21</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>1.20</td>
<td>1.08</td>
</tr>
<tr>
<td>Third Quarter</td>
<td>1.12</td>
<td>.88</td>
</tr>
<tr>
<td>Fourth Quarter</td>
<td>1.56</td>
<td>1.04</td>
</tr>
<tr>
<td>Yearly Totals</td>
<td>$4.81</td>
<td>$4.21</td>
</tr>
</tbody>
</table>

Prices of slab zinc and other zinc products were increased during the year. The full effect of these price increases was materially reduced due to substantial increases in the cost of our products because of rising prices for raw materials and coal, higher wages and salaries, together with higher freight rates.

Income from investments declined due to the exchange of the Company's holdings in long-term United States Government bonds for shorter-term maturities yielding substantially less income. This exchange was made in preparation for large expenditures of funds for capital additions to mines, plants, and equipment.

There will be a further loss of income from investments as Government bonds and other securities are liquidated and the funds are reemployed in the Company's operations, but this loss should be more than regained as the additions become productive.

The cost of additions to mines, plants, and equipment, as presently planned, will be met from funds and investments accumulated by the Company for that purpose and without the necessity for new financing.

CAPITAL EXPENDITURES

Our expenditures in 1948 for new mines, plants, and equipment amounted to approximately $7,600,000. These expenditures are part of a long-range program which, when completed, will result in operating economies, better working conditions, and expanded output.

At the Palmerton, Pennsylvania, smelter the major additions under construction include new sintering, roasting, and sulfuric acid plants which are expected to be in operation during the first half of 1949, and a battery of eight vertical retorts of improved design for the production of slab zinc. These vertical retorts will replace our few remaining horizontal retorts. Several minor improvements were made at the Depue, Illinois, smelter and the Canon City, Colorado, roasting plant.

This is the complete report except for cover and list of directors and officers. The statement was not certified.
Exhibit A to Appendix B

At the mines, important undertakings include the opening of a new mine at Friedensville, Pennsylvania, (where production of ore is expected to start late in 1951 or early in 1952), deepening the shaft at our Austinville, Virginia, property, and the sinking of a new shaft at Ogdensburg, New Jersey. At Franklin, New Jersey, minor improvements only were installed in 1948. This mine is completely developed and will require no major capital expenditures during its remaining life. A number of minor improvements were made at the mines at Gilman, Colorado, and Hanover, New Mexico, but no important projects were undertaken at either place.

INVENTORIES

In spite of the fact that raw materials, supplies, and finished products were maintained at the lowest point consistent with efficient operation and reasonable service to customers, the dollar value of our inventories increased approximately $1,400,000. In this connection, we should point out that while inflationary forces have reduced the value of the consumer's dollar, the same forces to a still greater degree have reduced the purchasing power of the corporation's dollar.

OPERATIONS

In 1948 our smelters and mines were operated without interruption but mine production would have been greater had it been possible to obtain an adequate underground force. The dearth of experienced miners, especially in the western mining country, originally resulting from the induction of trained personnel into the Armed Forces and migration into other fields of employment, will continue to affect the ability of our mining industry to produce at maximum capacity until an adequate force of trained underground workers is again available.

Our Mining Department has been actively engaged in reconnaissance and exploration in the United States and Canada. During the year a large number of prospects were examined, some of which are still under investigation.

Our Technical Department continued to investigate methods of improving the quality of our products, the production of new products, and the adaptation of new processes and equipment to our business.

On behalf of the Quebec Iron and Titanium Corporation, the Department has continued to investigate methods of smelting titaniferous iron ore which that company will mine and smelt in Canada. With the prospect of obtaining an adequate supply of titanium-bearing slag from the Quebec Iron and Titanium Corporation, one of the major activities of the Technical Department has had to do with titanium and its products. A pilot plant was operated for the production of titanium dioxide in preparation for the design of a commercial titanium pigment plant and methods of producing titanium metal were investigated in a preliminary way.

QUEBEC IRON AND TITANIUM CORPORATION

On September 10, 1948, we mailed to stockholders a brief statement regarding the formation of the Quebec Iron and Titanium Corporation, owned one-third by The New Jersey Zinc Company and
two-thirds by the Kennecott Copper Corporation. The authorized capital of the new corporation is $30,000,000, and to date 45,000 shares, par value $100 per share, have been issued, of which we have taken 15,000 shares.

This corporation was formed to develop the titaniferous iron ore deposits in the Allard Lake region of Quebec, Canada, an undertaking estimated to require a capital expenditure in the order of $35,000,000.

The Allard Lake deposits are located 27 miles north of the St. Lawrence River and about 430 miles northeast of Quebec City in an area heretofore practically inaccessible by any means of transportation except by air. Diamond drilling and other exploration in the area indicate the existence of more than 100,000,000 tons of ore.

Contracts have been let for the construction of a railroad from the mine to Havre St. Pierre on the St. Lawrence River. At Havre St. Pierre property has been acquired for terminal and storage facilities and it is expected that the railroad and the terminal facilities will be completed and ready for operation in 1950.

From Havre St. Pierre the ore will be transported by water to Sorel, Quebec, located on the south side of the St. Lawrence River, about 50 miles east of Montreal. At this point, a suitable site for an electric furnace smelting plant has been acquired and contracts for the engineering and construction of the plant have been let. Clearing of the site will begin about April 1, 1949, and it is expected that the first furnace will go into operation late in 1950 with commercial production to be reached in 1951.

Present plans call for mine production at the rate of 1,500 tons of ore per day. This amount of ore will yield about 175,000 tons of high grade iron and 240,000 tons of titanium-bearing slag per annum. A large potential demand exists for the iron from the steel industry and for the titanium-bearing slag from the producers of titanium pigments.

DIVIDENDS

Dividends were paid in March, June, September, and December, aggregating $4.25 per share. The Internal Revenue Bureau has tentatively ruled that the entire amount of 1948 dividends is taxable for Federal Income Tax purposes. A letter to this effect, addressed to stockholders, is enclosed herewith.

Since the close of the year, a quarterly dividend, Number 315, of $0.75 per share, has been declared, payable March 10, 1949 to stockholders of record February 18, 1949.

We take this opportunity to express our appreciation of the effective cooperation of the men and women of this Company during the year under review.

By order of the Board

HENRY HARDENBERGH
President

5
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE FOURTH QUARTER ENDED DECEMBER 31, 1948

INCOME FROM OPERATIONS
  From Sales, less costs, taxes (not including income taxes), research, prospecting, depreciation, depletion, and all other operating expenses $4,898,115.88
  From Sales of By-Products and Miscellaneous 232,162.80 $5,130,278.68

OTHER INCOME
  From Investments, Patents, etc. 311,718.03

EXPENSES
  General and Administrative, etc. 647,774.81

CONSOLIDATED NET PROFIT BEFORE INCOME TAXES
  Provision for estimated income taxes 1,469,950.61

CONSOLIDATED NET PROFIT
  Less: Transferred to Reserve for Contingencies 250,000.00

CONSOLIDATED NET PROFIT TRANSFERRED TO EARNED SURPLUS 3,074,271.29

EARNINGS PER SHARE ON 1,960,000 SHARES ($25.00 PAR) FOR THE FOURTH QUARTER OF 1948 $1.56

FREDERICK H. BAXTER
Vice President and Comptroller
Exhibit A to Appendix B

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR 1948

<table>
<thead>
<tr>
<th>INCOME FROM OPERATIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>From Sales, less costs, taxes (not including income taxes), research, prospecting, depreciation, depletion, and all other operating expenses</td>
<td>$15,596,213.69</td>
</tr>
<tr>
<td>From Sales of By-Products and Miscellaneous</td>
<td>803,880.83</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OTHER INCOME</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>From Investments, Patents, etc.</td>
<td>1,220,221.82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General and Administrative, etc.</td>
<td>2,475,311.80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSOLIDATED NET PROFIT BEFORE INCOME TAXES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for estimated income taxes</td>
<td>$15,145,004.94</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSOLIDATED NET PROFIT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Transferred to Reserve for Contingencies</td>
<td>$10,435,813.03</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSOLIDATED NET PROFIT TRANSFERRED TO EARNED SURPLUS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------------------------------</td>
<td>--</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EARNINGS PER SHARE TRANSFERRED TO SURPLUS (1,060,000 SHARES)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$25.00 PAR</td>
<td>$ 4.81</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DIVIDENDS PAID PER SHARE DURING 1948</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$ 4.25</td>
</tr>
</tbody>
</table>

FREDERICK H. BAXTER
Vice President and Comptroller

Note: Net profits, after deduction for income taxes, of $47,194.20 and $191,176.41 were realized from sales of securities and from sales of ore respectively. These amounts have been transferred to reserves and are not included in the above statement.
**Exhibit A to Appendix B**

**ALUMINUM COMPANY OF AMERICA**

**CONSOLIDATED INCOME AND EARNED SURPLUS ACCOUNT**

**FOR THE YEAR ENDING DECEMBER 31, 1948**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned Surplus—Beginning of Year</td>
<td>$181,672,074.05</td>
</tr>
<tr>
<td>Adjustments applicable to Prior Years</td>
<td>1,141,807.99</td>
</tr>
<tr>
<td><strong>Adjusted Earned Surplus—Beginning of Year</strong></td>
<td>$182,813,882.04</td>
</tr>
<tr>
<td>Earnings, after deducting all Expenses incident to Operations, before Provision for Depletion and Depreciation and Income Taxes</td>
<td>79,168,286.73</td>
</tr>
<tr>
<td>Provision for Depletion and Depreciation</td>
<td>12,026,918.97</td>
</tr>
<tr>
<td>Earnings before Income Taxes</td>
<td>67,141,367.76</td>
</tr>
<tr>
<td>Provision for Income Taxes</td>
<td>27,200,000.00</td>
</tr>
<tr>
<td>Net Income</td>
<td>39,941,367.76</td>
</tr>
<tr>
<td>Lease—Dividends—Preferred Stock</td>
<td>2,474,693.28</td>
</tr>
<tr>
<td>Dividends—Common Stock</td>
<td>9,781,466.00</td>
</tr>
<tr>
<td><strong>Earned Surplus—End of Year</strong></td>
<td>$210,499,899.52</td>
</tr>
</tbody>
</table>

Example of a condensed consolidated income account, presented as part of the surplus account. This statement was certified.
Exhibit A to Appendix B

COLUMBIA BAKING COMPANY

CONDENSED STATEMENT OF INCOME ACCOUNT
FOR THE FISCAL YEAR (FIFTY-TWO WEEKS)
ENDED JANUARY 1, 1949

<table>
<thead>
<tr>
<th>Net Profit from operations before deduction of the items shown below</th>
<th>$1,052,600.64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$346,452.20</td>
</tr>
<tr>
<td>Estimated Federal and State Income Taxes:</td>
<td></td>
</tr>
<tr>
<td>State Income Taxes</td>
<td>$24,200.00</td>
</tr>
<tr>
<td>Federal Income Taxes</td>
<td>$252,300.00</td>
</tr>
<tr>
<td></td>
<td>$276,500.00</td>
</tr>
<tr>
<td></td>
<td>$622,952.20</td>
</tr>
<tr>
<td>Net Income for the Year Transferred to Earned Surplus</td>
<td>$429,648.44</td>
</tr>
</tbody>
</table>

**EARNED SURPLUS ACCOUNT**
FOR THE FISCAL YEAR (FIFTY-TWO WEEKS)
ENDED JANUARY 1, 1949

| Balance at January 3, 1948                                      | $1,703,495.02  |
| Add: Net Income for the period as shown above                   | 429,648.44     |
| To eliminate losses of subsidiary previously charged against surplus | 20,625.24      |
|                                                               | $2,153,768.70  |

Deduct:

- Federal and State Income Taxes as finally determined for the years 1940-1944 in excess of sums provided therefor during these years | $45,280.51  |
- Dividends declared during the year:
  - Preferred—Regular and Participating of $1.60 per share | $213,612.50  |
  - Common—$1.10 per share | 109,871.50    |
- Less: Dividends accrued on unexchanged shares of former capital stock returned to surplus | 323,484.00   |

| Earned Surplus at January 1, 1949                              | $1,789,602.02  |

**CAPITAL SURPLUS ACCOUNT**
FOR THE FISCAL YEAR (FIFTY-TWO WEEKS)
ENDED JANUARY 1, 1949

| Capital Surplus at January 1, 1949 (No change therein during the year) | $431,983.95  |

Presented only as an example of a condensed statement of income. The above statements were certified.
**Exhibit A to Appendix B**

THE EASTERN MALLEABLE IRON COMPANY

**SUMMARY OF CHANGES IN SURPLUS ACCOUNTS**

For the Period from December 28, 1947 to and Including January 1, 1949

<table>
<thead>
<tr>
<th>Earned Surplus:</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, December 27, 1947</td>
<td></td>
<td>1,931,052.41</td>
</tr>
</tbody>
</table>

**Income for period:**

- Gain, operating divisions, net of provision for depreciation and amortization of $266,373.55... | 826,082.94 |
- Gain from sale of land at Watervliet, New York | 694.11 |
- Recovery on claims against closed bank | 295.82 |
- Treasurer's net income | 14,314.00 |

**Total** | 841,386.87 |

**Deduct:**

- Provision for Federal income taxes | 318,257.56 |
- Loss from sales of securities | 223.39 |
- Interest on tax assessments and mortgage note | 9,988.69 |
- Net adjustments of Federal and state taxes on income—years 1943-1947 | 9,081.38 |
- Carrying charges, closed plants, including employer's liability payments allocated thereto of $2,296.66 | 3,777.26 |

**Total Deductions** | 341,328.26 |

**Net Income for Period** | 500,058.61 |

**Surplus Deduction:**

- Cash dividends paid—$4.00 per share | 315,512.00 |

**Net Gain in Earned Surplus** | 184,546.61 |

**Earned Surplus, January 1, 1949** | $2,115,699.02 |

**Capital Surplus:**

- Balance at beginning and end of period | $2,214,244.93 |

Example of a statement of income, presented as part of the surplus statement. This statement was certified.
Exhibit A to Appendix B

The Garlock Packing Company
and Subsidiaries

SUMMARY OF CONSOLIDATED NET EARNINGS AND EARNINGS INVESTED FOR USE IN THE BUSINESS FOR THE YEAR ENDED DECEMBER 31, 1948

**EARNINGS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings from Operations</td>
<td>$2,264,268.00</td>
</tr>
<tr>
<td>Other Earnings</td>
<td>35,894.66</td>
</tr>
<tr>
<td>Gross Earnings</td>
<td>$2,300,162.66</td>
</tr>
<tr>
<td>Other Charges Against Earnings</td>
<td>110,696.47</td>
</tr>
<tr>
<td>Net Earnings Before Provision for Income Taxes</td>
<td>$2,189,466.19</td>
</tr>
<tr>
<td>Provision for United States and Canada Income Taxes</td>
<td>819,884.43</td>
</tr>
<tr>
<td>Net Earnings</td>
<td>$1,369,581.76</td>
</tr>
</tbody>
</table>

**EARNINGS INVESTED FOR USE IN THE BUSINESS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1, 1948</td>
<td>$7,472,386.11</td>
</tr>
<tr>
<td>Net Earnings for the Year</td>
<td>1,369,581.76</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$8,841,967.87</td>
</tr>
<tr>
<td>Cash Dividends Paid to Stockholders—$1.25 a share</td>
<td>523,125.00</td>
</tr>
<tr>
<td><strong>Balance, December 31, 1948</strong></td>
<td>$8,318,842.87</td>
</tr>
</tbody>
</table>

Presented only as an example of a condensed consolidated statement of earnings. The above statements were certified.
NORTH & JUDD MANUFACTURING CO.

Statement of Consolidated Income and Surplus

FOR THE YEAR ENDED JUNE 30, 1948

Surplus at July 1, 1947 .......................... $1,909,861.18

Surplus Adjustments .......................... 5,368.97

$1,904,492.21

Net Income before Federal Taxes  $50,324.46
(After depreciation $154,711.17)

Less Contribution to Employees Retirement and Benefit Plan 5,032.45

$45,292.01

Less Federal Income Taxes 4,418.23

Net Income for Year .......................... 40,873.78

$1,945,365.99

Less Dividends Paid ($1.62 1/2 per share) 156,715.72

Surplus June 30, 1948 ....................... $1,788,650.27

Example of a statement of income, presented as part of the surplus statement. This statement was not certified.
OLYMPIA BREWING COMPANY
Olympia, Washington

CONDENSED INCOME ACCOUNT
Calendar Year 1948

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET INCOME, before depreciation and income taxes</td>
<td>$2,099,996.12</td>
</tr>
<tr>
<td>DEPRECIATION on Plant, Kegs and Signs</td>
<td>170,366.96</td>
</tr>
<tr>
<td>NET INCOME, before Federal income taxes</td>
<td>$1,929,629.16</td>
</tr>
<tr>
<td>PROVISION for Federal income taxes 1948</td>
<td>740,610.23</td>
</tr>
<tr>
<td>NET INCOME—to Earned Surplus</td>
<td>$1,189,018.93</td>
</tr>
</tbody>
</table>

---

EARNED SURPLUS
Calendar Year 1948

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BALANCE—January 1, 1948</td>
<td>$2,432,612.22</td>
</tr>
<tr>
<td>NET INCOME for the year 1948</td>
<td>1,189,018.93</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$3,621,631.15</td>
</tr>
<tr>
<td>DEDUCT—cash dividends paid in 1948</td>
<td>623,046.00</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>BALANCE—December 31, 1948</td>
<td>$2,998,585.15</td>
</tr>
</tbody>
</table>

Example of condensed income statement. The above statements were certified.
EXHIBIT B TO APPENDIX B

Lists of Companies Included in this Study and Classification of Companies by Size, Number of Stockholders, and Industries

Group 1 - 61 companies included in 1946 and current study

Group 2 - 98 companies included only in current study
American Hair & Felt Company
American Maize-Products Company
American Screw Company
American Window Glass Company
Birtman Electric Company
Boston Woven Hose & Rubber Company
Botany Mills, Incorporated
Bowser, Incorporated
Buckeye Steel Castings Company
Burns Brothers
Chapman Valve Manufacturing Company
Chicago, Wilmington & Franklin Coal Co.
Commercial Shearing & Stamping Company
Crompton & Knowles Loom Works
Deep Rock Oil Corporation
Detroit Harvester Company
Diamond Alkali Company
Dictaphone Corporation
Joseph Dixon Crucible Company
Eastern Corporation
Fairbanks Company
Fashion Park, Incorporated
Federal Machine & Welder Company
General Industries Company
Gladden Products Corporation
Globe-Wernicke Company
Graton & Knight Company
Hajoca Corporation
Hart-Carter Company
Hawley Pulp and Paper Company
Hearst Consolidated Publications, Incorporated
Heywood-Wakefield Company
Hickok Oil Corporation
Ideal Cement Company
Indian Motorcycle Company
International Milling Company
Landers, Frary and Clark
Lawrence Portland Cement Company
Macfadden Publications, Incorporated
Minnesota Valley Canning Company
Nashawena Mills
National Casket Co., Inc.
National Terminals Corporation
New Jersey Realty Company
165 Broadway Building, Inc.
Quincy Market Cold Storage & Warehouse Co.
Reed-Prentice Corporation
Rockwood & Company
Savannah Sugar Refining Corporation
Shuron Optical Company, Inc.
Snap-on Tools Corporation
Stanley Works
Struthers Wells Corporation
Taylor-Wharton Iron & Steel Company
United Piece Dye Works
United States Envelope Company
United States Potash Company
Wamsutta Mills
West Point Manufacturing Company
William Whitman Company, Inc.
J. S. Young Company
Exhibit B to Appendix B

Classification of Companies

According to Amount of Total Assets, Group 1

<table>
<thead>
<tr>
<th>Amount of Total Assets (000,000 omitted)</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $3.0</td>
<td>2*</td>
</tr>
<tr>
<td>$3.0 - 4.0</td>
<td>2</td>
</tr>
<tr>
<td>4.0 - 5.0</td>
<td>4</td>
</tr>
<tr>
<td>5.0 - 6.0</td>
<td>6</td>
</tr>
<tr>
<td>6.0 - 7.0</td>
<td>4</td>
</tr>
<tr>
<td>7.0 - 8.0</td>
<td>4</td>
</tr>
<tr>
<td>8.0 - 9.0</td>
<td>5</td>
</tr>
<tr>
<td>9.0 - 10.0</td>
<td>4</td>
</tr>
<tr>
<td>10.0 - 15.0</td>
<td>14</td>
</tr>
<tr>
<td>15.0 - 20.0</td>
<td>5</td>
</tr>
<tr>
<td>20.0 - 30.0</td>
<td>3</td>
</tr>
<tr>
<td>30.0 - 50.0</td>
<td>5</td>
</tr>
<tr>
<td>50.0 - 75.0</td>
<td>2</td>
</tr>
<tr>
<td>over 75.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61</strong></td>
</tr>
</tbody>
</table>

* The total assets of these two companies were over $3,000,000 at the time of the earlier study. Analyses of the reports of these companies have been included in this study for comparative purposes.

Classification of Companies

According to Number of Stockholders, Group 1

<table>
<thead>
<tr>
<th>Number of Stockholders</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>300 - 400</td>
<td>2</td>
</tr>
<tr>
<td>400 - 500</td>
<td>2</td>
</tr>
<tr>
<td>500 - 600</td>
<td>3</td>
</tr>
<tr>
<td>600 - 700</td>
<td>2</td>
</tr>
<tr>
<td>700 - 800</td>
<td>1</td>
</tr>
<tr>
<td>800 - 900</td>
<td>3</td>
</tr>
<tr>
<td>900 - 1,000</td>
<td>5</td>
</tr>
<tr>
<td>1,000 - 1,500</td>
<td>7</td>
</tr>
<tr>
<td>1,500 - 2,000</td>
<td>9</td>
</tr>
<tr>
<td>2,000 - 3,000</td>
<td>16</td>
</tr>
<tr>
<td>3,000 - 5,000</td>
<td>2</td>
</tr>
<tr>
<td>5,000 - 7,500</td>
<td>5</td>
</tr>
<tr>
<td>7,500 - 10,000</td>
<td></td>
</tr>
<tr>
<td>over 10,000</td>
<td>1</td>
</tr>
<tr>
<td>not given</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61</strong></td>
</tr>
</tbody>
</table>

1/ The number of stockholders was determined from Moody's Investors Service, 1949 Industrials Manual.
## Exhibit B to Appendix B

### Classification of Companies According to Industries, Group 1

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement producers</td>
<td>2</td>
</tr>
<tr>
<td>Chemical products</td>
<td>2</td>
</tr>
<tr>
<td>Grain milling</td>
<td>2</td>
</tr>
<tr>
<td>Household appliance manufacturers</td>
<td>2</td>
</tr>
<tr>
<td>Industrial and farm machinery and equipment</td>
<td>6</td>
</tr>
<tr>
<td>Industrial parts and supplies manufacturers</td>
<td>14</td>
</tr>
<tr>
<td>Non-ferrous mining</td>
<td>2</td>
</tr>
<tr>
<td>Office equipment manufacturers</td>
<td>2</td>
</tr>
<tr>
<td>Publishing companies</td>
<td>2</td>
</tr>
<tr>
<td>Real estate companies</td>
<td>2</td>
</tr>
<tr>
<td>Retail outlets</td>
<td>2</td>
</tr>
<tr>
<td>Textiles</td>
<td>6</td>
</tr>
<tr>
<td>Warehousing</td>
<td>2</td>
</tr>
<tr>
<td>Wood and paper products</td>
<td>3</td>
</tr>
<tr>
<td>Other (no two companies in the same general line of industry)</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61</strong></td>
</tr>
</tbody>
</table>
List of Companies, Group 2

Aluminum Company of America
Aluminum Goods Manufacturing Company
Amalgamated Sugar Company
American Enka Corporation
American-LaFrance-Foamite Corporation
American Thread Company, Inc.
Anchor Post Products, Incorporated
Anheuser-Busch, Incorporated
Argo Oil Corporation
Arrow-Hart & Hegeman Electric Company
Babycock & Wilcox Company
Joseph Bancroft & Sons Company
Bird & Son, Incorporated
Brown Company
Bunker Hill and Sullivan Mining & Concentrating Co.
Cannon Shoe Company
Philip Carey Manufacturing Company
Carnation Company
Central Paper Company, Inc.
Cheesebrough Manufacturing Company
Colt's Manufacturing Company
Columbia Baking Company
Copeland Refrigeration Corporation
W. S. Dickey Clay Mfg. Company
Draper Corporation
Duncan Electric Manufacturing Company
Durham Hosiery Mills
Duval Texas Sulphur Company
Eastern Malleable Iron Company
Federal Bake Shops, Inc.
Firth Sterling Steel & Carbide Corporation
Fruit of the Loom, Incorporated
Fuller Manufacturing Company
Garlock Packing Company
General Aniline & Film Corporation
General Fireproofing Company
Gorton-Pew Fisheries Company, Ltd.
Goulds Pumps, Incorporated
Great Atlantic & Pacific Tea Company of America
Great Northern Paper Company
Griess-Pfleger Tanning Company
Grove Laboratories, Incorporated
Harrisburg Steel Corporation
Hershey Creamery Company
Edward Hines Limber Company
Hoberg Paper Mills, Incorporated
Humble Oil & Refining Company
Hunter Packing Company
International Cigar Machinery Company
International Textbook Company
Jantzen Knitting Mills, Inc.
Jones & Lamson Machine Company
James R. Kearney Corporation
Kellogg Company
Kendall Refining Company
B. Kuppenheimer & Company, Inc.
P. R. Mallory & Company
Metal & Thermit Corporation
Midvale Company
Minnesota & Ontario Paper Company
Monolith Portland Cement Company
Munising Paper Company
Naumkeag Steam Cotton Company
Nazareth Cement Co.
New England Confectionery Company
New Jersey Zinc Company
Nicholson File Company
North & Judd Manufacturing Company
Ohio Forge & Machine Corporation
Ohio Leather Company
Ohio Match Company
Olympia Brewing Company
Pacific Portland Cement Company
Pepperell Manufacturing Company
Petoskey Portland Cement Company
Plymouth Cordage Company
Port Huron Sulphite & Paper Company
Prentiss Wabers Products Company
Ralston Steel Car Company
Raymond Concrete Pile Company
Rhinelander Paper Company
Robbins & Myers, Incorporated
H. H. Robertson Company
Safety Car Heating & Lighting Company, Inc.
Scranton Lace Company
Sherwin-Williams Company
Sunset Oil Company
Thew Shovel Company
Time, Incorporated
Towle Manufacturing Company
Union Metal Manufacturing Company
Wagner Baking Corporation
Walker Manufacturing Co. of Wisc.
Wausau Paper Mills Company
Welch Grape Juice Company
Westates Petroleum Company
Weyerhaeuser Timber Company
Wico Electric Company
## Classification of Companies

### According to Amount of Total Assets, Group 2

<table>
<thead>
<tr>
<th>Amount of Total Assets (000,000 omitted)</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 3.0 - 4.0</td>
<td>15</td>
</tr>
<tr>
<td>4.0 - 5.0</td>
<td>14</td>
</tr>
<tr>
<td>5.0 - 6.0</td>
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<td>7.0 - 8.0</td>
<td>5</td>
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<td>8.0 - 9.0</td>
<td>3</td>
</tr>
<tr>
<td>9.0 - 10.0</td>
<td>2</td>
</tr>
<tr>
<td>10.0 - 15.0</td>
<td>16</td>
</tr>
<tr>
<td>15.0 - 20.0</td>
<td>3</td>
</tr>
<tr>
<td>20.0 - 30.0</td>
<td>9</td>
</tr>
<tr>
<td>30.0 - 50.0</td>
<td>4</td>
</tr>
<tr>
<td>50.0 - 75.0</td>
<td>6</td>
</tr>
<tr>
<td>over 75.0</td>
<td>7</td>
</tr>
<tr>
<td>Not determinable</td>
<td>1</td>
</tr>
</tbody>
</table>

Total: 98

---

1/ This company did not submit a balance sheet.

## Classification of Companies

### According to Number of Stockholders, Group 2

<table>
<thead>
<tr>
<th>Number of Stockholders</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>300 - 400</td>
<td>8</td>
</tr>
<tr>
<td>400 - 500</td>
<td>3</td>
</tr>
<tr>
<td>500 - 600</td>
<td>3</td>
</tr>
<tr>
<td>600 - 700</td>
<td>5</td>
</tr>
<tr>
<td>700 - 800</td>
<td>5</td>
</tr>
<tr>
<td>800 - 900</td>
<td>2</td>
</tr>
<tr>
<td>900 - 1,000</td>
<td>4</td>
</tr>
<tr>
<td>1,000 - 1,500</td>
<td>13</td>
</tr>
<tr>
<td>1,500 - 2,000</td>
<td>13</td>
</tr>
<tr>
<td>2,000 - 3,000</td>
<td>12</td>
</tr>
<tr>
<td>3,000 - 5,000</td>
<td>13</td>
</tr>
<tr>
<td>5,000 - 7,500</td>
<td>2</td>
</tr>
<tr>
<td>7,500 - 10,000</td>
<td>2</td>
</tr>
<tr>
<td>over 10,000</td>
<td>4</td>
</tr>
<tr>
<td>not given</td>
<td>9</td>
</tr>
</tbody>
</table>

Total: 98

---

1/ The number of stockholders was determined from Moody's Investors Service, 1949 Industrials Manual.
### Classification of Companies According to Industries, Group 2

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breweries</td>
<td>2</td>
</tr>
<tr>
<td>Building materials and equipment</td>
<td>12</td>
</tr>
<tr>
<td>Drugs and medicines</td>
<td>2</td>
</tr>
<tr>
<td>Electrical supplies and equipment</td>
<td>6</td>
</tr>
<tr>
<td>Food and kindred products</td>
<td>12</td>
</tr>
<tr>
<td>Industrial machinery and equipment</td>
<td>8</td>
</tr>
<tr>
<td>Industrial parts and supplies</td>
<td>3</td>
</tr>
<tr>
<td>Leather and leather goods</td>
<td>4</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>9</td>
</tr>
<tr>
<td>Non-ferrous mining companies</td>
<td>2</td>
</tr>
<tr>
<td>Oil producing and refining</td>
<td>5</td>
</tr>
<tr>
<td>Paints and chemicals</td>
<td>2</td>
</tr>
<tr>
<td>Publishing companies</td>
<td>2</td>
</tr>
<tr>
<td>Railway and freight car manufacturers</td>
<td>2</td>
</tr>
<tr>
<td>Textiles</td>
<td>9</td>
</tr>
<tr>
<td>Wearing apparel</td>
<td>2</td>
</tr>
<tr>
<td>Wood and paper products</td>
<td>11</td>
</tr>
<tr>
<td>Other (no two companies in the same general line of industry)</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>98</td>
</tr>
</tbody>
</table>
APPENDIX C

List of Companies Whose Proxy-soliciting Materials Were Studied

Acme Wire Co.
Altorfer Bros. Co.
Aluminum Co. of America
Aluminum Goods Manufacturing Co.
American Book Co.
American Fork & Hoe Co.
American Hard Rubber Co.
American Manufacturing Co.
American Meter Co., Inc.
American Potash & Chemical Corp.
Anchor Post Products, Inc.
Associated Laundries of America, Inc.
Atlantic Coast Fisheries Co.
Atlas Plywood Corp.

Babcock & Wilcox Co.
H. C. Bohack Co., Inc.
Borne-Scrymser Co.
Buckeye Pipe Line Co.

Carnation Co.
Chesbrough Mfg. Co.
Chicago Rivet & Machine Co.
City Auto Stamping Co.
Claude Neon Inc. N. Y.
Clinchfield Coal Corp.
Colt's Mfg. Co.
Continental Foundry & Machine Co.
Creole Petroleum Corp.
Crown Cork International Corp.
Crystal Oil Refining Corp.
Cuban Tobacco Co., Inc.
Curtis Mfg. Co. (Mo.)

Draper Corp.
Durham Hosiery Mills
Duval Texas Sulphur Co.

Eastern Malleable Iron Co.
Eureka Pipe Line Co.

General Fireproofing Co.
Glen Alden Coal Co.
Goodman Mfg. Co.
Gorham Manufacturing Co.
Gray Mfg. Co.
Great Atlantic & Pacific Tea Co. of America (Md.)
Great Northern Paper Co.

Holophane Co., Inc.
Horn & Hardart Co. (N. Y.)
Horn & Hardart Baking Co. (Phila.)
Humble Oil & Refining Co.

International Cigar Machinery Co.
Investors' Royalty Co. Inc.

Lit Brothers

Marion Power Shovel Co.
Mesabi Iron Co.
Middle States Petroleum Corp. VTC
Midvale Co.
Mountain Producers Corp.
Muskogee Co.

National Manufacture & Stores Corp.
National Transit Co.
New Jersey Zinc Co.
New Mexico & Arizona Land Co.
Niles-Bement-Pond Co.

Omar, Inc.

Penn Traffic Co.
Pepperell Mfg. Co.
Pitney-Bowes, Inc.
Pneumatic Scale Corp., Ltd.
Powdrell & Alexander, Inc.
Prentice-Hall, Inc.
Pressed Metals of America, Inc.
Producers Corp. of Nevada
Prosperity Co., Inc.
Pyle-National Co.
Pyrene Mfg. Co.

Raymond Concrete Pile Co.
Richmond Radiator Co.
Ryan Cons. Petroleum Corp.

Scovill Mfg. Co.
Segal Lock & Hardware Co., Inc.
Selby Shoe Co.
Sherwin-Williams Co. (Ohio)
Singer Mfg. Co.
South Penn Oil Co.
South West Pennsylvania Pipe Lines
Southern Pipe Line Co.
John B. Stetson Co.
Hugo Stinnes Corp.
Superior Portland Cement, Inc.
Swan-Finch Oil Corp.

Technicolor, Inc.
Theew Shovel Co.
Thorofare Markets, Inc.
Todd Shipyards Corp.

Unexcelled Chemical Corp., Inc.
Union Stock Yards of Omaha, Ltd.
United Elastic Corp.
United Milk Products Co.
United States Foil Co., Inc.
United States Rubber Reclaiming Co., Inc.
United Stores Corp.

Vogt Mfg. Corp.

Wagner Baking Corp.  VTC
Western Tablet & Stationery Corp.