

GALVIN MANUFACTURING CORPORATION

STATEMENT OF EARNED SURPLUS

For the Three Years Ended November 30, 1945

	Year ended November 30,		
	1943	1944	1945
Balance, beginning of year	\$ 3,026,199.98	\$ 4,040,077.26	\$ 5,289,208.31
Net income for the year	1,245,240.27	1,416,797.13	851,882.65
Balance in reserve for bad debts restored to surplus		8,500.00	
Adjustment of post-war refund with respect to excess profits taxes paid for the year ended November 30, 1942		39,158.92	
Total	\$ 4,271,440.25	\$ 5,504,533.31	\$ 6,141,090.96
DEDUCT:			
Dividends paid—60 cents per share	\$ 215,325.00	\$ 215,325.00	\$ 215,325.00
Adjustment of prior year's income	16,037.99		
Increase in par value of common stock from \$1.00 to \$3.00 per share, transferred to stated capital			720,000.00
Total deductions	\$ 231,362.99	\$ 215,325.00	\$ 935,325.00
Balance, end of year	\$ 4,040,077.26	\$ 5,289,208.31	\$ 5,205,765.96 (B)

NOTES:

- (A) Balance Sheet Notes B, C, D, E and F should be read in conjunction with this statement.
- (B) On December 15, 1945 a "split" or reclassification of the outstanding shares of common stock, on a two for one basis, was effected by means of a 100% stock dividend. In connection therewith the aggregate par value (\$1,080,000) of the additional shares so issued was charged to earned surplus, which charge is not reflected above.

GALVIN MANUFACTURING CORPORATION

STATEMENT OF INCOME AND EXPENSE

For the Three Years Ended November 30, 1945

	Year ended November 30,		
	1943	1944	1945
Gross sales, less returns and allowances	\$ 78,480,373.27	\$ 86,957,292.07	\$ 67,896,597.34
Cost of Sales	72,990,510.90	80,310,354.97	62,552,731.05
Gross profit on sales	\$ 5,489,862.37	\$ 6,646,937.10	\$ 5,343,866.29
Selling, general and administrative expenses	1,388,779.78	1,951,830.65	2,394,377.62
Net profit from operations	\$ 4,101,082.59	\$ 4,695,106.45	\$ 2,949,488.67
Other income:			
Discount earned	\$ 679,653.26	\$ 651,235.19	\$ 421,478.70
Interest earned	5,697.05	13,392.68	19,680.50
Miscellaneous	2,959.51	1,835.03	8,013.18
Total other income	688,309.82	\$ 666,462.90	\$ 449,172.38
Total operating profit and other income	\$ 4,789,392.41	\$ 5,361,569.35	\$ 3,398,661.05
Other expenses:			
Discount allowed	\$ 96,738.03	\$ 310.01	\$ 432.12
Interest and exchange	88,440.46	184,389.84	178,990.44
Loss on sales of equipment, test equipment dis- mantled and (in 1943) building demolished	25,414.37	17,123.58	48,441.62
Miscellaneous	20,062.51	23,442.51	37,149.83
Total other expenses	\$ 230,655.37	\$ 225,265.94	\$ 265,014.01
Net income before provision for federal income and excess profits taxes	\$ 4,558,737.04	\$ 5,136,303.41	\$ 3,133,647.04
Provision for federal income and excess profits taxes:			
Normal income and surtax	\$ 251,178.25	\$ 253,008.85	\$ 253,178.25
Excess profits tax net of post-war refund	3,062,318.52	3,466,497.43	2,028,586.14
Total	\$ 3,313,496.77	\$ 3,719,506.28	\$ 2,281,764.39
Net income	<u>\$ 1,245,240.27</u>	<u>\$ 1,416,797.13</u>	<u>\$ 851,882.65</u>

Income and expense statement notes A to E following are an integral part of this statement.

GALVIN MANUFACTURING CORPORATION

INCOME AND EXPENSE STATEMENT NOTES

For the Three Years Ended November 30, 1945

A — Reference is made to Balance Sheet Note A for bases of valuation of inventories. Amounts of inventories used in the computation of cost of goods sold were:

November 30, 1942	\$4,456,340.10	November 30, 1944	\$10,389,674.22
November 30, 1943	6,182,776.95	November 30, 1945	2,179,635.01

B — Provision has been made for renegotiation refund for the year ended November 30, 1945 on the same basis as that on which renegotiation settlement was made for the company's prior fiscal year.

C — The company makes provision for depreciation of certain fixed assets on the basis of their estimated useful lives, as determined in an examination by the Treasury Department of federal income and excess profits taxes for the years 1940 and 1941. The annual rates on the principal assets so depreciated are: Building, 2%; Building equipment, 3% to 10%; Machinery and factory equipment, 7%.

Upon disposal of properties, the related reserves are relieved of depreciation accrued thereon to date of sale.

The cost of dies and tools is capitalized and charged into operations by periodic adjustment of the asset to inventory value, except that dies acquired for specific contracts are charged into the cost of the initial contract.

Maintenance and repairs are charged directly to expense. Patents and trademarks are amortized over periods of 17 and 20 years, respectively.

D — Reference is made to Schedule XVI for details as to amounts of maintenance and repairs, depreciation and amortization, taxes (other than federal income and excess profits taxes) and rents and royalties, included in the statement of income and expense.

E — For the past eight years, including the fiscal year ended November 30, 1945, the board of directors has granted bonuses to the officers and employees of the company. For the fiscal years ended November 30, 1940, 1941, 1942, 1943 and 1944 the bonuses granted to employees, other than officers and certain executive or "key" employees, amounted to 10% of the earnings of each employee in such fiscal year. The amounts of the individual bonuses granted to officers and such executive or "key" employees have been based upon the contribution which each such person, in the judgment of the board of directors, has made to the business of the company. While no binding agreement or other arrangement has been made for the granting of such bonuses, the board of directors, on July 10, 1942 adopted a resolution establishing as a policy of the company the continuance of payments of compensation to officers and employees, in addition to salaries and wages, as near as possible to the additional compensation paid for the fiscal year ended November 30, 1941.

For the three years ended November 30, 1945, bonuses were paid, distributed as follows:

	<u>Officers and Executives</u>	<u>Other Employees</u>	<u>Total</u>
Year ended November 30:			
1943	\$159,542.97	\$420,815.37	\$580,358.34
1944	167,457.72	662,238.76	829,696.48
1945	160,256.89	711,377.70	871,634.59

GALVIN MANUFACTURING CORPORATION
SUPPLEMENTARY PROFIT AND LOSS INFORMATION
For the Three Years Ended November 30, 1945

<u>Column A</u>	<u>Column B</u>
<u>Item</u>	<u>Charged Directly to Profit and Loss</u>
	<u>To Costs or Operating Expenses</u>
YEAR ENDED NOVEMBER 30, 1943:	
Maintenance and repairs	\$ 82,397.50
Depreciation and amortization of fixed and intangible assets (no depletion)	132,762.90
Taxes, other than income and excess profits taxes	221,168.97
Management and service contract fees	—
Rents	10,050.00
Royalties	49,848.61
YEAR ENDED NOVEMBER 30, 1944:	
Maintenance and repairs	153,744.44
Depreciation and amortization of fixed and intangible assets (no depletion)	344,459.19
Taxes, other than income and excess profits taxes	396,829.90
Management and service contract fees	—
Rents	14,900.00
Royalties	19,839.67
YEAR ENDED NOVEMBER 30, 1945:	
Maintenance and repairs	170,220.72
Depreciation and amortization of fixed and intangible assets (no depletion)	341,708.08
Taxes, other than income and excess profits taxes	331,483.95
Management and service contract fees	—
Rents	31,924.84
Royalties	38,880.34

The columns omitted are inapplicable.