

Annual
Report
1954

American
Optical



FINANCIAL HIGHLIGHTS of 1954

Sales	\$67,300,604
Net Income after taxes	2,156,688
Net Income per dollar of sales	3.2¢
Net Income per common share	2.65
Dividends paid (\$2.00 per share)	1,590,298
Taxes, federal, state and local	2,475,527
Expenditures for plant and equipment (gross)	1,933,400
Current assets	\$49,428,403
Current liabilities	<u>6,670,720</u>
Net current assets (working capital)	42,757,683
Ratio current assets to current liabilities	7.4 to 1
Plant and equipment (gross)	31,826,713
Funded debt	15,724,000
Shareholders' equity	44,932,138
Shareholders' equity per common share	55.98

STATEMENT of INCOME

SUMMARY FOR FIVE YEARS

	1954	1953	1952	1951	1950
Net sales	\$ 67,300,604	71,069,406	71,225,003	66,864,829	57,747,789
Other income	420,185	294,882	310,505	302,138	326,597
Total	<u>\$ 67,720,789</u>	<u>71,364,288</u>	<u>71,535,508</u>	<u>67,166,967</u>	<u>58,074,386</u>
Cost of goods sold	39,643,569	41,719,418	42,788,515	38,134,808	32,635,635
Selling, general and administrative expenses	21,565,061	22,043,637	22,290,629	21,144,953	19,314,453
Depreciation and amortization	1,888,320	1,768,026	1,570,718	1,429,414	1,294,640
Interest	470,998	430,341	485,163	393,723	351,215
Other charges	171,153	48,507	80,053	221,182	169,076
Federal and Canadian taxes on income	<u>1,825,000</u>	<u>2,830,000</u>	<u>1,912,626</u>	<u>3,249,900</u>	<u>1,875,800</u>
Total	<u>65,561,102</u>	<u>68,839,929</u>	<u>69,128,004</u>	<u>64,573,980</u>	<u>55,640,819</u>
Net income	<u>2,156,688</u>	<u>2,524,359</u>	<u>2,407,504</u>	<u>2,592,987</u>	<u>2,433,567</u>
Percentage of net income to sales	3.20%	3.55%	3.38%	3.88%	4.21%
Net income per share of stock	\$2.65	3.10	2.96	3.19*	3.01*

**Adjusted to reflect stock dividend paid March 14, 1952.*

American Optical Company

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31

1954

FROM THE PRESIDENT'S OFFICE

This letter is more a summation of the state of the affairs of American Optical Company than simply a report of results for the last fiscal year. I have passed my sixty-fifth year; therefore, in accordance with the policy of the Company and in the orderly transition of Company affairs, I will retire at the time of our forthcoming Annual Meeting, March 31, 1955.

Our enterprise, the American Optical Company, is a vastly different operation than it was in 1949. In the period that has ensued we have made the transition from a privately-owned institution to a concern supported by public investment. Concurrent with this change, the entire philosophy and operating outlook of the Company has also changed. Through the development of definite areas of administration, such as product divisions, distribution, research, new enterprises, export management, etc., a high degree of decentralization has been obtained with benefits accruing everywhere in the Company.

These benefits are particularly evident in the degree of attention we can now provide for our products, in the emphasis developing on research, and in the refinements we are obtaining in our distribution activities. The technical content of the organization has been upgraded conspicuously and despite the great competition for a competent technical staff, we are gratified that the Company continues to attract able individuals in this field.

We reorganized our research two years ago. While efforts in this area have been necessarily concentrated on work required in relation to the Todd-AO process for taking and presenting motion pictures, much progress has been made in general research. Particularly, foundations have been laid for a broad and challenging scope of activity.

The character and the attitude of the personnel in the Company is now adapted to the concept of diversification, and organizationally-wise, the Company is prepared and qualified to proceed in that direction.

In bringing about such a great change in operations, attitude, philosophy and policy, we have lost little in the way of manpower—a fact most gratifying to us—because we have had competent, eager young men we could call on, and they have responded. So, I can say that I like what I see in American Optical Company. Financially, the Company is sound, and its basic know-how is secure. Coupled with that is a desire for growth and a sense of entrepreneuring that is well fortified with technical and business experience.

Results for 1954 are below our average. This has been a matter of management determination. We elected to assume a costly strike in our Buffalo operation, and also elected to accelerate our inventory reductions in the second half of the year. This has influenced our earnings. Also, our realistic outlook on government contract business has had an effect on our total sales. These are actions and attitudes that will have a beneficial influence on the future.

Frankly, all the elements are present to pursue a more aggressive program to make known to the public what American Optical has to offer. And we at American Optical Company suggest that you, as shareholders, in your own interest, specify AO frames and lenses if and when you are in need of eye care.



PRESIDENT

FEBRUARY 15, 1955



American Optical Company

A REVIEW OF 1954

1954 was an important year in the history of American Optical Company. These were its highlights:

- • • We had a slight falling off in our sales and earnings, but from readily recognized causes.
- • • We instituted a Share Purchase Plan for our employees which met remarkably favorable response.
- • • We completed a Pension Plan for all our Weekly Payroll employees.
- • • We introduced new products with fine initial results and every indication of continuing appeal.
- • • We acquired a 50 per cent equity in a new company in Argentina to produce and distribute ophthalmic goods in that country.
- • • We strengthened our position by changes in management.
- • • We took initial steps to reorganize and revitalize our Distribution organization.

In all, we had a good year—one that holds promise of beneficial effects on our future.

REPORT FOR 1954



Net income per common share in 1954 was \$2.65, as compared to \$3.10 per common share in 1953.

Dividends of \$2.00 per common share were paid in 1954, the same rate paid in 1953.

Principal factors responsible for the decline in net income were:

1. A 62-day strike at our Buffalo Instrument plant.
2. A decline in the demand for our Safety Products resulting from lower industrial activity in 1954, particularly in the heavy goods industry.
3. A lower volume of government business compared to that of 1953.

The financial position of the Company is excellent, with working capital of \$42,757,683, an increase of \$559,339 during the year.

Cash, marketable securities and receivables are 3.1 times current liabilities.

On October 1, 1954, we received the final installment of \$2,000,000 borrowed under 20-year, 3 $\frac{3}{8}$ % sinking fund notes issued under a loan agreement approved by the shareowners at a special meeting September 30, 1952.

Inventories were well controlled during the year, showing a reduction of \$2,912,547 from the previous year-end. Moreover, the balance between finished goods, work in process and raw materials improved appreciably.

Properties were well maintained and equipment replacements were made on the basis of quality im-

provement or cost reduction. Total expenditures for fixed assets were \$1,933,400.

Shareowners equity, exclusive of the cost of Treasury shares, totaled \$45,543,662 at December 31, 1954, equal to \$55.98 per share of the 813,556 shares issued. This compared with \$55.28 at the previous year-end.

The Company's Federal tax returns through the year 1953 have been examined. Final tax liability for all years, including settlement for the years 1942 through 1946, has been recognized in the accounts. The provision for tax contingencies of \$500,000 is no longer required and has been restored to income.

In 1940 and 1941 provisions were made in our accounts for investments in our British affiliates. Since these reserves are no longer required, they were restored to income.

We also provided in our accounts \$695,015 net of taxes for estimated expenses allowable under the Internal Revenue Code of 1954.

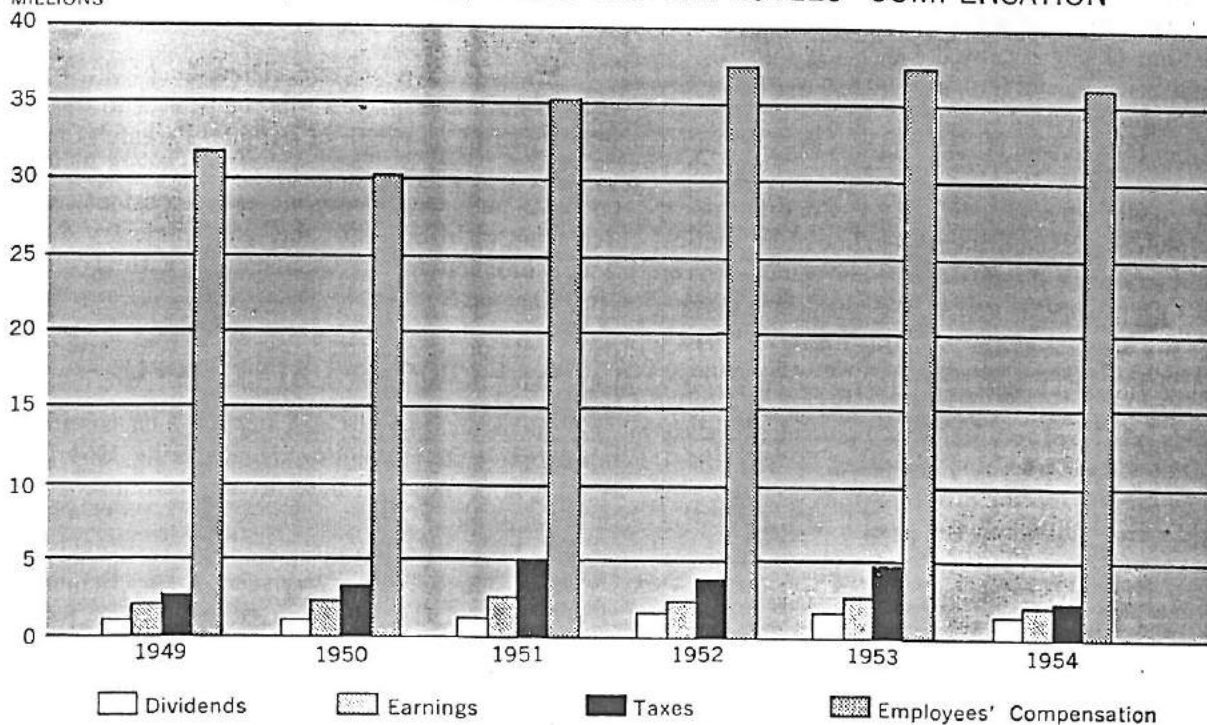
There is no litigation pending against the Company which, in the opinion of the General Counsel, materially affects the Company's operations or financial position.

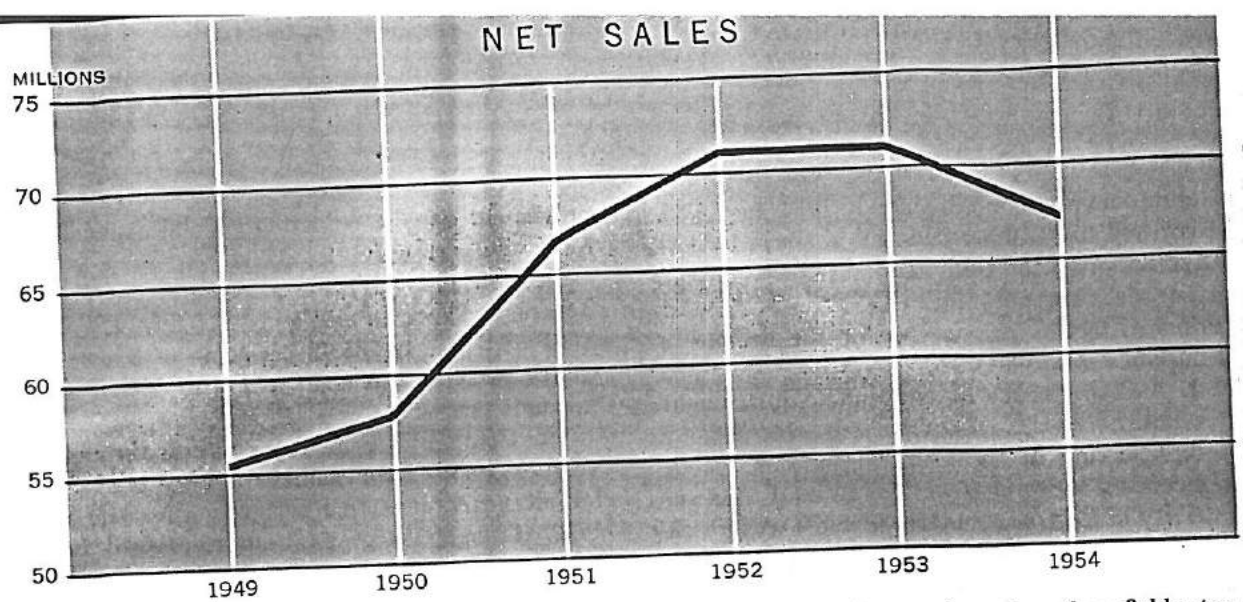
—PRODUCT PROGRESS—

Progress in 1954 was evident in many directions.

Products, particularly in the ophthalmic lines, were improved and new items experienced good customer acceptance.

DIVIDENDS, EARNINGS, TAXES and EMPLOYEES' COMPENSATION





A point to remember is the introduction of the high style factor in eyewear. No longer does Dorothy Parker's quip: "Men seldom make passes at girls who wear glasses" hold true. Actually, the reverse is evident from the fact that modern day eyewear enhances feminine beauty. And it also offers men a variety of frame styles to match whatever they choose to wear.

Moreover, it is equally evident that maximum eye care cannot be achieved with a single pair of glasses, since the demand upon our eyes varies with our activities—whether at work, in our homes, with our hobbies and at play.

Another favorable factor in our industry is the increasing ratio of men and women over 50 to the total population. Many of these people require eye care and thus, if we are equal to our responsibilities and obtain our share of the market, the business of American Optical Company should continue to grow.

All of these matters are receiving the constant attention of our Research Center, our Bureau of Visual Science, our Distribution Organization and our Product Divisions.

From the Divisional standpoint there were many achievements in 1954. Our Mechnroptic Division scored with several additions to our machinery line, giving us the most complete line of fine optical machinery in the industry. This same Division also took us into a new field—educational toys—with the introduction of Optical Hobby Kit No. 1, of which 10,000 were sold in two months, and as the year closed, production was begun on sample models of an entirely new type optical projection device for color television reception.

The Frame Division introduced the FLAME, the world's first ophthalmic frame with an interchangeable color feature. This frame gives women opportunity to match a single pair of glasses to any wardrobe item. The immediate response was exceptional, and the frame has become the most sensational item in the industry in more than 20 years.

There were innovations in other fields too—the Lens Division's Executive bifocal; the Skot Projector for the photo hobbyist; a training device for children with crossed eyes which utilizes home television, to mention just a few.

Significant in our Distribution operations was the opening of two new branches, both in Texas. We now have a total of 256 branches in United States, 34 in Canada.

Our export sales were very encouraging and indicated an excellent reception of our products.

In order to strengthen our position in the countries South of the Border, we acquired, with funds accumulated from our operations in Argentina—funds that could not be exported to the United States—a 50 per cent equity in a new plant for the manufacture of lenses. This plant is expected to be in operation sometime in 1955.

Operations of our British affiliate showed continued progress, 1954 being one of their most successful years, with improvements in both sales and profits.

Intensification of our Research program was continued, and much was accomplished in the first full year of operation of our new Research Center. Concentration was on our motion picture developments, and our scientists were in constant collaboration with leaders of the movie industry during the production of "Oklahoma!" with Todd-AO equipment.

—PROGRESS WITH PEOPLE—

American Optical Company has long considered its people its major asset, and during 1954 there were important advances in its relationship with these people.

A Share Purchase Plan was instituted. A 23,000-share offer was oversubscribed. Employees were offered the shares on either cash or payroll deduction terms, and 1,415 took advantage of the plan, 1,176 by the time-payment provisions.



A formal Pension Plan was also inaugurated, by which every employee on the weekly payroll who retires after 25 years' service at age 65 will receive pension benefits for life. The Company bears the entire cost of this program. In addition, a contributory program has been offered so that employees earning more than the maximum covered by Social Security may augment their benefits. The Company bears half the cost of this phase of the program.

The Company also made available to employees with more than 15 years of continuous service a third week of paid vacation.

Cooperation on the part of employees continued high.

We established, in our Southbridge plants, an all-time record for our industry of 8,128,192 man-hours without a disabling accident, for which we were honored by both the Massachusetts and National Safety Councils.

At the close of the year, total employment in our eight plants and 290 branches in this country and Canada was 9,481, a reduction commensurate with the lower volume of business.

Our total of long-time employees increased, with membership in our Quarter Century Club mounting to 1,093. During the year six women were presented appropriate mementoes on their 40th anniversaries with the Company, and seven men were similarly honored after 50 years of service to AO.

Also, 319 employees were advanced to positions of greater responsibility in line with our policy of promotion from within.

—CHANGES IN MANAGEMENT—

Twice during 1954 death removed great men from the Company's management rolls. George E. Baskie, Vice President for Finance and Treasurer, died January 12, and tribute was paid him in the 1953 Annual Report.

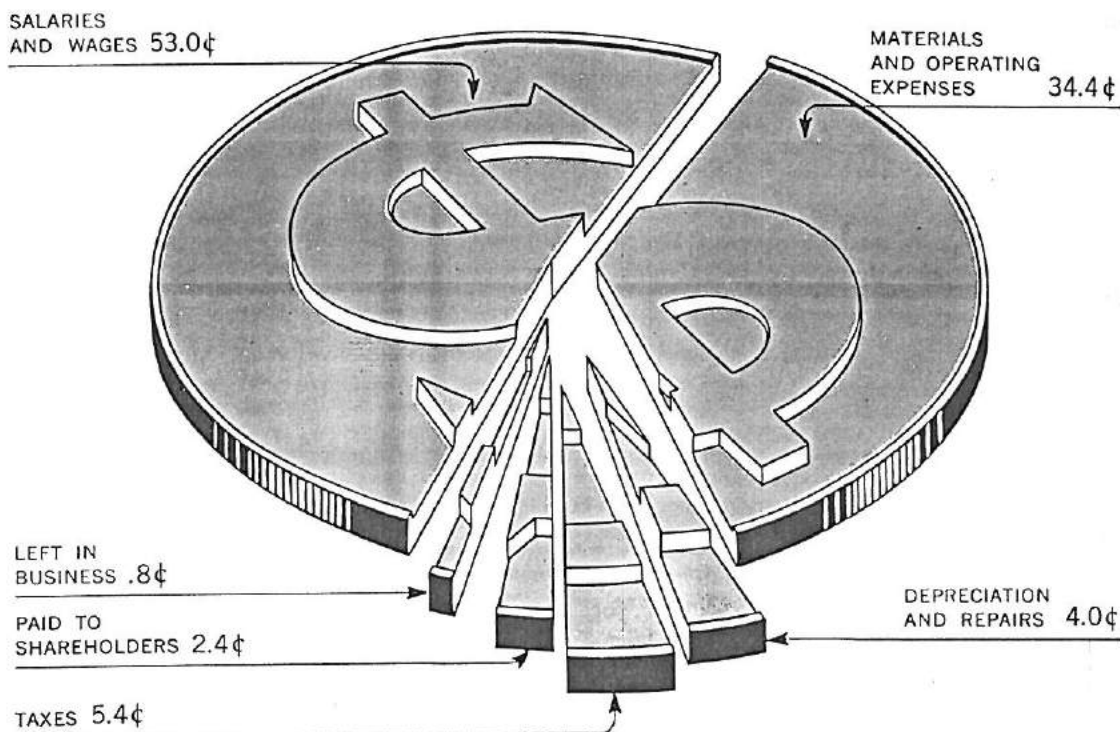
On June 22, Dr. Karl T. Compton, a Trustee, died. Dr. Compton, Chairman of the Corporation, Massachusetts Institute of Technology, was a great scientist, an able administrator and a man with an inordinate grasp of the humanities. His contributions to the progress of American Optical Company were of inestimable value and his wise counsel has been sorely missed.

Walter J. Dreves joined the Company on April 1 as Vice President for Finance and Treasurer. Mr. Dreves came to the Company with a broad background in manufacturing and distribution.

Donald F. Valley of Detroit resigned as Trustee. Henry S. Woodbridge, Vice President for Business Research and Business Development, was elected a Trustee.

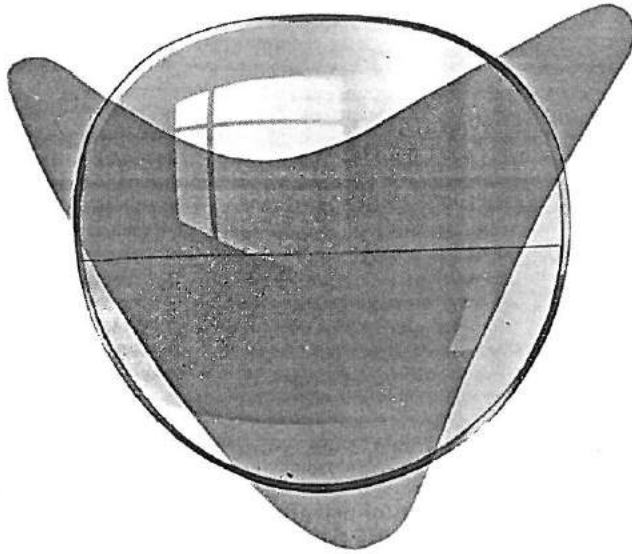
Rodgers Donaldson resigned as Secretary and General Counsel, and was succeeded by John O. Martin as Secretary and by J. Belden Sly as General Counsel.

How AO'S 1954 Sales Dollar Was Divided

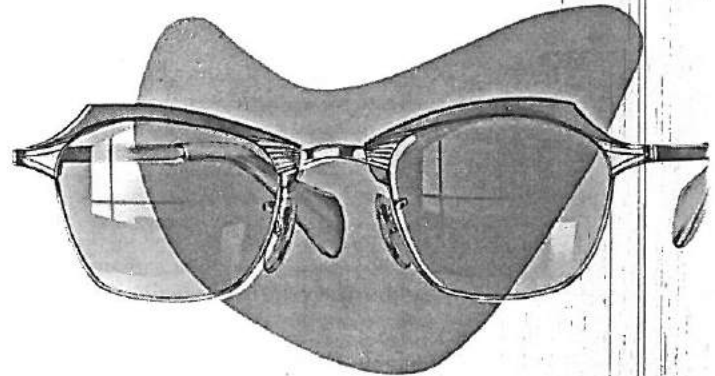


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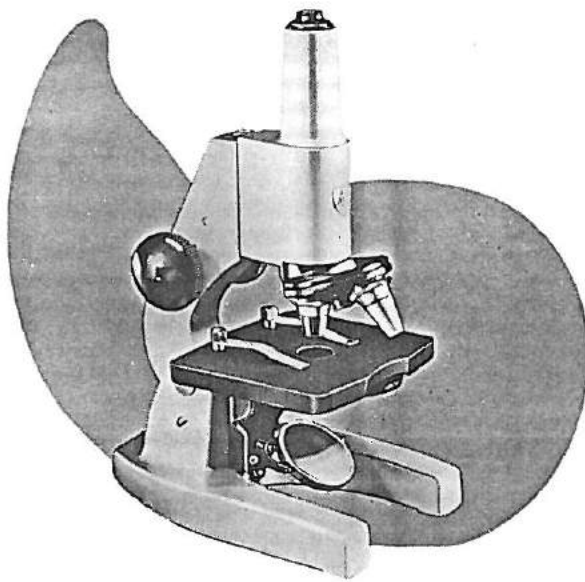
PRODUCT HIGHLIGHTS



THE AO TILLYER EXECUTIVE BIFOCAL is a design and production triumph. A one-piece bifocal, with Tillyer curves and full lateral sweep in the reading segment, there is no image jump between the reading and distance sections, and no chromatic aberration. It's perfection, in a single piece of glass, of Benjamin Franklin's original bifocal.



THE AO FLAME, with its interchangeable FLAMETTE tops, is the generation's outstanding frame. It's the leader in the Frame Division's line—one of seven new styles added in 1954. Now, whatever type frame a customer wants—AO has it.

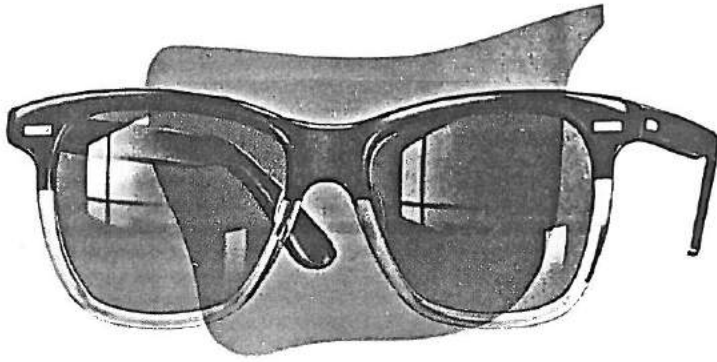


A NEW AO STUDENT'S MICROSCOPE, a high-quality, precision instrument, is rapidly finding favor everywhere. So is a Hand Refractometer, for measuring dissolved solids. And a device for training coordinated binocular vision, which utilizes home television. All these, and more, are products of American Optical Company, Instrument Division.

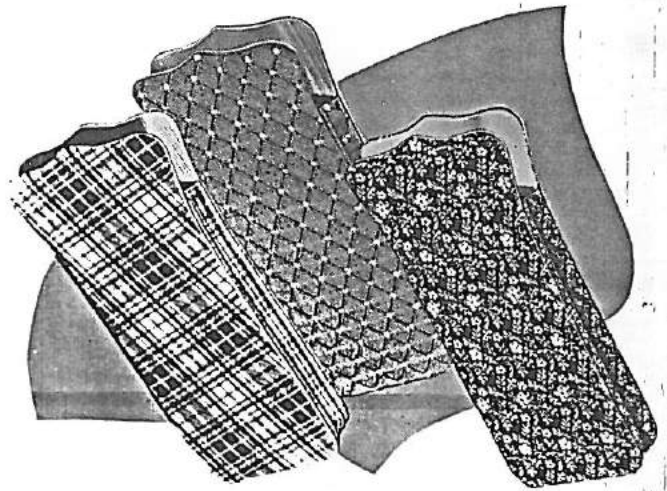


AO ALUMINIZED CLOTHING promotes safety and efficiency on hot jobs—and continues the leadership of AO Safety Products. The complete clothing line is but one of several important new product Sound Protectors, to screen out harmful noise, new lightweight goggle, and improved face shields—all keep our line abreast of the demands of industry.

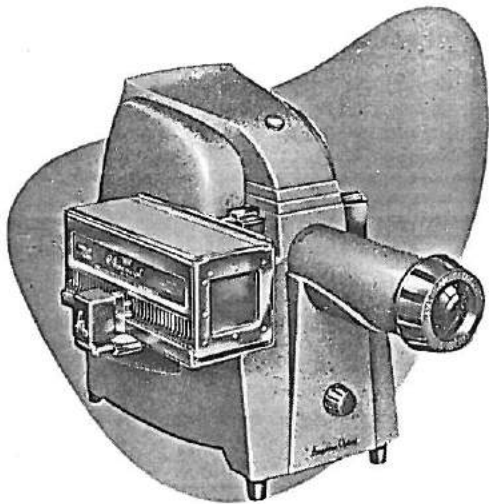
LIGHTS of 1954



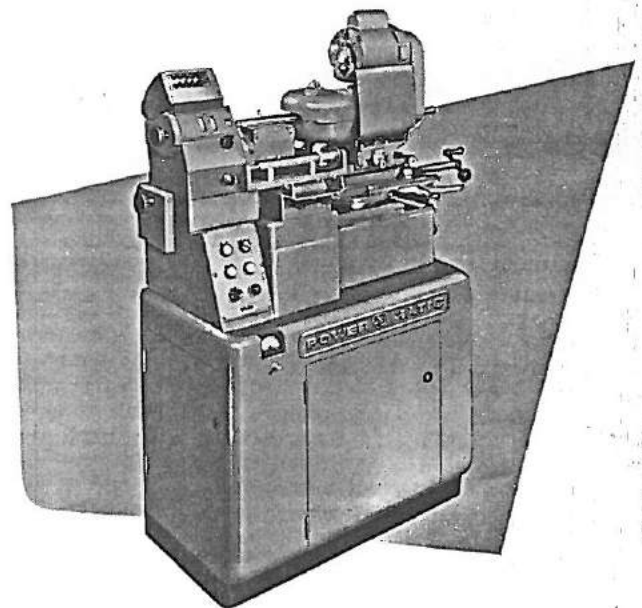
OUTSTANDING DESIGNS made 1954 a near-record year for American Optical Sunglasses. And the year ahead promises even greater success, with a wider price range, new merchandising aids, and an educational program already showing results.



THE AO BELLO CASE, a success in luxury materials, is now ready for mass production in materials suitable for mass distribution. Initial customer reaction has been highly favorable, and shows that this open end case will be a good running mate for our TERRAPIN—a style-leader and American Optical's most successful modern case design.



A POPULAR-PRICED PROJECTOR—a 300-watt model with automatic slide changer, now augments the AO line of advanced-design projectors. Superior design in all AO models gives greater illumination and clearer images than usually looked for in their power ranges. There'll be new products for the photographic and educational markets in 1955.



POWER-MATIC GENERATORS, including the industry's first real automatic, give AO undisputed leadership in the machinery field. A radically-advanced Lens Cutter, and a new type Lens Layout Marker, together with the Optical Hobby Kit and new applications of aspherical lenses, all point to continued growth in our Mechtroptic Division.

AMERICAN OPTICAL COMPANY CONSOLIDATED

DECEMBER

(With Comparison)

ASSETS

	1954	1953
Current assets:		
Cash	\$ 7,261,372	4,736,340
Marketable securities, at cost and accrued interest (same as market)	2,604,057	3,320,700
Notes and accounts receivable, less allowance for possible losses	10,606,472	9,295,151
Inventories, at the lower of cost (substantially "first-in, first-out") or market:		
Finished goods	13,958,935	14,324,581
Work in process	10,772,560	12,640,565
Raw materials	2,941,929	3,524,292
Operating supplies	963,840	1,090,373
Prepaid expenses	28,637,264	31,579,811
Total current assets	319,238	386,890
Miscellaneous advances and receivables, less allowance for doubtful items	49,428,403	49,318,892
Investments in and advances to non-consolidated subsidiaries and other investments (net)	254,040	86,917
Unamortized debt expense	1,382,226	244,156
Plant and equipment, at appraised values in 1921, plus subsequent additions at cost	156,141	169,036
Less accumulated depreciation and amortization	31,826,713	30,450,070
	16,023,665	14,504,687
	15,803,048	15,945,383
	\$ 67,023,858	65,764,384

See accompanying notes to financial statements.



PANY AND SUBSIDIARIES

BALANCE SHEET

31, 1954

Figures for 1953)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1954</u>	<u>1953</u>
Current liabilities:		
Accounts payable	\$ 1,887,205	1,869,778
Accrued expenses	2,752,782	1,714,108
Federal taxes on income, estimated	1,433,457	3,157,658
Current installments on long-term debt (note 2)	303,000	303,000
Provisions for refunds arising from price redetermination of government contracts	<u>294,276</u>	<u>76,004</u>
Total current liabilities	6,670,720	7,120,548
Long-term debt (note 2)	15,421,000	13,952,000
Reserve for tax contingencies	—	500,000
Shareholders' equity:		
Common shares, without par value		
Authorized 3,000,000 shares; issued 813,556 shares	22,591,621	22,591,621
Income retained for use in the business (note 2)	<u>22,952,041</u>	<u>22,385,651</u>
	45,543,662	44,977,272
Less treasury shares, at cost—17,986 shares in 1954 and 23,000 in 1953 (note 3)	<u>611,524</u>	<u>785,436</u>
Total shareholders' equity	44,932,138	44,191,836
	<u>\$ 67,023,858</u>	<u>65,764,384</u>



AMERICAN OPTICAL COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME

Year Ended December 31, 1954
(With Comparative Figures for 1953)

	1954	1953
Net sales	\$ 67,300,604	71,069,406
Other income	270,548	294,882
Total	67,571,152	71,364,288
Cost of goods sold (exclusive of depreciation and amortization)	39,643,569	41,719,418
Selling, general and administrative expenses	21,565,061	22,043,637
Depreciation and amortization	1,888,320	1,768,026
Interest	470,998	430,341
Other charges	171,153	48,507
Federal and Canadian taxes on income—estimated (1954 includes \$752,931 Federal income taxes deducted below from provision for estimated expenses)	1,825,000	2,830,000
Total	65,564,101	68,839,929
Net income before special items	2,007,051	2,524,359
Special items:		
Provision for estimated expenses, principally vacation pay, allowable under the 1954 Internal Revenue Code, less Federal income taxes of \$752,931	(695,015)	—
Restoration of reserve for tax contingencies no longer required	500,000	—
Restoration of amount provided in prior years and no longer required for possible loss on an investment	344,652	—
Total	149,637	—
Net income	\$ 2,156,688	2,524,359

STATEMENT OF CONSOLIDATED INCOME RETAINED FOR USE IN THE BUSINESS

Year Ended December 31, 1954
(With Comparative Figures for 1953)

	1954	1953
Balance at beginning of year	\$ 22,385,651	21,463,404
Net income for the year	2,156,688	2,524,359
Dividend, paid (\$2.00 per share)	24,542,339	23,987,763
Balance at end of year	1,590,298	1,602,112
	\$ 22,952,041	22,385,651

See accompanying notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

1 The consolidated financial statements include the accounts of the Company and all domestic and Canadian subsidiaries. Canadian assets, liabilities and operations are stated at their appropriate United States dollar equivalents on a basis consistent with prior years.

2 The long-term debt of the Company and its subsidiaries at December 31, 1954 was as follows:

	Due before Dec. 31, 1955	Due after Dec. 31, 1955
Twenty year 3-3/8% Sinking Fund Notes	\$200,000	5,600,000
Twenty year 3-1/8% Sinking Fund Debentures: Authorized and issued \$10,000,000; outstanding	—	9,100,000
3-1/4% Debentures maturing annually (\$100,000 Canadian) to April 1, 1962	103,000	721,000
	<u>\$303,000</u>	<u>15,421,000</u>

Under the October 1, 1952 loan agreement of the twenty year 3-3/8% Sinking Fund Notes, the Company is required to make minimum annual sinking fund payments commencing October 1, 1954 of principal amounts ranging from \$200,000 to \$600,000.

The trust indenture of the twenty year 3-1/8% Sinking Fund Debentures dated March 1, 1948 requires the Company to deposit annually funds to provide for retirement of \$7,500,000 by March 1, 1967. The balance of \$2,500,000 matures on March 1, 1968.

The indentures relating to the foregoing indebtedness contain certain restrictions as to payment of cash dividends and retirement of the Company's capital stock. At December 31, 1954, \$6,658,384 of retained income was not so restricted.

3 Early in 1954, under a Stock Purchase Plan approved by the Trustees, 23,000 of the Company's common shares were subscribed for by employees at the offering price of \$33.00 per share. Details of the plan were outlined in the 1953 proxy statement.

4 The Company and its Canadian subsidiary have in effect contributory pension trusts available to all salaried employees, the cost of which for the year 1954 amounted to \$480,520. Neither trust provides for any past service benefits.

Effective July 1, 1954, the Company adopted a pension plan for U.S. weekly payroll employees. The 1954 charge to operations provides for the full cost of current services and 3% interest on past service liability based upon estimates by the consulting actuary of the Company. The cost for the six months of 1954 amounted to \$174,182 of which \$153,834 is funded and \$20,298 has been provided in the accounts net of Federal income taxes. Past service liability under the plan was estimated to be approximately \$3,200,000 at July 1, 1954.

American Optical Company

TRUSTEES. OFFICERS. AND MANAGERS

Trustees:

Edward P. Brooks, John S. Coleman, Bradley Dewey, Dr. Brian O'Brien, Robert Proctor, Elmer L. Schumacher, E. Weldon Schumacher, Percy M. Stewart, Walter A. Stewart, Frederick M. Warburg, Edward E. Williams, Henry S. Woodbridge.

Executive Committee:

Edward P. Brooks, Bradley Dewey, Robert Proctor, Percy M. Stewart, Walter A. Stewart, Frederick M. Warburg.

Officers:

Walter A. Stewart, President; Dr. Brian O'Brien, E. Weldon Schumacher, Irving W. Wilson, Henry S. Woodbridge, Vice Presidents; Walter J. Dreves, Vice President and Treasurer; John E. Rischitelli, Controller; John O. Martin, Secretary; Ellsworth D. Mitchell and William H. Rogers, Asst. Treasurers; J. Belden Sly, Asst. Secretary.

Managers:

Charles H. Gallaway, Safety Division; William F. Peck, Instrument Division; Samuel T. Sheard, Mechtronoptic Division; Carl H. Wilson, Sun Glass Division; Irving W. Wilson, Lens Division; Byron J. Ziegler, Frame Division; Sidney T. Grunnah, Sales and Distribution; W. Neel Foster, Sales Promotion; F. Ray Foster, Northeast Region; Ray McChesney, Pacific Coast Region; DeWitt Mixson, Southeast Region; Paul S. Rinkle, Midwest Region; John C. Sticksel, Southeast Region.

Transfer Agents:

Old Colony Trust Company, Boston, and City Bank Farmers Trust Company, New York.

Registrars:

The First National Bank of Boston, and The National City Bank of New York.

EXECUTIVE OFFICES AND MAIN FACTORIES AT SOUTHBRIDGE, MASSACHUSETTS



PEAT, MARWICK, MITCHELL & CO.

ACCOUNTANTS AND AUDITORS

JOHN HANCOCK BUILDING

BOSTON 16, MASS.

NEW YORK
ATLANTA
BALTIMORE
BILLINGS
BOSTON
BUFFALO
CHARLOTTE
CHICAGO
CINCINNATI
CLEVELAND
COLUMBUS
DALLAS
DENVER
DETROIT
GREENSBORO
HOUSTON
INDIANAPOLIS
KANSAS CITY
LINCOLN
LOS ANGELES

MEMPHIS
MILWAUKEE
MINNEAPOLIS
NEWARK
NEW ORLEANS
OKLAHOMA CITY
OMAHA
PHILADELPHIA
PITTSBURGH
PORTLAND
ST. LOUIS
SAN FRANCISCO
SAN JOSE
SEATTLE
SHREVEPORT
TERRE HAUTE
TULSA
WASHINGTON
WATERBURY

AFRICA
AUSTRALIA
CANADA
CONTINENTAL EUROPE
CUBA
GREAT BRITAIN
HONG KONG
INDIA
JAPAN
MEXICO
SOUTH AMERICA

ACCOUNTANTS' REPORT

To the Board of Trustees
American Optical Company:

We have examined the consolidated balance sheet of American Optical Company and subsidiaries as of December 31, 1954 and the related statements of consolidated income and consolidated income retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and consolidated income retained for use in the business present fairly the financial position of American Optical Company and subsidiaries at December 31, 1954 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles. Except as to the change, which we approve, in providing for estimated expenses allowable under the Internal Revenue Code of 1954, as shown in the statement of consolidated income, such principles have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

February 14, 1955.