Finance Committee: Information.
1961-1962

Finance Committee: Information.
1963-1964

JOHN W. BRISTOL & CO.
INCORPORATED
233 BROADWAY
NEW YORK, N. Y. - 10007
CORTLANDT 7-1137

Memo to Mr. Leidesdorf
Mr. Schur
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss
Mr. Hansmann

November 30, 1964

INSTITUTE FOR ADVANCED STUDY

INVESTMENT PROGRAM

At its November 16 meeting, the Finance Committee directed Mr. Schur, Mr. Hansmann, and investment counsel to agree on a sales program of equities aiming at reducing the Endowment Fund's equity risk by at least $1 million.

Accordingly, the following program was agreed upon and has been executed except for the sale of the balance of 7,500 shares of United Life & Accident.

SALES

	Actual Proceeds	Uncompleted Program	Remaining Holding: No. of Shares	Remaining Holding: Present Market Value
Eliminations				
4,000 shs. Bristol Myers	$ 257,961	-	-	-
10,000 shs. United Life & Accid.				
Sold 2,500 shs.	85,806			
Balance 7,500 shs.		$250,000	-	-
Reduction of Present Holdings				
6,250 shs. Newmont Mining	285,306	-	20,000	$900,000
6,000 shs. Peabody Coal	257,870	-	10,000	425,000
4,000 shs. Celanese Corp.	292,075	-	6,000	450,000
	$1,179,018	$250,000		
Less Authorized Purchases				
15,000 shs. Continental Independent Telephone (Offering of 700,000 shs. scheduled for Dec. 10, 1964)	275,000			
Excess of Sales over Purchases	$ 904,018			

In addition, $300,000 par value of United Aircraft $4.50 Convertible Debentures were sold at 130 - 130 1/2 (actual proceeds $390,092; book cost $323,556). At the time of their sale, these debentures were traded at a 10 point premium above their conversion point of 120.

As the proceeds of these sales become available, they are invested in short term Government bonds.

EC/hm

John W. Bristol & Co., Inc.

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Memo to Mr. Leidesdorf
Mr. Schur
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss
Mr. Hansmann

November 10, 1964

INSTITUTE FOR ADVANCED STUDY

Agenda for Meeting of the Finance Committee
Monday, November 16, 1964 at 11:00 A. M.,
at the Pinnacle Club, 150 East 42nd St. N. Y. C.

1. Report by the Chairman.

2. Ratify investment changes since the last meeting.
(Schedule attached)

3. Investment review
   - List of holdings as of October 30, 1964;
   - List of equity holdings in excess of $600,000;
   - Review of equity holdings commanding a price/earnings ratio in excess of 20X current earnings.

4. Discussion of factor which might alter the earnings prospects of the drug industry.
(Mr. Schur)

John W. Bristol & Co., Inc.

Schedule of Investment Changes Authorized Between April 17, 1964 and November 9, 1964

I. SALES

Equities		Proceeds
10,000 shs.	C. I. T. Financial	$ 373,166
1,100 shs.	Houston Natural Gas	44,467
8,400 shs.	Colorado Interstate Gas	252,711
6,000 shs.	Canadian British Aluminium Ltd., Class "A"	54,376
6,000 wts.	" " " "	9,283
2,000 shs.	Philip A. Hunt Chemical	17,880
150 shs.	Minnesota Mining & Manufacturing	9,892
360 shs.	General Motors	29,205
5,000 shs.	Peerless Insurance Co.	33,717
1,000 shs.	E. I. duPont de Nemours	260,173
5,556 shs.	Philips Lamp	239,978
6,800 shs.	North American Life & Casualty	253,082
10,000 shs.	Central Illinois Public Service	243,958
4,280 shs.	International Flavors & Fragrances	138,571
10,000 shs.	American Smelting & Refining	494,201
500 shs.	Superior Oil Co.	775,644
6,600 shs.	Home Insurance	438,466
8,000 shs.	Curtis Mathes	91,925
9,550 shs.	Marathon Oil	584,509
5,426 shs.	Falconbridge Nickel Mines	393,074
5,628 shs.	Union Oil of California	519,468
2,400 shs.	MacMillan, Bloedel & Powell River, Pfd., $1 par value	2,079
		$5,259,825

II. PURCHASES

Equities	Book Cost
5,000 shs. Island Creek Coal	$ 156,838
2,000 shs. National Cash Register	142,759
5,000 shs. Wallace & Tiernan	130,344
10,000 shs. Weyerhaeuser	420,042
1,000 shs. Singer Co.	94,834
5,000 shs. Champlin Oil & Refining	173,985
20,000 shs. Tennessee Gas Transmission	448,590
10,000 shs. Great Atlantic & Pacific Tea Co.	400,584
1,000 shs. Dun & Bradstreet	66,456
22,363 shs. Television Communication (by subscription)	19,362
5,000 shs. Central Illinois Light	268,399
10,000 shs. L. M. Ericsson Telephone, "B"	315,000
4,000 shs. Continental Casualty	310,355
	$2,947,548

NOTE:

Rollover of Treasure Bills and short term obligations not included.

Bonds maturing and payments received not included.

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November 10, 1964

INSTITUTE FOR ADVANCED STUDY

EQUITY HOLDINGS IN EXCESS OF $600,000

	No. of Shares	Book Cost	Market Value
		-------(in $ 000's)--------	
International Business Machines	4,875	$ 7	$ 2,048
Texaco, Inc.	17,000	163	1,547
Louisiana Land & Exploration	30,000	70	1,290
Newmont Mining	26,250	310	1,234
Gulf Oil	17,201	96	1,032
Royal Dutch Petroleum	18,000	501	864
Southern Union Gas Co.	20,000	600	820
Great-West Life Assurance	1,000	357	800
Falconbridge Nickel Mines Ltd.	10,000	243	760
Champlin Oil & Refining	15,000	525	690
Peoples Gas Light & Coke	11,520	163	680
Peabody Coal Co.	16,000	204	675
Magma Copper Co.	15,750	329	662
Southern Company	10,000	357	650
Connecticut General Life Insurance	3,600	221	634
American Electric Power	13,243	94	600
		$4,240	$14,986

16 largest equity holdings:

- % of total assets as of 10/31/64 — 31.2%
- % of equity portfolio — 42.4%

Changes since May meeting:

Elimination: Superior Oil of California (proceeds: $775,644)
Reduction: 5,426 shs. Falconbridge Nickel (proceeds: $393,074)

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CORTLANDT 7-1137

November 10, 1964

INSTITUTE FOR ADVANCED STUDY

REVIEW OF EQUITY HOLDINGS COMMANDING A PRESENT PRICE/EARNINGS RATIO OF BETTER THAN 20X CURRENT EARNINGS

Statistical data pertaining to the Endowment Fund's holdings being traded at more than 20X their estimated 1964 earnings are enclosed. Insurance stocks have not been included in the list.

The purpose of this review is to ascertain whether the market price of any of the securities under consideration is out of line with the trendline of their respective earnings growth over the last five years and with future prospects; also to measure the vulnerability of each holding in comparing their respective market highs of 1961, their reported earnings for that year, and the corresponding price/earnings ratios. It is interesting to note in this connection that the holdings under consideration all command a lower price/earnings ratio than in 1961 although, in most instances, these securities have reached new historic market highs in 1964:

	Average Price/Earnings Ratios	
	Based on 1961 Market	Current
Electric Utilities	29.5X	25.2X
Natural Gas	22.5	20.5
Others	36.5	24.0

On the basis of the above ratios and of the 1965 earnings prospects of all the stocks under consideration, we conclude that present market prices, although high, are not excessive and no change to these holdings is currently recommended.

EC/hm
Encs.

John W. Bristol & Co., Inc.

INSTITUTE FOR ADVANCED STUDY

REVIEW OF EQUITY HOLDINGS COMMANDING A PRICE/EARNINGS RATIO OF MORE THAN 20X CURRENT EARNINGS

	Per Share Earnings			Compound Rate of Earnings Growth					Average Payout
I. UTILITIES	1963	Est. 1964	Poss. 1966	1959-63	E. 1963-66	Current Dividend	Yield	% Payout	1959-1963
American Electric Power	$1.54	$1.70	$1.90	8.0%	7.5%	$1.16*	2.5%	68%	71%
Carolina Power & Light	1.41	1.60	1.85	6.6	9.0	1.00	2.5	63	63
Central Illinois Light	2.37	2.75	3.40	(1.3)	8.0	1.80*	3.2	65	68
Central & South West	1.82	1.95	2.25	7.6	7.5	1.28	2.5	66	66
Columbus & Southern Ohio Elec.	1.90	2.00	2.25	7.7	6.0	1.28	2.8	64	58
Gulf States Utilities	1.65	1.77	2.15	5.1	9.0	1.24	2.6	70	70
Louisville Gas & Electric	1.60	1.70	1.90	6.6	5.5	.98	2.6	57	55
Oklahoma Gas & Electric	1.06	1.15	1.40	9.8	8.0	.80*	2.4	69	73
Southern Company	2.35	2.55	2.80	5.0	6.0	1.80	2.7	72	69
Virginia Electric & Power	1.60	1.75	2.05	9.8	9.0	1.12	2.3	64	63
Peoples Gas Light & Coke	2.14	2.40	N.A.	12.0	N.A.	1.60	3.4	66	59
Pioneer Natural Gas	.85	1.00	N.A.	10.2	N.A.	.64	3.0	64	62
Southern Union Gas Co.	1.55	2.00	N.A.	7.0	N.A.	1.12*	2.7	56	67

	Present Price	1964 Price Range	Price/Earnings Ratio E. 1964	Price/Earnings Ratio Poss. 1966	1961/62 Market Price High	1961 Per Share Earnings	Price/Earn. Ratio
American Electric Power	45	48 - 40	26.5X	24.0X	38	$1.22	31X
Carolina Power & Light	41	43 - 36	25.0	22.0	32	1.20	24
Central Illinois Light	56	59 - 46	20.3	16.6	53	1.90	27
Central & South West	50	54 - 43	25.8	22.3	47	1.48	31
Columbus & Southern Ohio Elec.	46	46 - 35	23.0	20.5	38	1.51	25
Gulf States Utilities	48	49 - 38	27.2	22.3	47	1.31	35
Louisville Gas & Electric	38	39 - 33	22.3	20.0	40	1.40	28
Oklahoma Gas & Electric	33	33 - 25	28.5	23.5	24	.79	30
Southern Company	65	67 - 53	25.2	23.0	61	1.98	31
Virginia Electric & Power	49	51 - 42	27.9	24.0	45	1.37	33

* Candidates for dividend increases

I. UTILITIES (cont'd)	Present Price	1964 Price Range	Price/Earnings Ratio E. 1964	Price/Earnings Ratio Poss. 1966	1961/62 Market Price High	1961 Per Share Earnings	Price/Earnings Ratio
Peoples Gas Light & Coke	47	50 - 40	20.0X	N. A.	42	$1.96	21X
Pioneer Natural Gas	21	22 - 16	21.0	N. A.	17	.71	24
Southern Union Gas Co.	41	42 - 32	20.5	N. A.	34	1.48	23

II. OTHERS	Per Share Earnings 1963	Est. 1964	Poss. 1965	Compound Rate of Earnings Growth 1958/63	1964 over 1963	Present Price	PER Est. 1964	Poss. 1965	Dividend	Yield	1961 High	1961 per sh. Earn.	P/E Ratio
Chemicals													
Int'l Flavors & Fragr.	$ .97	$1.15	$1.30	24.0%	18.0%	31	27X	24X	$ .30	1.0%	19	$ .61	31X
Monsanto Chemical	2.77	3.90	4.60	6.7	40.0	85	22	18	1.40	1.6	55	2.35	23
Union Carbide	5.32	6.00	6.40	neg.	12.0	124	21	19	3.60	2.9	144	4.73	30
Drugs													
Bristol Myers	1.81	2.15	2.45	17.0	18.8	65	30	26	1.00	1.5	51	1.23	45
Norwich Pharmacal	1.78	1.95	2.25	9.4	10.0	39	20	17	1.05	2.7	69	1.63	42
Upjohn	1.82	1.95	2.15	2.1	7.0	50	25	23	1.00	2.0	59	1.63	36
Miscellaneous													
Dun & Bradstreet	2.52	2.75	3.00	13.0	10.0	64	23	21	1.62	2.5	85	2.15	40
* Peabody Coal	1.74	2.00	2.20	11.6	15.0	43	21	19	.80	1.9	35	1.37	33
Office Equipment													
* IBM	10.44	12.75	13.75	18.7	20.0	419	33	30	5.00	1.2	485	6.02	80
** National Cash Register	2.71	3.10	3.45	neg.	14.0	79	25	23	1.20	1.5	142	3.04	46
Oils													
Amerada	3.28	4.00	4.40	13.0	22.0	84	21	19	2.40	2.9	59	2.27	26
* Louisiana Land	1.60	1.80	2.00	10.7	13.5	42	23	21	1.40	3.3	40	1.34	30
Paper													
** Weyerhaeuser	1.44	2.15	2.50	neg.	50.0	45	21	18	1.20	2.7	41	1.22	33

* Holdings in excess of $600,000;
** Holdings acquired in 1963.

II. OTHERS (cont'd)	Per Share Earnings 1963	Est. 1964	Poss. 1965	Compound Rate of Earnings Growth 1958/63	1964 over 1963	Present Price	PER Est. 1964	Poss. 1965	Dividend	Yield	1961 High	1961 per sh. Earn.	P/E Ratio
Retail													
Federated Dept. Stores	$2.52	$2.90	$3.20	6.7%	15.0%	73	25X	23X	$1.50	2.1%	59	$2.14	27X
Cigar													
** General Cigar	1.67	2.25	N. A.	neg.	34.0	57	25	N. A.	1.20	2.1	50	2.06	24

** Holding acquired in 1963.

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INSTITUTE FOR ADVANCED STUDY

Memo to Mr. Leidesdorf
Mr. Schur
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss
Mr. Hansmann

The next meeting of the Finance Committee will be held on Monday, November 16, 1964 at the Pinnacle Club, 150 East 42nd Street, New York City at 11:00 A. M.

October 29, 1964

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233 BROADWAY
NEW YORK, N. Y. - 10007

CORTLANDT 7-1137

April 9, 1964

THE GREAT-WEST LIFE ASSURANCE COMPANY
Common Stock

Great-West Life Assurance, which was incorporated in Winnipeg, Canada in 1891, is well known in America although the Company does not write in New York State. Approximately 43% of the Company's insurance in force is United States business. The Company has seventy six branches in Canada and the United States.

The Company has compiled an impressive record of growth. During the past decade the Company's capital funds, insurance in force and operating earnings have all grown better than 10% per annum. As stated in previous memorandums, the outlook for the life insurance industry appears relatively favorable because of increased family formations, growth of per capita income and the continuing desire for family protection. The determinants of a life company's earnings continue to be favorable. These are better mortality experience, increased investment income and lower operating costs through increased automation.

The common stock of Great-West Life has a relatively poor market, and we believe this accounts for the low price earnings ratio. In 1953 the common shares were split ten for one and it is possible that another stock split will be considered since management would like a wider stockholder list. (Only 100,000 shares are outstanding.)

The following statistical summary conservatively sets forth the Company's earnings. The common stock of Great-West has declined about 15% from its 1963-1964 high of $800 to the current level of 665 bid, 685 offered. At this level the stock is selling about 9X 1963's earnings and represents exceptionally good value in the life insurance industry. Investors are willing to pay 30X to 50X for conservatively stated earnings of major and growing life insurance companies in the United States. The outlook for the Company appears favorable and we recommend purchase of this common stock for long term growth.

THE GREAT-WEST LIFE ASSURANCE CO.

CURRENT STATISTICAL DATA:

Price	1963-64 Range	Adjusted Earnings Per Share 1962	1963	1964(E)	1963 PER	1964(E) PER	Div.	Yield
685	800-630	$61.54	$75.44	$80.00	9.1X	8.6X	$7.00	1.0%

CAPITALIZATION:

	Book Value December 31, 1963	Market Value April 6, 1964
Capital: Authorized $1,000,000		
Outstanding 100,000 shs. ($10 Par)	$1,000,000	$68,000,000
Contingency Reserve	30,000,000	
Surplus	49,676,159	
	$80,676,159	$68,000,000

Note: Book Value would be higher if securities held were adjusted to market values and if a value were assigned the Company's equity in insurance in force.

GROWTH OF BUSINESS:

Year	Capital, Surplus, and Special Reserves	Total Assets	Insurance In - Force
1955	$31,324,315	$556,206,971	$2,464,775,031
1956	34,903,020	596,202,820	2,797,588,710
1957	39,502,684	636,831,466	3,122,073,452
1958	45,003,552	683,788,281	3,390,195,336
1959	50,546,710	743,498,360	3,760,565,132
1960	57,435,483	791,494,588	4,164,611,733
1961	64,852,823	854,387,301	4,449,514,559
1962	72,902,790	920,232,743	5,940,780,000
1963	80,676,159	991,048,133	6,399,721,000

THE GREAT-WEST LIFE ASSURANCE CO.

EARNINGS:

Based on 100,000 shares outstanding.

	1963	1962	1961	1960	1959	1958	1957	1956
Shareholders' Surplus Account								
Transferred from Nonpar	$ 5.25	$ 5.00	$ 4.80	$ 4.40	$ 4.00	$ 8.55	$ 5.79	$ 4.32
Transferred from Par	6.07	5.41	4.95	4.38	3.63	3.16	2.83	2.50
Investment Income	1.10	1.00	.99	.90	.81	.70	.62	.50
Taxable Earnings	$12.42	$11.41	$10.74	$ 9.68	$ 8.44	$12.41	$ 9.24	$ 7.32
Less Income Taxes	3.84	3.63	3.41	3.12	2.56	2.95	2.70	2.03
Balance	$ 8.58	$ 7.78	$ 7.33	$ 6.56	$ 5.88	$ 9.46	$ 6.54	$ 5.29
Nonpar Retained Earnings-Life	52.32	38.11	49.43	44.57	36.87	34.97	30.10	20.45
Increase in Deficiency Reserve	2.18	3.36	1.21	1.90	2.95	.57	.30	2.45
Nonpar Retained Earns. -A. & H.	10.73	10.29	12.29	7.81	15.38	8.40	4.62	7.45
Total Earnings	$73.81	$59.54	$70.26	$60.84	$61.08	$53.40	$41.56	$35.64
Equity in New Business	1.63	2.00	3.60	5.21	5.19	5.70	7.30	10.25
Total Operating Earns.	$75.44	$61.54	$73.86	$66.05	$66.27	$59.10	$48.86	$45.89

JMF:lh
4-9-64

John W. Bristol & Co., Inc.

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April 9, 1964

SCHLUMBERGER LIMITED

Progress Report

Present Price	1963/64 Price Range	Per Share Earnings 1962	1963	Est. 1964	P/E Ratio	Dividend	Yield
62	76 - 54	$4.17	$4.09	$4.50	13.8X	$1.00	1.6%
Cash Earnings		$7.30	$8.20	$9.00	7.0X		

INVESTMENT OPINION

In August 1962, when the Dow-Jones Industrial average was within the 590 - 600 range, a secondary offering of 700,000 shares of the common stock of Schlumberger Limited took place at 62 1/2, level at which it is currently traded. In the meantime, however, the Dow-Jones has risen 38%. Schlumberger has thus proven to be a most disappointing holding during the market stampede of the last 18 months.

The enclosed progress report reviews Schlumberger's corporate developments of 1963. Although not as promising as one might wish, they point, however, to a gradual improvement of the Company's electronic business which since the Daystrom acquisition early in 1962 has accounted for about half of the Company's revenues without contributing anything to profits. As a matter of fact, the annual depreciation reserve and the research expenditures related to these activities have been a drain on the Company's earnings from the oil services.

This actually means that the present price/earnings ratios of 15X 1963 earnings and 13.8X possible 1964 earnings, which the present market price reflects, apply only to the earning power of half the Company's revenues. As such a multiple appears fair in view of Schlumberger's dominant position in oil services, no premium is thus paid for the anticipated gradual recovery of the electronic companies' earning power. In consideration of this free call, of Schlumberger's excess cash of some $70 million and of its cash generating capacity which might approximate $50 million or $9 per share in 1964, the stock is indeed reasonably priced and represents good value under present market conditions.

Not only is retention recommended, but consideration could be given to increasing current holdings as the downside risk seems nominal.

April 9, 1964

SCHLUMBERGER LIMITED

Progress Report

Present Price	1963/64 Price Range	Per Share Earnings 1962	1963	Est. 1964	P/E Ratio	Dividend	Yield
62	76 - 54	$4.17	$4.09	$4.50	13.8X	$1.00	1.6%
	Cash Earnings	$7.30	$8.20	$9.00	7.0X		

CAPITALIZATION (in $ million)

	Book Value 12/31/63	Market Value 4/8/64
Long Term Debt	$ 14.7	$ 14.7
Common Stock & Surplus (5,333,587 shs. outstanding)	227.8	325.0
	$242.5	$339.7
Book Value per share	$42.50	

OPERATING RECORD

	Revenues Oil Field Services	Total	Research Expen-ditures	Depr. & Amort.	Net Income	% of Sales	Net Earnings	Cash Earnings
	(in $ million)						per share	
1958	107	193.0	6.7	15.3	12.8	6.6%	$2.48	$5.25
1959	118	219.0	8.1	15.1	19.3	8.8	3.74	6.40
1960	118	223.0	10.2	14.3	17.2	7.7	3.23	5.90
1961	128	230.0	10.5	14.5	17.9	7.8	3.35	6.10
1962	132	266.5	13.5	16.8	22.2	8.3	4.17	7.30
1963	152	303.0	13.0	21.8	21.8	7.2	4.09	8.20

QUARTERLY RESULTS

	Per Share Earnings		
	1963	1962	1961
1st Quarter	$0.85	$0.93	$0.66
2nd Quarter	0.91	0.90	0.84
3rd Quarter	1.05	1.28	0.95
4th Quarter	1.28	1.06	0.90
	$4.09	$4.17	$3.35

REVIEW OF 1963 OPERATIONS

SALES

Revenues rose $34.4 million in 1963. This increase was due principally to the consolidation of the Forex subsidiary (drilling company operating in Africa and in Europe) and to higher sales for the Electro-Mechanical Research division (telemetry for the aerospace industry).

Oil field services accounted for more than half of sales. About two thirds of sales were derived from the U. S. and Canada.

NET INCOME

	1963		1962	
	$ million	% of Sales	$ million	% of Sales
Sales	303.0		266.5	
Research Expenditures	13.0	4.3%	13.5	5.0%
Depreciation & Amortization	21.8	7.2	15.8	5.9
Income before taxes	42.3	14.0	37.6	14.8
Taxes	19.8	6.5	15.8	5.9
Net Income	21.8	7.2	22.2	8.3
Tax Rate	47%		42%	

The analysis of the above figures shows that the operating income picture did actually improve in 1963, although net income was lower.

Pre-tax income actually rose $4.7 million, while depreciation and amortization charges were up $6 million. Provision for taxes, however, rose $4 million, as the 1962 rate was abnormally low due to a special credit for carry-forward losses. Minority interest in income of subsidiaries accounted for the difference between these two figures, as well as for the $400,000 decline in net income.

CASH GENERATION

Sources of Funds	(in $ million)	Uses of Funds	
Net Income	$21.8	Capital Expenditures	$21.7
Depreciation & Amortization	$21.8	Reduction of Long Term Debt	2.9
		Minority Interest in Subsidiaries	5.9
		Addition to Working Capital	13.1
	$43.6		$43.6

During the year, working capital increased from $125 million to $141 million. Cash and marketable securities alone increased from $70 million to $100 million, which is equivalent to more than $18 per share. Out of this amount, some $70 million ought to be considered as excess cash available for acquisition and expansion.

During the year, book value increased from $40 to $42.50 per share.

CORPORATE DEVELOPMENTS

a) OIL FIELD SERVICES

Although the number of oil wells drilled in the U. S. has declined sharply from 53,700 in 1957 to 46,000 in 1963, Schlumberger's revenues from its oil services have increased constantly. This is an acknowledgment of Schlumberger's leadership in oil logging and related services. It accounts for more than 80% of such services performed in the U. S. and for practically all services performed outside of the U. S.

Schlumberger's fees are determined not only by the number of services performed for each well, but also by the footage surveyed. New services are constantly introduced by Schlumberger and the average depth of new wells has been increasing all the time. The ratio of number of services performed for each trip to a well site has increased from 2.50 in 1958 to 2.98 in 1962, and the average depth has increased from 4,000 feet in 1958 to 4,300 feet in 1962.

Although Schlumberger's fees are high, they still account for a nominal percentage of the overall cost of drilling. Therefore Schlumberger has been able to increase its fees from time to time.

The declining trend of drilling seems to have bottomed in 1963. The increasing offshore activity on the Gulf of Mexico, where the concessions' owners must drill or lose their rights, should be a supporting factor in 1964 and 1965.

b) ELECTRONIC SUBSIDIARIES

The rehabilitation of overdiversified, poorly managed Daystrom has proven to be a more challenging task than Schlumberger's management had anticipated.

Additional steps were taken in 1963 for straightening out Daystrom's divisions. One of the most important was the sale of the Control Systems Division to Control Data for a consideration of 26,247 shares having a present market value of $2,350,000. This money losing division did not fit Schlumberger's concept of concentrating on instrumentation.

The foreign instrumentation subsidiaries were also strengthened in 1963. Schlumberger acquired the remaining minority interest in the Solartron Electronic group of England, whose operations are reported to have broken even in 1963, vs. a loss of more than $1,000,000 in 1962.

OUTLOOK FOR 1964

The oil well services should continue to increase at a moderate pace in 1964.

The electronic subsidiaries should make further progress toward real profitability.

Although Schlumberger's earnings for the 1964 March quarter will not be released for some time, we understand that they will show an improvement over the $0.85 of the first quarter of 1963, but that they will be lower than the $1.28 reported for the fourth quarter of 1963.

We estimate tentatively $4.50 per share for 1964, a 10% improvement over 1963.

LONGER TERM OUTLOOK

Schlumberger should maintain its leadership in oil well services for which moderate year to year improvements are expected.

The so far improfitable electronic subsidiaries appear to be now in a position to make a contribution to the parent company's earnings in 1964. It will be modest, however. But it will pave the way for further gains in 1965 and beyond. On the basis of present sales volume, each 1% of net after taxes is equivalent to $0.16 per share. We visualize an earning power from that source of better than $0.50 a share in 1965, and of possibly $1.00 per share in 1966.

Hence Schlumberger's "normal" earnings would appear to be close to $6.00 per share within the next two to three years.

This estimate does not make any allowance for possible acquisitions which would put to better use than is the case now Schlumberger's excess cash of some $70 million.

MANAGEMENT

From a purely family affair, Schlumberger's management has evolved into a tight and young professional group. It is still dominated by Europeans who seem to have inspired the 1963 annual report which is descriptive rather than informative. There have also been complaints on the part of institutional investors that Schlumberger's public relations are poor. This typically European close-to-the-vest attitude might improve as time goes by. In the last year or so, Schlumberger has hired the services of a New York public relations consultant.

EC/hm John W. Bristol & Co., Inc.

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INSTITUTE FOR ADVANCED STUDY

LARGEST EQUITY HOLDINGS

	No. of Shares	Book Cost	Market Value	Income
IBM	3,900*	$ 7,000	$ 2,300,000	$ 19,500
Louisiana Land & Exploration	15,000	70,148	1,280,000	36,000
Texaco	17,000	175,410	1,258,000	37,400
Newmont Mining	26,250	309,797	1,000,000	31,500
Falconbridge Nickel	15,426	439,975	925,000	13,388
Gulf Oil	17,201	96,450	925,000	27,522
Peabody Coal	16,000	203,861	720,000	11,200
Great West Life	1,000	356,748	700,000	7,000
Connecticut General	3,600	221,000	680,000	3,456
Southern Union Gas	20,000	600,086	650,000	21,200
Superior Oil of California	500	50,400	640,000	3,750
Magma Copper	15,426	329,265	620,000	13,388
Coastal States Gas Producing	18,000	-	610,000	-
Peoples Gas Light & Coke	11,520	163,295	590,000	21,197
		$3,023,435	$11,640,000	$246,501

* Prior to forthcoming 5-for-4 split.

Yield on Market Value: 2.1%

Yield on Book Cost: 8.2%

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Memo to Mr. Leidesdorf
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss
Mr. Hansmann

April 8, 1964

INSTITUTE FOR ADVANCED STUDY

E. I. duPONT de NEMOURS
Common Stock

CURRENT STATISTICAL DATA:

Price	1964 Range	EARNINGS PER SHARE 1962	1963	1964(E)	1964(E) PER	Indic. Div.	Yield
262	270-238	$9.60	$10.05	$9.10	28.8X	$7.00(*)	2.7%
Chemical Business		Chemical Earnings Per Share					
222		$6.73	$6.84	$7.25	30.7X		

(*) - Dividend rate assumes General Motors dividend of $4.00

RECOMMENDATION:

E. I. duPont de Nemours is by far the largest of the domestic chemical companies, with prospective 1964 sales of more than $2.6 billion almost equal to the combined billings of its two nearest competitors. The quality of the Company's management, financial ability, research, production capabilities, and sales staff is of the highest caliber. Nevertheless, the Company's operating earnings record has not been impressive, as the following table illustrates.

	Sales (000,000)	Operating Profit Margin	Per Common Share Chem. Earns.	Total Earns.
1957	$1,965	26.4%	$5.93	$ 8.48
1958	1,829	21.1	4.71	7.25
1959	2,114	26.7	6.38	8.92
1960	2,143	22.4	5.57	8.10
1961	2,191	23.0	5.72	8.88
1962	2,407	25.8	6.73	9.60
1963	2,555	25.0	6.84	10.05
1964(E)	2,650	24.8	7.25	9.10
Compound Annual Growth (1957-1964E)			2.9%	1.1%

E. I. duPont de Nemours
Common Stock (continued)

At its current price of about $262 duPont's common stock contains one-half of one share of General Motors' common stock, or about $40. Deducting this investment (which must be disposed of by February 28, 1965) duPont's chemical business is evaluated at about $222 or 31 X estimated 1964 chemical earnings of $7.25 per share.

We believe this current price earnings ratio of about 31 X is excessive based on the following factors, and may be vulnerable since the stock has historically sold at a five year average low price earnings (low stock price related to reported earnings for each year from 1959 to 1963) of 21 X. Therefore, sale of the common stock is recommended.

(1) The stock has risen about 60% from its 1962 low of $165 to $262. The current earnings multiple is the equivalent of duPont's historic high price earnings ratio achieved in 1960.

(2) After the last distribution of General Motors' stock duPont's dividend payout will decline. For example, the current estimated dividend rate of $7.00 includes $2.00 of General Motors' dividends and equals a 2.7% yield. DuPont's operating dividend of $5.00 is only a 2.3% yield on the operating price of $222.

(3) Growth of operating earnings has been relatively slow, averaging only 2.9% per annum since 1957.

(4) Future growth of operating earnings is not expected to exceed 4% per annum.

(5) We understand from industry sources that nylon prices will be reduced sometime in the not too distant future. The timing of this is, naturally, impossible to gauge. Nylon is still the most important contributor to duPont's earnings.

(6) duPont's new synthetic leather may be a large volume product eventually but duPont's management does not feel they will have anywhere near the lead time advantage with Corfam that they did with nylon many years ago. Also, this market will not develop immediately, as many analysts suggest.

(7) An example of the increased research competition in the industry (and consequent short-lead time) is duPont's Delrin, a plastic substitute for metals. The Company spent 12 years to develop Delrin at a cost of about $50 million. Within six months of Delrin's introduction, Celanese introduced Celcon, a plastic substitute for metals which has been deemed not in violation of duPont's patents.

John W. Bristol & Co., Inc.

JMF:lh
4-8-64

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April 8, 1964

WEYERHAEUSER COMPANY (42)
GEORGIA-PACIFIC CORP. (67 5/8)

It is recommended that holdings of Georgia-Pacific common stock be switched to Weyerhaeuser.

The major reasons for this recommendation are as follows:

(1) Georgia-Pacific is in the final phases of up-grading its timber into higher yielding products while Weyerhaeuser is in the beginning stages. For the past three years Weyerhaeuser made no profits from its converting plants which are on the books at $10 per share, and capital spending for increased plant will total $300 million during the period '64-'67. With the cutting rate increased from 1 1/2 billion board feet per year to 2 billion board feet per year on a sustained basis, Weyerhaeuser can generate $50 to $60 million in net income and depletion per year (with no benefit from profits in its converting facilities) for the next 30 years or a present value (discounted at 5%) of over $30 per share. With a current cash flow of over $100 million per year the Company is in excellent financial shape to carry out its capital programs.

(2) After many years of lethargy there is evidence that Weyerhaeuser management has come to life. The capital program speaks for itself. For the first time management is willing to talk to the financial community and in the past two months has addressed two financial analyst societies and will talk to the New York paper analysts group on April 15th. The listing of the stock on the New York Stock Exchange is indicative of new thinking.

(3) The attached table illustrates the relative strength of Weyerhaeuser's timber position and the hope for an increase in earnings from exploiting its natural resource position and improving operating efficiency. Although both companies sell at the same price earnings ratio, each share of Weyerhaeuser stock is backed by about the same number of board feet in timber reserves as each share of Georgia Pacific. Furthermore, Weyerhaeuser has followed a very conservative approach in its cutting policies and has for many years been carefully reseeding cut over acreage.

Both companies will be subject to the intense competition and price policies within the industry but Weyerhaeuser appears to have much more potential to improve earnings from internal improvement. Not only will additional fabricating facilities contribute to earnings but management is confident of adding at least 50¢ to net income per share from a reduction of labor costs.

FJH:lp

John W. Bristol & Co., Inc.

		WEYERHAEUSER	GEORGIA-PACIFIC
	Price	42	67 5/8
	No. of Shares Outstanding	31,000,000	9,663,158
	Dividend	$1.20	$1.25
	Yield	2.86%	1.82%
	Earnings Per Share		
	1962	1.29	2.49
	1963	1.44	2.84
est.	1964	2.00	3.25*
Poss.	1968	4.00	4.50*
	P/E		
est.	1964	21.0X	20.7X
est.	1968	10.5X	15.0X
	1963 SALES (000)	$582,000	$451,000
	Lumber	29%	20%
	Pulp & Paper	25%	34%
	Plywood & Specialties	13%	34%
	Shipping Container & Cartons	26%	-
	Other	7%	12%
		100%	100%
	Timber Reserves (owned)	63 billion board ft.	22 billion board ft.
	Board Feet / Share	2,000	2,200
	Board Feet / $million of Sales	108,000,000	49,000,000

* Adjusted for conversion of Convertible Deb. & Pfd. Stock outstanding.

FJH:lh
4-8-64

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April 6, 1964

INSTITUTE FOR ADVANCED STUDY

REVIEW OF TWO CONVERTIBLE DEBENTURES

	Book Value	Market Value
$100,000 par value Airborne Instruments	$100,000	$124,000
$160,000 par value Mergenthaler Linotype (Eltra Corp.)	$ 98,250	$166,000

	Coupon	Price	Current Yield	Conversion Point	% Premium
Airborne Instruments	5.75%	124	4.6%	124	-
Mergenthaler Linotype	5.00%	104	4.8%	78	33%

AIRBORNE INSTRUMENTS

At the time of its acquisition of Airborne Instruments in 1957, Cutler-Hammer assumed that company's private placement of $485,000 par value of Subordinated Convertible Notes which were made convertible into Cutler Hammer stock at 48. Present market price: 60.

Cutler-Hammer is a well known manufacturer of controls for motors and of systems for regulating entire processes. Through Airborne Instruments it became involved in military electronics.

Cutler-Hammer's earnings record indicates a strong dependence on U. S. industry's capital expenditures. Between 1955 and 1957, earnings ranged between $4.22 and $5.23 per share, and in 1959, again, they amounted to $4.25. In 1963 earnings were as low as $3.40, down from $3.72 in 1962. For the current fiscal year earnings of $3.75 are projected, and if the current trend of capital expenditures in the U. S. remains strong, per share earnings might again exceed $4 in 1965.

At 16X possible 1964 earnings, the stock is adequately priced and the convertible debentures might thus be retained in anticipation of further earnings recovery in the foreseeable future.

MERGENTHALER LINOTYPE (ELTRA CORPORATION) DEBENTURES

In July 1963, Mergenthaler merged with Electric Auto Lite, under the name of Eltra Corporation.

On a pro-forma basis, Eltra's earnings have increased steadily since Mr. G. Wattles acquired control of both companies in the middle fifties. 1963 earnings were $2.43 per share vs. $2.16 the previous year. For the current fiscal year ending September 30, 1964, earnings might be as high as $2.75. At its current price of 31, the stock is traded at 11X possible 1964 earnings, the present dividend of $1.00 providing a yield of 3.2%.

The convertible debentures which are traded close to par and provide a yield of 4.8%, ought to be retained. Their market downside risk seems nominal, while they provide a call on a fairly valued common stock which is traded well below its book value of more than $40 per share.

EC/hm

John W. Bristol & Co., Inc.

Some of the information in our "A & P" memorandum was obtained on a most confidential basis. We request, therefore, that you keep this memorandum for your own exclusive use. It would be most embarassing for us if certain statements got back to the Company.

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March 16, 1964

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
Common Stock

CURRENT STATISTICAL DATA:

Price	1963-64 Range	Earnings Per Share (*) 1961	1962	1963E	1964E	1963E PER	1964E PER	2-28-63 Book Value	Div.	Yield
36	50 - 35	$2.40	$2.51	$2.20	$2.60	16.3X	13.8X	$23	$1.50	4.2%

(*) Fiscal year ends following February 28.

CAPITALIZATION:

	Book Value 2-28-63	Market Value 3-11-64
Common and Surplus (23,997,576 shares)	$536,404,000	$865,000,000

Note: The current annual rental for leased premises is approximately $77.2 million. About 34% of the common stock is held by John A. Hartford Foundation, and about 40% by members of the Hartford Family.

RATIONALE FOR PURCHASING A & P COMMON STOCK:

Purchase of the common stock of The Great Atlantic & Pacific Tea Company is recommended for its significant appreciation potential over the next three years.

The food chain industry has been operating in a difficult, highly competitive, over-built environment for almost the last five years. We do not foresee an immediate cessation of these conditions, rather we expect a gradually improving industry condition. The factors which we believe are most salient in an appraisal of A & P's common stock are the following:

1. A & P is the largest retailing organization in the world and possesses much greater financial strength than any other food chain. The quality of the operation and the overall efficiency of the Company are very high. Nevertheless, the Company's after tax profit margin remains about the lowest in the industry.

2. This low after tax profit margin is not the result of a less efficient operation, rather it is the result of a deliberate policy established by the Hartford Family decades ago and enforced by their successors Mr. Ralph Burger, Chief Executive Officer until April, 1963 and Mr. John D. Ehrgott, current Chief Executive Officer.

3. Management of the Company has been allowed to continue past normally accepted ages in corporate life. Regional managers were often more than 70 years old; return on invested capital or sales was not stressed.

4. The Company's low profit margin seems more unusual when it is estimated that almost $1 billion of A & P's sales are of internally produced merchandise which should include a manufacturing profit. Sales of the General Foods Company total about $1.2 billion and their profit margins exceed 7% net after taxes. This statistic is not set forth to infer that A & P's profits from manufacturing could ever equal General Foods, only to demonstrate the normally accepted profit ratio from such operations.

5. The financial operations of A & P and the enormity of the Company are not fully appreciated because management has remained reticent to analysts. Operations of the Company are largely integrated. As a result, the Company owns its own fishing fleet, salmon canneries, 11 coffee roasting plants, two laundries which also manufacture aprons, etc., 36 bakeries and many other non-retail units.

6. Based on last year's volume A & P has $221 of sales per share. Thus, an improvement of .1% in the after tax margin would necessarily increase earnings by $0.22 per common share. Since A & P's margin is .4% lower than that of Safeway there is a significant opportunity for a substantial increase in earnings without any change in total dollar volume.

7. A change in the philosophy of operation is needed to take advantage of the aforementioned potential. We believe that the pressures from without and within will lead the management of A & P to strive for a higher margin of profit. The internal pressures represent the interests of the stockholders, many of whom are new, and like several heirs of the Hartford Family, may feel that their commitment is not realizing its full potential.

8. During the past year there have been many changes in the management of A & P which indicate a growing aggressiveness. We understand that the first non-Hartford Chief Executive Officer, Mr. Melvin W. Alldredge, will be appointed before the end of this Summer. Mr. Alldredge, aged 51, was elected Executive Vice President in January, 1963 and President in April, 1963. Mr. Alldredge is highly regarded for his willingness to experiment in a manner unique to A & P, and for his profitable tenure as manager of the Company's Central Division in Pittsburg. In his last year as manager of that division earnings increased substantially.

9. The long term record of the Company is appended. The results, achieved under a difficult period of consolidation for the industry and under many outmoded managerial policies, are not too unsatisfactory. Using the years 1954 to 1956 as a base period to the present, A & P's sales increased by over $1 billion (or as much as the total sales of Acme, or Food Fair, or National Tea). During this period pretax operating profits increased at the compound annual rate of 8.4%. It is interesting that operating pretax profits of two other blue chip companies during this period increased as follows: duPont 2.6% per annum, and General Electric 3.0% per annum.

The Great A & P Tea Co., Inc.
Common Stock (continued)

10. The Company has followed a most conservative accounting system. Depreciation has increased 5.5X since 1951, and depreciation charges in 1963 equaled 18% of total net plant. Canadian exchange losses have been charged immediately against earnings; in 1963 this totaled $1.9 million. The Company charged $25.2 million (over $1 per share pretax) in 1963 for retirement benefits. It is important to note that total assets of the plan more than covered the actuarial liabilities.

11. As a result of the Company's conservative accounting the real value of the A & P assets is understated. We understand that the Internal Revenue Bureau valued the A & P stock in George Hartford's Estate in 1957 at over five times the current book value per share. The value allocation given to certain assets on the balance sheet that we have been able to uncover tends to confirm a significant understatement.

12. The common stock of Great Atlantic & Pacific Tea Company has declined from its high of $71 several years ago to its current price of $36, within six points of its five year low. The average price for the stock during the last five years was $45 per share. At its current price of $36 the stock is selling at 16X conservatively stated, depressed fiscal 1964 (year ending February 29) earnings. This valuation appears reasonable in view of the changes now underway in the Company. The dividend of $1.50 provides an above average 4.2% current return. We understand the new President will eliminate the policy of paying small stock dividends. However, he hopes to be able to raise the dividend within a reasonable period of time.

SCOPE OF OPERATIONS:

The Great Atlantic & Pacific Tea Company is the largest grocery chain with 4,475 stores in 39 states. The largest portion of sales is derived in the Middle Atlantic States (40%), East Central States (26%), and Southeastern States (15%), with the balance in other areas and 4% in Canada.

Over 80% of the stores are in the supermarket category, and all are cash-and-carry operations.

CAPITAL EXPENDITURES:

During the past five years the Company has had an extensive modernization program in effect. As a result, the Company's retail plant is in relatively good condition. During this period the Company expended about $281 million on new plant, equipment and store fixtures, and land. The net assets, on February 23, 1963, were carried at only $248 million.

The Company has opened 1,636 new stores since February, 1957; while closing 1,289 units, and remodeling 3,596 stores. Units opened in recent years averaged about 12,000 square feet in floor space; those closed or replaced averaged less than 4,000 square feet.

NEW VENTURES AND SIGNS OF A MANAGEMENT CHANGE:

Largely forced by their competitors, A & P's old management began to introduce some new techniques of selling to their stores. Examples of this would be new labels on their products, and the introduction of Plaid Stamps in about 60% of their supermarkets. These are not impressive examples of change, but did indicate a willingness to break, at least somewhat, with tradition.

In January, 1963 Mr. Ralph Burger, then aged 73, announced his retirement as President but not Chairman and Chief Executive Officer. Mr. Ehrgott, then aged 67, was named to replace him. At the suggestion of the outside directors (and evidently certain heirs) Mr. Ehrgott was moved up to Chairman in the Spring of 1963. The current President, Mr. Melvin Alldredge, aged 51, was then elected.

Under Mr. Alldredge's direction and since his election as President a number of steps have been taken to modernize the A & P system. (We do not believe that these will be aggressively carried out until Mr. Ehrgott retires as Chief Executive Officer.) First, after the aforementioned management dispute five outside directors were added. Second, several innovations were attempted such as pastel colors, murals, and rather elaborately designed showcases in A & P stores. Other experiments included the following: the operation of a discount house-supermarket combination; laundry centers; auto accessory units; self-service delicatessen sections; and the pilot plant operation of a chain of self-service, drive-in restaurants called the Golden Key (patterned after McDonald Corporation's 15¢ hamburger). Third, the introduction of some hard goods into A & P supermarkets was stressed. Fourth, many of the older personnel at very high executive levels have been retired. Fifth, new distribution centers for the East (32 acre plant to open in late 1965 on a 104 acre site near Elmira, New York) and the Mid-West at Detroit are planned which should afford large cost reductions.

The Great A & P Tea Co., Inc.
Common Stock (continued)

BOARD OF DIRECTORS:

Director	Principal Occupation
Melvin W. Alldredge	President of the Company
Anthony A. Bliss	Partner, Milbank, Tweed, Hadley & McCloy, attorneys
Ralph Manning Brown, Jr.	Executive Vice President of New York Life Insurance Co.
Frank H. Bucher	Vice Chairman of the Board
Ralph W. Burger	President and a Trustee of The John A. Hartford Foundation, Inc.
John L. Burns	Business Executive, formerly President of Radio Corporation of America
John T. Cahill	Partner, Cahill, Gordon, Reindel & Ohl, attorneys
Fred E. Campbell	Assistant Secretary and General Counsel of the Company
H. Wayne Carver	Vice President of the Company and President of the Middle Western Division
Lawrence M. Cazayoux	Vice President of the Company and President of the New England Division
Roy C. Collins	Partner, Collins and Toner, attorneys
Donald Kirk David	Director of various business corporations and Vice Chairman of the Ford Foundation
John D. Ehrgott	Chairman of the Board of Directors of the Company
Harold D. Hoag	Treasurer of the Company
William F. Leach	Vice President of the Company and President of the Atlantic Division
Nelson E. Nordquist	Director of Operations of the Company
Gwilym A. Price	Chairman of the Board of Directors of Westinghouse Electric Corporation
John J. Reilly	Secretary and Chief Statistician of the Company
John M. Schiff	Partner, Kuhn, Loeb & Co. investment bankers
Stephen W. Shea	Executive Vice President of the Company
David Sher	Partner, Stroock & Stroock & Lavan, attorneys
John Elliot Slater	Partner, Coverdale & Colpitts, consulting engineers
Robert M. Smith	Vice President of the Company and President of the Southern Division

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3-16-64

John W. Bristol & Co., Inc.

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

INCOME ACCOUNT SYNOPSIS: ($000)

Yr. to 2-28	Sales	Amort. & Depr.	Pretax Net Amount	Pretax Net (%)	Net Income	Per Common Share Net (1)	Per Common Share Div. (1)	Per Common Share Price Range (2)
1951	$3,179,792	$ 7,954	$ 60,553	1.91%	$32,903	$1.35	$0.64	14 - 12
1952	3,392,541	8,919	60,452	1.78	27,177	1.11	0.64	16 - 12
1953	3,755,687	9,345	67,068	1.79	29,218	1.19	0.64	18 - 15
1954	3,989,103	9,866	69,696	1.75	30,396	1.24	0.64	23 - 17
1955	4,139,966	10,540	69,283	1.67	32,233	1.32	0.64	22 - 18
1956	4,304,991	11,550	76,549	1.78	34,749	1.46	0.64	19 - 16
1957	4,481,852	22,792	89,526	2.00	41,026	1.74	0.64	25 - 15
1958	4,769,249	25,801	110,667	2.32	50,667	2.12	0.73	59 - 24
1959	5,094,741	28,656	118,905	2.33	53,905	2.26	1.03	55 - 36
1960	5,048,574	31,801	108,496	2.16	51,996	2.17	0.96	41 - 30
1961	5,246,578	35,555	123,212	2.36	59,012	2.47	1.32	71 - 36
1962	5,240,315	39,245	119,964	2.26	57,464	2.40	1.30	61 - 34
1963	5,310,544	43,734	126,606	2.38	60,206	2.51	1.70	50 - 38

(1)- Adjusted for stock dividends, 2% in fiscal years 1963 and 1962, and 3% in fiscal years 1961 and 1960.

(2)- Price Range for previous calendar year.

BALANCE SHEET DATA: ($000)

Yr. End 2-28	Cash & Governments	Inventory (LCM)	Total Current Assets	Total Current Liabilities	Net Working Capital
1961	$166,619	$310,326	$489,406	$219,842	$269,564
1962	161,425	330,254	503,753	223,867	279,886
1963	156,510	327,200	500,365	222,395	277,970

	Total Land & Plant Gross	Total Land & Plant Net	Def. Inv. Credit & Self-Ins. Res.	Total Shareholders Equity
1961	$321,816	$208,262	$5,402	$485,973
1962	343,792	224,372	5,207	514,975
1963	371,797	248,247	9,174	536,404

JMF:lh
3-12-64

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JOHN W. BRISTOL
CHARLES W. CALL, JR.

Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

March 30, 1962

INSTITUTE FOR ADVANCED STUDY

Agenda for Meeting of the Finance Committee
Friday, April 6, 1962 at 11:00 A. M. at
Fuld Hall, Princeton, New Jersey

1. Report by the Chairman

2. Ratify investment changes since the last meeting.
(schedule attached.)

3. Investment review.
(List of holdings as of Feb. 28, 1962 to be submitted.)

4. Suggested investment changes:

BUY:

		Current Market
10,000 shs.	Southern Union Gas	$ 360,000
3,000 shs.	Magma Copper	214,000
10,000 shs.	Masonite	320,000
10,000 shs.	North American Coal	130,000
		$1,024,000

SELL:

6,000 shs.	Central Illinois Public Service	$ 440,000
5,000 shs.	Westinghouse Air Brake	143,000
9,250 shs.	Allied Chemical (Retain 5,000 shs.)	435,000
2,000 shs.	Kennecott Copper	161,000
		$1,179,000

Schedule of Investment Changes Authorized Between
October 26, 1961 and April 6, 1962 Meetings of the Finance Committee

Purchases:

10,000 shs.	North American Coal Corp. common stock
100 shs.	Virginia Carolina Chemical Co. 6% preferred stock
500 M	Federal Home Loan Bank 3 3/8% due 9-17-62
12,000 shs.	MacMillan Bloedel & Powell River common stock
5,000 shs.	United Artists Corp. common stock
300 M	Wise Homes Inc. Convertible Sub. Debentures B 6 3/4% due 4-1-72 (Replacing 150M 6 3/4% due 4-1-72)
6,000 shs.	Simpsons Ltd. common stock
330 shs.	Oklahoma Gas & Electric Co. common stock (By exercising rights)

Sales:

300 M	U. S. Treasury 4% due 5-15-62
4,000 shs.	Illinois Power Co. common stock
500 shs.	Tennessee Gas Tansmission Co. 4.90% preferred stock
5,000 shs.	Hooker Chemical Corp. common stock
2,500 shs.	Woodward Iron Co. common stock
4,080 shs.	Twentieth Century Fox common stock
2,000 shs.	Amerada Petroleum Co. common stock
95/100 sh.	United Carbon Co. common stock
5,000 shs.	Arvida Corp. Class A common stock
25/100 sh.	Georgia Pacific Corp. common stock
35/50 sh.	International Paper Co. common stock
8/100 sh.	Union Oil Co. California common stock

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CORTLANDT 7-1137

March 10, 1964

CURRENT TRENDS IN THE COMPUTER INDUSTRY

In view of the impending introduction of a completely new line of computers by IBM - the 8000 series - a review of the current trends in the industry and the probable effects of the 8000 series appears timely. Most of the information contained herein resulted from discussions with an independent consulting organization specializing in electronic data processing.

To summarize this report, a major question facing investors is what effect will IBM's 8000 series have on IBM itself and the rest of the industry? IBM's main exposure to obsolescence in its own equipment lies in the 1400 series of which some 8,000-9,000 machines have been installed world-wide in the past four years. Allowing for a delivery time of 12 months for the 8000 series, the 1400 systems will have been installed just long enough to produce normal profit. Minneapolis Honeywell, Sperry Rand, and Control Data are likely to be adversely affected in approximately the order listed. With the possible exception of Honeywell, these companies are not going to suffer a disaster, but plans will probably be modified and additional capital outlays called for to combat the 8000. National Cash and RCA will not feel the impact of the 8000 too much. Burroughs 5000 series has already been effectively nullified by IBM. GE and Litton are not yet significant factors in the industry.

INDUSTRY

The computer industry will be dominated by dynamic technology in the future as in the past. Sustained growth of 20% per year or better is foreseen for at least five years and possibly longer. Growth in this area has been continuously underestimated by the experts. The economics probably will not change much with over 75% of equipment going out on rentals under one year contracts which do not cover factory costs in the initial year. A wide range of services must be offered along with the hardware, and this is expensive.

Computers may be broken down into two major markets: (a) business and administrative systems, and (b) scientific and technical systems. Value of all computers installed breaks down into roughly 50% in each market.

In business computers the manufacturer must offer a complete line of hardware and extensive services. Although some gaps remain in the large computer market, the major demand appears to be building up in the medium size and lower priced computer systems. This latter market was described as literally exploding.

The programming of scientific and technical computers can usually be handled by the users themselves and extensive services are not required. Computer systems for the actual control of operations are beginning to grow rapidly. Here again the manufacturer is required to do very little programming but outside independent consultant groups provide a large part of the programming.

Nearly all computer manufacturers are making most of their own peripheral equipment. Those who are not, probably will in the near future. It has not proven satisfactory to depend on another manufacturer for peripheral equipment such as printers, tape drives, and character readers, etc. The only market left for non-computer peripheral equipment manufacturers is marginal and is getting more so.

A computer model can usually be sold over a four year period before becoming obsolete. Typically 20% of the units are sold outright and 80% rented. Rental income will usually peak in five years and the program will not produce a normal profit until 5 1/2 years. Second hand machines can usually be sold, but this is expensive and not usually profitable.

The major elements of costs as a percent of rental revenues in a typical computer system are as follows:

Factory cost of hardware	25% - 40%
Marketing	20% - 25%
Software	8% - 10%
Maintenance (4 years)	6% - 15%
Development and applications research	6% - 8%
Miscellaneous	5% - 10%
Profit	20% - 30%

Depreciation policies for the major companies are outlined below:

	Type	Number of Years
IBM	Accelerated	5
Control Data	"	4
National Cash Register	"	4
RCA	"	5
GE	"	6
Univac	Straight	5
Burroughs	"	5
Minneapolis Honeywell	"	8

Honeywell is the only company that capitalizes research and development and writes it off over the estimated life of the computer. All the other companies charge off R & D as incurred.

An estimate of the maintenance charges as a percentage of the annual rental revenues for the various companies appears below:

	% Maintenance
IBM	8%
Control Data	15%
Univac	was 25%, now 15%
RCA	11%
National Cash Register	12%
Minneapolis Honeywell	15%

COMPANIES

IBM

IBM's 8000 series will incorporate an important but not overpowering technological development. The major feature of the new series will be a hybrid type of integrated circuit. Although theoretically the new cermet circuit developed by IBM is technically already obsolete, this is the only practical and economic way to take advantage of micro-electronics in a computer at this time. Ultimately it will be cheaper and more reliable to use monolithic integrated circuits (solid pieces of silicon), but this will be years away.

IBM will not only reduce the component costs in its computers by 20% or the overall cost 10% or 15%, but will have a smaller unit capable of an improved performance. The only computer company working on similar circuitry is Control Data in conjunction with Fairchild. Motorola has an intensive program under way on similar circuits and may be able to supply other manufacturers.

IBM's 8000 series, whose announcement is expected in April, will cover the complete range of computers, from the lower end to the higher end. IBM has been forced into the introduction of this line sooner than it had planned. Control Data's 3600 series is completely dominating the upper end of the computer spectrum and Honeywell's announcement of the 200 series is a direct assault on IBM's bread and butter market, the 1400 series.

Irrespective of the effects of this announcement on competition, a major question is whether IBM will adversely affect its own performance by obsoleting its own product line, particularly the 1400 series. Our information is that the 1400 series, of which some 8,000 - 9,000 are installed, definitely will be profitable. Ultimately profitability here should be 20% of $1.5 billion or $300 million before taxes.

The cermet circuit again demonstrates IBM's overwhelming technical superiority in computers.

CONTROL DATA

Control Data has done a magnificent job in market strategy, technical design, and overall business management. The management has carefully steered away from meeting IBM head-on and has concentrated in scientific and technical computers. Even though the 3600 series can be used in business as well as engineering, CDC continues to concentrate on the scientific markets for the 3600, and very successfully. Most of the customers in this market cannot wait for the IBM 8000 series and are actively buying the 3600. Business customers can and do postpone purchases and are waiting to look at the IBM 8000. IBM will definitely limit CDC's exploitation of the market with its 3600 but will not critically hamper CDC's efforts.

CDC has developed some of the best peripheral equipment in the industry.

UNIVAC

Univac is probably the most vulnerable to IBM's 8000 series. The Company has brought out five major computer series almost simultaneously in the past two years. Several of these systems are excellent, but the 1107 has been caught by Control Data's 3600 and the others will certainly suffer from the 8000. Univac appears to be out on a limb since it cannot afford to modify five new series which have not been out long enough to become profitable. However, Univac has cleverly avoided direct head-on collision in IBM's traditional markets in the past two years, and this will help cushion the effects of the 8000.

Univac, with $250 million in annual revenues (including military installations) from computers, is the second largest company. It is actually a fine computer company, but is operating in a very poor environment within Sperry Rand. Most of Sperry's military programs are in a declining phase and Sperry is not an efficient manufacturer of military hardware. The Company laid off 100 engineers in December, 220 in February, and will lay off another 400 in several weeks.

MINNEAPOLIS HONEYWELL

Honeywell's 800 and 400 series were very successful, but the 1800 and 1400 were too late and are a failure.

Honeywell recently announced the 200 series which is a vastly improved machine over the IBM 1400. Honeywell has taken orders for 200 of these machines with a lot of orders coming from IBM installations. However, Honeywell has not yet begun producing these machines and has little or no experience with them. The Company has promised July delivery and is taking on 400 new salesmen and 500 new maintenance people to carry out the program. Management is talking about $100 million per year in sales value from its overall computer effort.

The IBM 8000 could have a disastrous effect on Honeywell. IBM's answer to Honeywell's 200 has been running for 4 - 5 months and all the bugs are out. With the formal announcement of this IBM machine many of Honeywell's orders could be cancelled. Honeywell already is behind on the 200 because of difficulties in the printer. Any further delays will enhance the risks in the 200 program, which approaches a crash program.

40% of Honeywell's net worth can be accounted for by investment in computer hardware and other related capitalized costs.

NATIONAL CASH REGISTER

National Cash Register has a broader product line than Burroughs and Litton, which are its major competitors other than IBM in the lower end of the computer line. The NCR 390 and 315 have been successful. Cash register installations will be extremely important in exploiting the lower priced market and NCR has the majority of the installations by a wide margin.

The Company has an outstanding management, although it has been slow from a technical standpoint. NCR is in good position to take advantage of what should be the most rapidly growing market in the industry.

Because of a concentration in its traditional data processing markets, NCR will not be affected much by the 8000 series.

RCA

After a head-on collision with IBM, RCA has withdrawn to reconsider. The medium size 301 series is successful, but the large size line is not. There has very quietly been a complete revamping of management in the computer division in recent months.

Apparently, RCA intends to remain in the computer business and is building up a team of industry specialists in order to concentrate in certain areas rather than compete across the board.

BURROUGHS

Burroughs' 5000 series has been completely overwhelmed by superior IBM equipment. The Company's entire push is now downward into the lower priced market.

Sales and earnings will suffer from a flattening if not declining trend of military orders.

It remains to be seen how successful Burroughs will be.

LITTON

The Monrobot XI is not a bad machine. However, of more importance is the Sweda cash register. A firm foothold in cash registers will be necessary to take advantage of the growing market in smaller scale computers.

GE

Although eventually GE will become very important, the operation has just been keeping alive and is still very small relative to Honeywell and RCA.

GE has concentrated on the banks but has now developed some larger computers and appears to be pointing to the communications market.

FJH/hm

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March 3, 1964

TENNESSEE GAS TRANSMISSION

Common Stock

Present Price	1963-64 Price Range	Per Share Earnings 1963	Per Share Earnings E. 1964	P/E Ratio	Dividend	Yield
20 1/4	22 - 18	$1.31	$1.50	13.5X	$1.00	4.95%

The common stock of Tennessee Gas Transmission is attractive for current purchase not only for its good yield but also in anticipation of renewed earnings growth. The combination of a high return and of the low price/earnings ratio precludes much downside risk from current levels. Conversely, the possibility of a restoration in the not too distant future of the annual dividend rate of $1.12 which prevailed in 1962 and the improved fundamentals for this leading pipe line company, might lead to a revaluation of its present market appraisal. Hence, the stock has also attraction for capital appreciation.

The prospective improvement in the outlook for Tennessee Gas Transmission rests on the following developments:

1. Late in 1962, the Federal Power Commission ordered Tennessee Gas to refund to its customers $135,000,000 which had been collected under bond since 1957. Following this rate settlement, the Company's revenues and earnings are now "clean" for the first time since 1956.

2. After a number of decisions all adverse to the natural gas pipe lines, the F. P. C. seems to have adopted a more constructive attitude according to most recent decisions. The presence of a Texan in the White House and the expiration in June 1964 of the term of office of Commissioner Ross, the most outspoken critic of the natural gas industry, could lead to further improvements in the regulatory climate for the industry.

3. Tennessee Gas Transmission is diversifying its activity, through acquisitions and plant construction, in fields which are not subject to F. P. C. regulations - oil, chemicals, petrochemicals, insurance, etc.

4. In January 1964, Los Angeles passed an ordinance banning the use of residual fuel oil by industry, provided natural gas is available. This action should accelerate consideration of the applications of two competitive projects sponsored by Tennessee Gas and by El Paso Natural Gas for building a pipe line to supply gas to Los Angeles. The outcome of this contest is, of course, conjectural, but, as of now, Tennessee Gas seems to be the favorite candidate.

5. Tennessee Gas Transmission's earnings rose 11% in 1963 from $1.18 to $1.31. Due to a special credit of $.13 per share, $1.44 was actually reported. For the current fiscal year, $1.50 per share is anticipated - up 13% from 1963. The annual dividend of $1.00, which once again would be well covered by current earnings, might be restored to the 1962 rate of $1.12 per share, which would reflect a yield of 5.5% at current market level.

For all these reasons Tennessee Gas Transmission offers outstanding value under present market conditions. Purchase is thus recommended.

March 3, 1964

TENNESSEE GAS TRANSMISSION

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OPERATING RECORD

	Revenues ----(in $ million)---	Net Income	No. of Shares Outstanding (000's)	Earnings per share	Dividend	Price Range
1957	$362.8	$37.9	26,449	$1.15	$ .97	20 - 13
1958	383.5	40.7	31,050	1.04	.93	24 - 16
1959	441.0	46.7	34,890	1.12	.93	25 - 20
1960	535.1	57.2	39,368	1.24	1.03	24 - 20
1961	600.1	59.2	39,799	1.27	1.12	26 - 21
1962 (1)	695.6	58.7	40,229	1.18	1.00	25 - 15
1963 (1)	737.0	71.1	42,246	1.31 (2)	1.00	22 - 18

(1) Includes operations of Heyden-Newport Chemical acquired in October, 1962.

(2) Excludes special credit amounting to $.13 per share.

BACKGROUND

Tennessee Gas' pipeline system extends from Texas and Louisiana to New England. It includes more than 11,000 miles of pipeline and has a peak delivery capability in excess of 3 million Mcf. per day.

A subsidiary, Midwestern Gas Transmission, operates a 900 mile pipeline system which, in the North, connects with the Trans Canada Pipe Line System and extends southward through Minnesota and Wisconsin.

Between 1956 and 1962, gas revenues more than doubled and assets rose from 1 to 2 billion dollars.

Tennessee Gas' non pipeline activities have increased sharply in recent years. They were concentrated in one subsidiary, Tenneco Corp., early in 1961. This subsidiary is engaged virtually in all phases of the oil business. Also in real estate, insurance, chemical and petrochemical activities.

The Tenneco chemical division completed in 1962 a $30 million petrochemical plant on the Houston Ship Canal for the production of acetylene and vinyl chloride monomer.

In October 1962, Tennessee Gas acquired Heyden-Newport Chemical, in exchange for 2,435,000 of its shares. Heyden-Newport, which had sales of $64 million and net income of $2.7 million in 1962, is a producer of synthetic organic chemicals.

Some time in the spring of 1964, the stockholders of Delhi-Taylor, an integrated oil company, will vote on Continental Oil's and Tennessee Gas' joint offer to purchase its properties. In 1962 Delhi-Taylor had revenues of $107 million.

These various developments will reduce the importance of gas sales, which in 1962 accounted for 63% of Tennessee Gas' revenues. They should enhance also Tennessee Gas' future growth.

PIPE LINE BUSINESS

Tennessee Gas' principal customers are The Columbia Gas System and Consolidated Natural Gas, which accounted in 1962 for 44% of the Company's gas deliveries.

The Company obtains its natural gas requirements principally from 539 gas purchase contracts with Texas and Louisiana gas producers. The price paid varies according to the location of the field. The average price paid in 1963 was 19.2¢ per Mcf. According to a recent appraisal by independent geologists, Tennessee Gas controls more than 19.5 billion cubic feet which would meet the Company's maximum present commitments for over 25 years.

In 1960, it acquired from Pan American Petroleum gas and oil leases with net recoverable gas reserves estimated at 760 billion cubic feet, for a total consideration of $160 million.

The Company is in the midst of a $56 million construction program involving 271 miles of pipe line which will increase the system's capacity by 105,000 Mcf. - to 2,785,000 Mcf. daily.

A subsidiary, Gulf Pacific Pipe Line, has filed an application for the construction of a 1,545 mile pipe line from Houston to the Los Angeles area. This major project (estimated cost: $314 million) would handle daily 865 million Mcf. purchased from Humble Oil. This project is under study by the F.P.C.

REGULATIONS AND EARNINGS

As an interstate pipe line, Tennessee Gas is subject to the regulations of the Federal Power Commission.

In 1957, 1959, and 1960, Tennessee placed in effect, subject to refund, rate increases for gas sold and transported. In 1962, the F. P. C. ordered the refund to customers of $134,500,000 out of the $301,000,000 the Company had so collected under bond. Of the refunded amount $71 million were recovered through reductions in income taxes and $33 million through a reduction in the depreciation reserve.

As a result earnings declined in 1962 to $1.18 per share adjusted for all refunds. The dividend was reduced from $1.12 to $1.00.

At present Tennessee Gas earnings are "clean" as they do not include any revenues under bond.

TENNECO CORPORATION

a) Production and Exploration

In the Spring of 1963, Tenneco owned 327,000 acres of producing oil and gas leases with 2,170 oil wells and 329 gas wells. Daily production was 51,000 barrels of oil and 198,000 Mcf. of gas.

Producing properties are owned in Venezuela and in Argentina.

Independent geologists estimate oil reserves in the U. S. and in South America at 193 million barrels and gas reserves at 1,252 billion Mcf.

Oil refineries with daily capacity of 62,000 barrels are owned in Denver and New Orleans.

b) Chemicals

Tenneco Chemical has constructed a plant on the Houston Ship Canal for the production of acetylene and its conversion into vinyl chloride monomer for floor and wall tiles, phonograph records, coating for electric wires and cables, etc.

Chemical operations were further diversified in 1963 with the acquisition of Heyden-Newport Chemical.

EC/hm John W. Bristol & Co., Inc.

Schedule of Investment Changes Authorized Between April 19, 1963 and October 8, 1963

I. PURCHASES

a) Short Term Investments

6,300 M	U. S. Treasury Bills, various maturities
500 M	Federal Home Loan Bank 3.70% due 5-15-64

b) Convertible Bonds

300 M	United Aircraft Corp. 4 1/2% Sub. Deb. due 8-15-88

c) Private Placements

$167,240* par value	Lawrence & Stegall Ranches Inc. 6% Conv. Sec. Note due 5-1-78 and 4,000 shares of Common Stock
200 M	Nippon Express Co. Ltd. 6 1/2% Conv. Deb. due 9-30-78

d) Equities

8,000 shs.	AVC Corp. common stock
1,000 shs.*	American Sugar Refining common stock
10,000 shs.	Crowell-Collier Publishing Co. common stock
20,000 shs.	DeSoto Chemical Coatings common stock
11,450 shs.	Hawthorn-Mellody, Inc. common stock
1,100 shs.*	Houston Natural Gas Co. common stock
2,500 shs.*	Phoenix Insurance Co. common stock
4,000 shs.*	Royal Dutch Petroleum Corp. common stock
7,500 shs.	Southern Union Gas Co. common stock (20,000 shs. now held)

II. SALES

a) Short Term Investments

900 M	U. S. Treasury Bills, various maturities

b) Equities

7,250 shs.*	Allied Chemical Co. common stock
4,950 shs.*	Atlanta Gas Light common stock
7,500 shs.*	Atlantic City Electric common stock
2,420 shs.*	Consolidated Natural Gas Co. common stock
5,000 shs.	Delhi Taylor Oil common stock
12,000 shs.*	Fruehauf Trailer Corp. common stock
10,404 shs.	W. R. Grace & Co. common stock
5,050 shs.*	Mergenthaler Linotype common stock

5,000 shs.*	Middle South Utilities common stock
6,242 shs.	Monsanto Chemical Co. common stock
10,000 shs.*	North American Coal Co. common stock
10,000 shs.*	Simpsons Ltd. common stock
8,000 shs.	South Carolina Electric & Gas common stock
15,912 shs.*	Sperry Rand Corp. common stock
200 shs.*	Superior Oil Co. common stock
10,000 shs.	United Artists Corp. common stock
7,000 shs.	Whirlpool Corp. common stock

* Authorized by Finance Committee on April 19, 1963.

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

October 1, 1963

INSTITUTE FOR ADVANCED STUDY

CANADIAN PETROFINA LEASEBACK

The Institute holds a leaseback participation in service stations of Canadian Petrofina, the current outstanding balance of which is $198,935.

Clause 15 of the leaseback agreement provides for substitution of service stations in the case of properties which become uneconomic because of highway changes etc. Because of a change in marketing philosophy and changing methods of competition, the Company is now building larger units where the land values and the buildings cost upwards of $100,000 per unit. These units are also designed to emphasize the sale of tires, batteries, accessories, as well as some non-automotive merchandise. The Company feels that it may be desirable to close two or three small stations in an area and replace these units with one major retail outlet. Since the present agreement calls for subsituting a station having approximately the same value and since the Company is no longer constructing comparable units, they have asked the investors to amend Clause 15 to overcome this problem.

The principal aspects of the amendments are as follows:

1) After lessee has notified the investors that the sites of two or more stations are no longer suitable or economic for use as service stations, lessee will deposit with the Trustee an amount equal to the original certified costs of the premises to be reconveyed with instructions to hold such amount for the benefit of the investors until a suitable property has been substituted. Lessee shall continue to pay the rent without modification until substitution is made.

2) The lessee shall certify the aggregate cost of the service stations to be substituted separately showing land costs and land improvements together with the then fair market value of the site underlying the substituted service station. It shall be a condition of such substitution that the then fair market value of the underlying site on which the substituted service station is situated, separate and apart from all improvements and structures thereon, shall be equal to or greater than the fair market value of the sites underlying the premises which have been previously conveyed.

It is our understanding that the land value of the new larger stations will in every case be substantially in excess of the combined land values (either original or present) of the smaller stations being exchanged. Since the investors' primary interest is in the potential appreciation in the value of the underlying properties at the end of the lease, this change is clearly to the advantage of the investors.

Jackson, Nash, Brophy, Barringer & Brooks, counsel for the investors, have worked for several months with us and with Petrofina's counsel on the drafting of the amendment. This amendment has been approved by the investment committee of Princeton University, who represent one third of the program, and we recommend acceptance of the Company's proposal.

JWB/hm

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

September 30, 1963

INSTITUTE FOR ADVANCED STUDY

INTERNATIONAL TELEPHONE & TELEGRAPH CORP.

Number of Shares Held:	5,000 shares
Book Cost:	$190,016
Present Market Value:	$260,000

I. T. & T. common stock is recommended for sale because of the following factors:

1) On the basis of potential growth and the quality of earnings, the shares appear fully priced. The stock at 52 sells at 21.4X reported 1962 earnings of $2.43 per share and 19.3X estimated 1963 earnings of $2.70 per share. The $1.00 dividend provides a yield of 1.9%.

2) Although reported earnings growth has been good over the past five years (1957 - $1.56 per share; 1962 - $2.43 per share), an announced change in depreciation policy last year contributed $.12 per share to reported 1962 earnings. Also the table below suggests that a runoff in depreciation, in spite of a large capital spending program, has contributed to earnings growth in prior years.

	1962	1961	1960	1959	1958	1957
Sales & Revenues	$1,090	$931	$811	$768	$687	$639
Gross plant, property & Equipment	715	628	481	433	492	435
Depreciation	30.8	31.3	25.1	27.4	24.5	23.0
% Sales & Revenues	2.83%	3.37%	3.12%	3.57%	3.67%	3.61%
% Gross Plant*	4.32%	5.00%	5.21%	6.32%	4.98%	5.29%
Earnings per share (average shares)	$2.43	$2.18	$1.96	$1.90	$1.85	$1.56

* Gross Plant figures for 1958 and 1957 include the Cuban properties which have been eliminated from gross plant in subsequent years.

3) It is estimated that $.50 per share of earnings comes from South American (ex Puerto Rico) telephone systems and manufacturing operations. The telephone revenues (about $.40 of $.50) appear quite vulnerable to takeover by the respective governments (Brazil, Chile and Peru) and preliminary talks are being held now with Chile. Just how much and in what form any payments for the telephone systems will take is pure guesswork.

4) While the earnings from European telecommunication operations (mostly manufacturing) are of good quality, the I. T. & T. operation in the U. S. remains quite weak. Over half of the $410 million (38% of the total) sales in 1962 in the U. S. came from defense contracts. ITT Kellog and the 7 other companies acquired or being acquired ($180 million in sales from acquisitions) have very average operating records and growth potential with the exception of Jennings Radio ($10 million in sales).

5) Since Harold Geneen became president of I. T. & T. in June 1959, 14 (at last count) officers have left the company. Although Geneen's reorganization of management forced some of these resignations, it is believed that at least 6 or 7 of these men were key personnel.

FJH/hm

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

September 26, 1963

INSTITUTE FOR ADVANCED STUDY

THE PAPER INDUSTRY AND MEAD CORP. AND WEST VIRGINIA PULP & PAPER CO.

The attached memorandum briefly describes the paper industry, the reasons for its disappointing earnings results in recent years, and the improved economic outlook for the industry over the intermediate term. Members of the Committee believe that Mead Corporation and West Virginia Pulp and Paper will be prime beneficiaries of this improved industry supply-demand relationship. Brief comments and income account synopses on each of these companies are appended. Purchase of 7,000 shares of Mead Corp. and 7,000 shares of West Virginia Pulp and Paper is recommended.

An illustration of the leverage inherent in the paper industry may be examined as regards the recent price increase of 7% to 12% (varying with quality) in shipping container board. This price increase has held and its effect to Mead and West Virginia on an annual basis after taxes mathematically works out to $0.44 per share for both companies at 7%, and $0.76 per share for each at a 12% increase. Naturally, this leverage has worked against these companies' earnings since 1956, and any reduction of prices in 1965 would again severely affect per share earnings.

The concept of an improved supply-demand relationship and higher paper prices cannot be yet extended beyond 1964 or early 1965 in view of this industry's recurring overcapacity problems. Because of the lead time involved in constructing plants the capacity outlook appears good for at least the next 18 months. The paper stocks attraction on a longer term basis is still problematical, and purchase should be made for intermediate purposes which indicate an opportunity for capital appreciation because of a cyclical recovery in these companies' earnings.

THE PAPER INDUSTRY:

The domestic paper industry has been in a six year recession. After pent-up demand for paper products, emanating from shortages during the war years, inflated consumption levels in 1955-1956, a decided tapering off was in evidence immediately thereafter. This coincided with the expansion of paper capacity, plans for which were initiated earlier in the decade. The burden of excess capacity led to highly competitive market conditions and general reductions in product prices. As a result, paper companies' earnings declined significantly from the highs of 1956.

During the recent period of overcapacity in the paper industry output expanded at a rate well above that of the U. S. economy. By 1962 total production of paper and paperboard reached 37.6 million tons, an increase of almost 25% in a five year period. Trade and Government sources indicate that this trend will continue over the intermediate term with output expected to total approximately 43 million tons in 1965, an expansion in the order of 5% annually.

Surveys of the American Paper and Pulp Association indicate that new capacity increments in 1964 and 1965 should be at a significantly declining rate. Thus the industry's basic problem, excess productive potential, should be substantially alleviated over the near term.

Historically, the impact of higher operating rates, relative to capacity on an industry which requires a large capital investment per ton of output, has been dramatic. As the higher operating rates are approached, large savings in fixed overhead costs occur when production runs are lengthened and machines are speeded-up. More importantly, an approaching balance between supply and demand for paper and paperboard has a beneficial effect in the area of product prices. Beginning in early July of this year, a series of price increases were announced by the trade. Recent contacts with paper companies' managements indicate that price increases have held and that further price increases should be expected in early 1964.

The paper industry appears to be entering a highly favorable economic period. Based on improved sales realizations (due to higher prices) and declining unit costs, a considerably higher level of profits may be expected for most major manufacturers during the remaining months of 1963 and through, at least, 1964.

THE MEAD CORPORATION:

	1963	Earnings Per Share			1963(E)		
Price	Range	1961	1962	1963(E)	PER	Dividend	Yield
43	46 - 35	$2.15	$2.51	$2.35	18.3X	$1.70	4.0%

Mead Corporation ranks among the leading companies in the paper and paperboard industry. Including capacity available through 50% ownership of domestic bleached pulp and containerboard producers, it has a high degree of integration in both cultural paper and paperboard packaging operations. In converted products the Company is one of the largest manufacturers of corrugated shipping containers and of multiple-pack cartons. About 60% of annual sales is accounted for by white papers, including specialties, and the balance comes from paperboard products. The bulk of the Company's pulp requirements is supplied by its own integrated mills and Brunswick Pulp & Paper, a 50% owned company.

It is expected that Mead's earnings could increase about 35% in 1964 to approximately $3.20 per share.

	Net		Pre-Tax Income		Net	Per Share Common*		
12/31	Sales	Depreciation	Amount	%	Income	Earned	Paid	Range
1953	$111,365	$ 2,911	$12,400	11.1%	$5,424	$2.00	$0.75	15 - 11
1954	111,822	3,301	12,063	10.8	5,813	2.15	0.86	29 - 14
1955	150,526	3,816	22,243	14.8	10,643	3.00	1.00	36 - 27
1956	168,332	3,965	28,135	16.7	13,385	3.65	1.32	42 - 32
1957	192,806	6,171	23,830	12.3	11,930	2.94	1.60	40 - 33
1958	256,244	8,776	21,641	8.4	10,691	2.30	1.63	48 - 33
1959	323,631	11,081	28,611	8.9	13,511	2.66	1.70	51 - 41
1960	338,788	12,451	28,026	8.3	13,746	2.58	1.70	48 - 31
1961	405,504	13,627	23,289	5.7	12,289	2.21	1.70	50 - 36
1962	435,116	13,271	26,899	6.2	14,049	2.51	1.70	48 - 33

* Adjusted for 100% stock dividend in 1956 and 2 1/2% in 1953, 1954, 1955, 1956, and 1957.

	Cash	Receivables	Inventories	Total Current Assets	Current Liabilities	Net Current Assets
1958	$14,011	$27,775	$30,731	$ 74,046	$28,268	$53,777
1959	16,718	32,279	34,267	85,058	34,937	54,121
1960	17,986	33,288	35,731	87,475	32,739	54,736
1961	17,115	42,696	46,430	108,243	39,539	68,704
1962	13,509	43,606	49,343	108,634	37,520	71,114

	Property Account					
	Gross	Net	Invest.	Debt	Preferred Stock	Common Equity
1958	$185,563	$117,226	$13,473	$45,000	5,048	132,647
1959	221,912	138,120	14,080	47,000	4,793	152,272
1960	243,726	145,438	14,531	47,000	4,559	167,224
1961	266,366	153,200	26,641	72,000	4,426	169,249
1962	283,677	158,327	48,270	72,000	4,340	194,253

WEST VIRGINIA PULP & PAPER COMPANY:

		Earnings Per Share					
Price	1963 Range	1961	1962	1963(E)	1963(E) PER	Dividend	Yield
40	43 - 30	$1.55	$1.83	$1.95	20.5X	$1.20	3.0%

West Virginia Pulp & Paper Company is one of the largest diversified producers of bleached and unbleached paper and paperboard and is a major manufacturer of converted packaging products. The Company is one of the major domestic manufacturers of white printing papers.

The Company owns 50% of Clupak, Inc., a joint venture with Cluett, Peabody which was formed in 1958. Clupak has developed a process for manufacture of stretchable paper, which it has licensed to 40 companies. Clupak papers have enjoyed good market reception, particularly for use in multiwall bags. Revenues of Clupak, Inc. are believed to have grown to over $1 million a year and more than cover research, promotion and administrative costs. However, dividends to the parent companies are several years away.

West Virginia is highly leveraged even for a company in a leveraged industry because of substantial debt service requirements, the unusual expense of a salaried direct sales force (most companies sell through merchants on commissions), and because very large depreciation accruals have the same effect as heavy fixed charges. It is estimated that at present sales and expense levels, a 1% improvement in pretax margins would increase net earnings per share about 18%.

It is expected that West Virginia's net earnings could increase about 39% to $2.70 per share in 1964.

Oct. 31	Net Sales	Pre-Tax Income (000)	Pre-Tax Income % of Sales	Net Income (000)	Per Common Share Earned	Per Common Share Paid	Per Common Share Range Calendar Year
1953	$161,528	$26,480	16.4%	$14,030	$2.77	$1.00	26 - 17
1954	164,843	25,096	15.2	13,096	2.57	1.40	41 - 23
1955	176,237	30,724	17.4	15,724	3.08	1.40	49 - 35
1956	187,621	31,731	16.9	16,331	3.19	1.55	63 - 43
1957	191,261	22,610	11.8	11,968	2.31	1.60	48 - 32
1958	208,109	18,425	8.9	9,575	1.78	1.50	51 - 31
1959	233,123	22,477	9.6	11,777	2.21	1.20	61 - 42
1960	250,282	20,667	8.3	11,017	2.07	1.20	57 - 30
1961	251,643	15,270	6.1	8,330	1.55	1.20	45 - 33
1962	276,605	18,131	6.6	9,771	1.83	1.20	46 - 26

10-31	Cash	Receiv. Prepaid	Inventories	Total Current Assets	Current Liabilities	Net Working Capital
1958	$45,634	$11,940	$22,430	$80,004	$15,805	$64,199
1959	60,249	13,638	23,371	97,258	21,996	75,262
1960	32,538	14,895	28,724	77,506	20,494	57,012
1961	31,061	16,085	28,826	77,324	21,008	56,316
1962	32,572	16,739	29,389	79,960	20,914	59,046

	Property Account Gross	Property Account Net	Debt	Preferred	Common	Book Value
1958	$271,102	$146,525	$58,187	9,481	154,318	$30.05
1959	290,893	153,023	57,121	8,951	171,440	33.36
1960	321,467	169,169	66,042	7,732	176,105	34.22
1961	338,862	170,941	65,000	7,732	177,944	34.57
1962	356,334	171,837	62,200	7,503	181,349	35.19

JMF/hm

John W. Bristol & Co., Inc.

JOHN W. BRISTOL & CO.
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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

September 26, 1963

INSTITUTE FOR ADVANCED STUDY

OLIN MATHIESON CHEMICAL CORPORATION
Common Stock

Holding	Cost	Market	Income
7,000 shs	$311,674	$301,000	$7,000

Olin Mathieson Corporation is the outgrowth of a series of mergers and acquisitions consummated between 1952 and 1958, which combined into a single corporate entity the businesses and operations of Olin Industries, Frost Lumber Industries, Mathieson Chemical Corporation, E.R. Squibb & Sons, Blockson Chemical Co., Brown Paper Mill Co., and Southern Electrical Corporation. Based on actual sales of the constituent companies in the year prior to consolidation, combined pro-forma billings of Olin Mathieson in 1956 approximated $550 million. The record of the Company since then is contained in the following Income Account Synopsis. Since the Institute purchased Olin Mathieson's common stock, it declined sharply to a low of $26 in 1962. In line with the general rise in the market and the improved economic conditions since last October, the stock has increased about 62%, or significantly more than the general market, to its present price of about $42 per share.

Sale of this common stock holding is now recommended because of the following factors:

1) As the appended statistics indicate, the Company's record has been most disappointing.

2) The Company's return on invested capital has declined consistently since 1959 from approximately 10% net to about 6%.

3) The metals division, which accounts for about 18% of sales, is one of the leading fabricators of brass. The earnings outlook for brass does not appear favorable and a very large capital expenditures program to modernize the Company's antiquated brass facilities will be needed over the near term.

4) The combined businesses of Olin Mathieson are very cyclical. This equity does not contain any favorable long term, non-cyclical growth characteristics which are generally desirable in a long term investment. Certain aspects of Olin's business appear favorably situated over the near term. An example of this is packaging, but since it accounts for only 18% of sales, the exposure to the cyclical recovery of paper prices is relatively insignificant.

5) Olin Mathieson's management has had a difficult time in consolidating the various businesses merged together between 1952 and 1958. Major managerial decisions since then have been costly. Two examples are the expansion of aluminum facilities during a time when large overcapacity existed in that industry, and the investment of $73 million in Fria, a bauxite mine in Guinea, West Africa. This bauxite mine has been plagued by consistent political difficulties in Guinea and production from this mine does not appear imminent.

6) Olin's financial flexibility is greatly limited because of the consistent flow of funds required to maintain and improve its plants and to expand or modernize these facilities at the rate required to insure preservation of competitive market positions. The existing product line is so broad that a concerted expansion program in any single area may well deprive another area of sufficient funds to support aggressive participation in its respective markets.

7) Potential conversion of Olin's convertible debentures will result in 2,000,000 new shares. An additional 854,000 shares are available for issue under the Company's stock option plan. Conversion of the debentures and exercise of the Company's options will increase the number of common shares outstanding by approximately 22%.

8) Funds for additional major projects may well be restricted by the Company's large debt ratio which is 44% of total capitalization.

We believe the proceeds from the sale of Olin Mathieson's common stock can be better utilized.

JMF:lp

John W. Bristol & Co., Inc.

Olin Mathieson Chemical Corporation
Common Stock (continued)

INCOME ACCOUNT SYNOPSIS

	Sales (000,000)	Pre-Tax Margin	Per Common Share Earns.	Div.	Range
1957	$597	12.2%	$2.94	$2.00	62 - 38
1958	599	3.6	0.91	1.50	45 - 32
1959	687	10.5	2.92	1.00	58 - 42
1960	668	9.4	2.86	1.00	58 - 42
1961	701	8.5	2.47	1.00	52 - 39
1962	730	8.5	2.63	1.00	41 - 26

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September 18, 1963

CURTIS MATHES MANUFACTURING CO.

Curtis Mathes common stock is recommended because it appears that this closely held and little known firm has exceptional potential growth and investor recognition ahead of it. The stock could provide a highly profitable (although obviously speculative) vehicle for participating in the rapid growth of the color TV market. Management has built up an impressive momentum in home entertainment products in a short time and appears to be a real "moneymaker".

A statistical comparison of Curtis Mathes with the leading home entertainment companies follows:

	Present Price	Estimated 1963 Earnings Per Share	P/E
Curtis Mathes*	18	$1.75 - $2.00	10.3X - 9.0X
Magnavox	42	2.00	21.0X
RCA	73	3.25	22.5X
Zenith	64	2.40	26.7X

* Fiscal year ends 5/31 and earnings estimate is for fiscal 1964.

CURRENT STATISTICAL DATA

	Earnings Per Share				1964	
Price	E. 1964	1963	1962	1961	P/E	Dividend
18	$1.75 - $2.00	$1.29	$1.15	$ .46	10.3X - 9.0X	None

CAPITALIZATION

	Book	Market
Long Term Debt	$ 617,466	N.A.
Capital Stock & Surplus (2,174,240 shares outstanding)	9,559,017	$40,300,000

OPERATING RECORD

Year Ended	Net Sales (000)	Pretax Income (000)	Margin	Net Income (000)	Earnings Per Share
11/30/58	$ 3,796	$ (743)	-	$ (743)	$(.34)
11/30/59	7,371	134	1.8%	134	.06
11/30/60	8,763	1,019	11.6	1,019	.47
5/31/61 (6 mos.)	7,516	1,002	13.3	1,002	.46
5/31/62	29,054	4,996	15.6	2,512	1.15
5/31/63	35,788	5,794	16.2	2,800	1.29

THE COMPANY

Curtis Mathes Co., a manufacturer of TV-sets, stereophonic, and other home entertainment equipment, was founded in 1957 by Curtis Mathes and his two sons. Curtis Mathes has a long record of success in the consumer products area, starting out in auto parts in 1919 and becoming a Philco dealer in the 1930's. The Mathes Company was incorporated in 1946 with a capitalization of $20,000 and Mathes gave up the Philco franchise. The Company made water coolers, air conditioners, and other products, and was sold to Glen Alden for a price which ultimately yielded $11 million in 1957. The Mathes group acquired a near-bankrupt furniture company in 1958 and introduced its first line of TV-sets in January 1959.

The Company operates under unique policies in regards to manufacturing and distribution. With the exception of RCA, no other TV company makes as high a percentage of its own parts as does Curtis Mathes - 64% of the dollar value of product. Checks indicate the TV-sets and other equipment are comparable in quality with those of Zenith.

Curtis Mathes sells only to franchised independent dealers and "associates" who sign an agreement to buy at least a truck or carload of merchandise each month (alone or in cooperation with other associates) on a strictly cash basis. Each associate must keep a full display of Curtis Mathes' products as well as an adequate inventory and generally promote the Curtis Mathes' line. The benefit for the dealer is a very high quality product selling at 20% - 25% or more below the price of comparable products and still providing a good profit to the dealer.

Thus far the Company has around 2200 dealers located mostly in the non-metropolitan areas of the country. Currently distribution is being extended into the Northeast, and dealerships will be established in the metropolitan areas. However, Mathes does not intend to go into any of the discount houses. Management estimates the company now has about 50% geographical coverage of the home entertainment market with its present dealer organization.

In 1963 earnings were disappointing to most shareholders because everyone expected \$1.75 - \$2.00 per share. The major depressing factor on 1963 earnings was the Company's entry into the color TV market with its own sets using RCA tubes. A production line for color TV-sets is now in full swing and management is quite optimistic here. Also for the first time, the Company has entered the portable TV-set market, having concentrated its efforts in the higher priced end heretofore.

The stock, traded Over-the-Counter with an estimated floating supply of about 600,000 shares, reached a high of around 27 in 1962 and sold at 23 1/2 in the spring of 1963. Upon release of 1963 earnings the stock traded down to 17 1/2 and is now quoted at 18 bid. Recently, a 100% stock dividend was declared which is reflected in all figures in this memo.

Management, which owns or controls around two-thirds of the common stock, has not been very receptive to Wall Street analysts. However, indications are that the Company could have sales ranging from \$50 - \$60 million in fiscal 1964, with earnings per share of \$1.75 - \$2.00. Margins may decline slightly because of continuing introductory costs of color TV and the addition of the low margin portable TV line. However, the sharp rise in volume should allow the Company to attain the earnings estimate.

Eventually management plans a secondary offering of some of its shares followed at an appropriate time with a listing on the New York Stock Exchange. We believe both of these actions will take place within the next two years.

FJH/hm John W. Bristol & Co., Inc.

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

September 10, 1963

INSTITUTE FOR ADVANCED STUDY

NIPPON EXPRESS

Progress Report

Since the recent memo on this Company it has been named official forwarder for the 1964 Olympics which will take place in Tokyo. Management naturally considers this an honor and is aggressively advertising this designation.

Due to the recession of 1962 and the unusually severe Winter tonnage volume declined about 5% for the six month period ending March 31, 1963. Sales and earnings, however, increased about 5% and 15% respectively during this period due to the following factors:

1. greater warehouse space and resulting business
2. internal economies
3. a railway freight handling rate increase
4. an extra charge (permitted by the Ministry of Transportation) for trucking in congested areas, namely Tokyo and Osaka.

Management receives tonnage shipment statistics for the previous month on the seventh day of each month. This is the result of a new computer system, and affords better control over equipment movements and personnel. These statistics indicate a continued uptrend in the Japanese economy since March, 1963.

The Company has 104 unconsolidated subsidiaries many of which were started during the past five years. These subsidiaries, in total, have operated at a deficit but have total revenues of about $200 million per year. Management expects a pretax profit (for the first time) in excess of $100,000 for the six month period ending September 30, 1963. These operating results are unconsolidated and only dividends remitted by some of the profitable companies are included in Nippon Express' "other income" account. These dividends, now small, are expected to grow rapidly.

Since Nippon Express possessed about the best vehicular maintenance network in Japan it set up automobile sales subsidiaries. Today the Company's unconsolidated auto sales subsidiaries account for about 10% of the autos and trucks sold annually in Japan and are sole agent for Chevrolet in Japan.

The Company is optimistic about the future and budgets sales and earnings to increase about 8% in the September, 1963 six month period, and about 10% in the March, 1964 period. This budget includes no rate changes, but management is presently negotiating for a general trucking rate increase.

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September 3, 1963

THE NATIONAL CASH REGISTER COMPANY
Common Stock

National Cash Register common stock is recommended because of a possible substantial appreciation within four years and a relatively small downside risk.

National Cash, the world wide leader in the manufacturing and distribution of cash registers and accounting machines (ex tabulating machines), appears to be well on the way towards developing a successful Electronic Data Processing (EDP) business after a relatively poor start.

It is well recognized that only IBM and Control Data currently have profitable EDP operation and several large companies including Sperry Rand, RCA, GE, Honeywell, and Burroughs have yet to break into the black. However, NCR possesses several inherent advantages over the latter group of companies which over the long term should greatly enhance its chances for success in this highly competitive industry. These advantages are:

1.) A large population of data processing machines of various types in the hands of satisfied customers most of whom will eventually become EDP customers. NCR has 85-90% of the domestic cash register market and over 50% of the accounting machine (ex punched card tabulators) market. The company is particularly strong in commercial banks, savings banks, retail trade, and food chains.

2.) A large world wide sales and service organization generally considered second only to IBM in the industry.

3.) An excellent top management group headed by Robert S. Celman (53), Chairman and President, and R. Stanley Laing (43), Executive Vice President, and Robert G. Chollar (48), Vice President of Research and Development, concentrating solely on the data processing industry.

Consolidated earnings per share, currently under pressure from losses in EDP and exchange losses in overseas subsidiaries, should improve modestly in 1964, and thereafter increase to around $6.00 per share by 1966-67. Cash earnings per share, estimated at $7.50 in 1963 ($6.59 per share in 1962), should reach $13.00 per share by 1966-67.

An $80 million debenture and common stock financing in March of 1962 should provide the Company with adequate capital for the forseeable future. Management does not believe equity financing will be required over the next 5 years but some debt may be added.

At current prices NCR stock sells at 25 times estimated 1963 consolidated earnings of $2.80 per share, 22.5 times average earnings per share of $3.12 over the past four years and 11.6 times estimated annual earnings per share for the 1966-67 period. (No contribution is included in the above estimates from decimalization within the United Kingdom, expected to occur within 2 to 3 years, which could add substantially to NCR's earnings during the period of change-over).

Another approach to evaluating the earning power of NCR is to assume machines going out on rental in 1963 are sold outright. The $29.5 million invested in rentals should produce around $75 million in sales (assuming 40% of sales value is capitalized) and about $ .90 per share in earnings on a 10% after tax margin instead of a $1.65 per share loss. Total indicated earning power amounts to $5.35 per share after adjusting estimate consolidated earnings of $2.80 per share for the full effect of selling vs. leasing machines.

FJH:lh
9-3-63

John W. Bristol & Co., Inc.

THE NATIONAL CASH REGISTER COMPANY

Common Stock

Price 8/21/63	1963 Price Range	Consolidated Earnings Per Share 1960	1961	1962	E. 1963	P/E Ratio	Dividend	Yield
70	82 1/8 - 65	$3.00	$3.77	$2.81	$2.80	25.0X	$1.20	1.7%

CAPITALIZATION:

	Book Value 12/31/62	Market Value 8/21/63
	($ Million)	
Long Term Debt	$125.7	$128.1
Common Stock & Surplus (8,298,707 shares outstanding)	234.2	582.1
	$359.9	$710.2

OPERATING RECORD: (000)

Year Ended Dec. 31	Net Sales	Pretax Margin	Net Income Reported	Net Income Consolidated	Per Share Data Earnings Rpt.	Consol.	Div.	Price Range	Mean P/E Ratio
1955	$301,180	13.3%	$15,388	$18,201	$2.11	$2.50	$0.98	43-30	15
1956	340,934	14.0	18,420	21,322	2.50	2.89	1.00	56-32	15
1957	382,512	12.5	18,190	22,601	2.45	3.05	1.14	68-44	18
1958	393,746	10.6	15,512	16,584	2.09	2.24	1.14	82-48	29
1959	419,064	10.7	19,076	22,004	2.40	2.77	1.14	76-52	23
1960	457,822	11.2	20,024	23,858	2.52	3.00	1.19	71-50	20
1961	518,884	12.3	21,709	30,098	2.72	3.77	1.20	143-62	27
1962	564,021	9.8	20,645	23,293	2.49	2.82	1.20	133-67	25

SALES & EARNINGS:

The geographical breakdown for revenues and earnings for 1961-62 apprears below.

	1962	1961
Revenues (Million):		
Domestic	$320	$287
Foreign	244	232
Total Revenues	$564	$519
Earnings Per Share:		
Remitted Foreign	$1.06	$1.25
Indicated Domestic	1.43	1.47
Reported	2.49	2.72
Unremitted Foreign	.32	1.05
Consolidated	$2.81	$3.77

Foreign earnings were down sharply in 1962 from 1961 mainly because of exchange losses ($ .35 per share) in Canada and Latin America and because 1961 foreign earnings were inflated by decimalization in South Africa ($ .30 per share). Domestic earnings declined because of high R & D outlays in relation to sales and losses sustained in the computer operation.

BUSINESS:

A sales breakdown by product for the years 1957-1962 follows: ($ Millions).

Year	Cash Registers		Accounting Machines		Adding Machines		EDP System		Service & Maint.		Supplies & Misc.		Defense Products		Total Revenues
1962	------------	------------	$402.6	71.4%	------------	------------	------------	------------	$85.2	15.8%	$72.2	12.8%	$ 4.0	0.7%	$564.0
1961	$165.7	31.9%	$180.0	34.7%	$16.3	3.2%	$5.3	1.0%	82.0	15.8%	62.9	12.1%	6.7	1.3%	518.9
1960	145.2	31.7%	156.0	34.1%	15.0	3.3%	6.5	1.4%	69.8	15.2%	54.6	11.9%	10.8	2.4%	457.8
1959	140.2	33.4%	144.1	34.4%	12.4	3.0%	6.4	1.5%	60.8	14.5%	47.2	11.3%	8.0	1.9%	419.1
1958	124.8	31.7%	141.2	35.9%	12.5	3.2%	2.9	0.7%	53.4	13.5%	39.6	10.0%	19.5	5.0%	393.7
1957	123.0	32.1%	137.4	35.9%	14.0	3.6%	.8	0.2%	47.9	12.5%	33.7	8.8%	26.2	6.9%	382.5

NCR has an estimated 85% of the domestic cash register market. Sweda, a subsidiary of Litton, provides the major competition.

Immediately after World War II, NCR entered the accounting machine field and since has built up the dominant position here, mostly at the expense of Burroughs. In 1962 IBM entered the key driven accounting machine market for the first time. However, National is quite firmly entrenched in this market and should be able to maintain its position to a large degree.

Management, since the middle 50's, has placed special emphasis on widening into supplies other than those used in NCR machines. Sales of NCR (No Carbon Required) paper, introduced in 1954, have grown to an estimated $28 million in 1962. The Company introduced a heat sensitive copy paper for use in Thermo-Fax machines in 1962 and other new products will follow.

As a matter of policy, NCR has not attempted to develop a large defense business.

EDP will be discussed subsequently.

The Company has an excellent reputation for sales and service. In the U.S. approximately 11,000 people handle sales and service in over 460 branch offices. Abroad, 640 sales and service offices are located in 120 different countries. NCR has drawn on its regular sales and service people to set up a separate group for handling EDP.

ELECTRONIC DATA PROCESSING:

After a rather poor beginning in EDP, National Cash has obtained a rather impressive momentum. In 1951, management acquired Computer Associates of Hawthorne, California, which had developed a general purpose electronic computer, in hopes that this group and its hardware would form the basis for NCR's answer to the IBM and Remington Rand in this area. Computer Associates proved a major disappointment. The first computer offered to the general customer list in 1957, the NCR 304, was not imminently successful and only 30 of this large size computer have been delivered.

The new management team began to take control in 1957 when Oelman became President (Chairman, as well, in 1962) and the table below illustrates the impressive program made in EDP since that time. With the exception of the NCR 304, the computer systems listed below have been introduced within the past 2 years.

EDP System	Typical Selling Price	Typical Monthly Rental	as of 1/1/63* Installed	as of 1/1/63* On Order	Approx. Sales Value of Installed and On Order (Million)
NCR 304	$850,000	$14,000	30	0	$ 26
NCR 315	500,000	6,000-8,500	46	150	98
NCR 390	75,000	1,850	295	106	30
NCR 310	66,500-99500	1,620-2,450	30	21	4
			401	277	$158

* Source: John Diebold, Inc. and generally confirmed by management.

Most of the EDP systems installed are on a rental basis. The rental revenues should increase from $15 million in 1962 to around $30 million in 1963. (The EDP rental figures include some revenue generated from other equipment since around 20% of other equipment delivered is now going out on a lease basis).

High EDP expenses and a rapid depreciation rate (4 year double declining balance) combine to produce a substantial loss in this area for NCR. Sources close to the Company say this loss totalled $1.65 per share in 1962. Management does not expect to break even in this operation before 1965.

RESEARCH AND DEVELOPMENT:

R & D expenditures have risen from $7.7 million or 2.5% of sales in 1955 to $19.5 million or 3.5% of sales in 1962.

More than one-half of the total outlay is now devoted to EDP and related areas. The Company has developed several valuable proprietary items for its EDP systems and has long range plans for gradually improving equipment in the field via modifications already in house.

Several unique developments pioneered by National could result in substantial sales and earnings over the long run. No Carbon Required Paper has already been mentioned. A natural outgrowth of the encapsulation process used in NCR paper is the packaging of various materials such as foods, cosmetics, odors, explosives, etc. in tiny capsules and the subsequent controlled release by heat, pressure or dissolving of the capsule wall.

Studies in photochromics (reversible light-sensitive dies) hopefully will culminate in entirely new and versatile display systems, computer memories, document storage and information retrieval, and microform publishing. Prototypes of such equipment have already been produced.

FINANCE:

As a result of the $80 million debenture and common stock financing in March 1962, the Company should not require any new equity financing for at least 4 to 5 years. Debt may be increased if necessary.

The table that follows illustrates the heavy capital outlays resulting from the accelerated EDP program and the rapid buildup in depreciation.

	Consolidated (Million)			
	1960	1961	1962	Est. 1963
Capital Addition				
Property Account	$28.4	$34.1	$35.1	$31.0
Rental Equipment	7.0	13.3	26.0	29.5
Total	$35.4	$47.4	$61.1	$60.5
Depreciation				
Property Account	$19.0	$22.8	$24.8	$26.0
Rental Equipment	1.9	4.0	6.5	12.5
Total	$20.9	$26.8	$31.3	$38.5

The apparent leveling of capital additions to rental equipment in 1963 is deceiving. In 1962 approximately $5 million of the $26 million invested in rental equipment went into work in process and funds invested here will increase only slightly in 1963.

No increase in the $1.20 dividend can be expected for sometime.

OUTLOOK:

Sales for 1963 are expected to increase 5 or 6% to $590 - 600 million with consolidated earnings per share amounting to $2.80 -- about the same as 1962 ($2.81 per share). Reported earnings are apt to total $2.30 - 2.45 in 1963 vs. $2.49 in 1962 but unremitted foreign earnings should bring consolidated results in line with 1962.

Results for the 6 months ending June 30 appear below:

	(Million)	
	1963	1962
Net Sales	$270.5	$259.1
Reported Net Income	7.7	8.6
Reported EPS *	$ .93	$1.07
Unremitted EPS	.34	.30
Consolidated EPS	1.27	1.30

* Includes $ .58 per share of remitted foreign earnings in 1963 and $ .57 per share in 1962.

Heavy losses in the EDP operation from the fast writeoffs of rental equipment and training and installation costs are depressing earnings. Reliable sources estimate these losses at around $1.65 per share currently, and 1964 results will also be affected to about the same extent as 1963. Losses will decline in 1965 and in 1966 and 1967, earnings should benefit substantially from the favorable trend in the EDP operations.

National's earnings per share are estimated at around $6.00 per share by 1966 or 1967 on sales of $835 million. These projections assume an 8% annual growth of sales in the basic business (for the period 1955-62 total revenues grew at 9.5% per year; domestic sales, at 8% and foreign sales, at 12.8%) and 1,500 computers installed by January 1, 1967. Total revenues from EDP sales, rentals and service could amount to around $75 million based on 1,500 computers installed. Sales in basic lines of business would account for the remaining $760 million. Assuming a 12% pretax margin on the regular business and 20% pretax on the EDP, earnings per share would total $6.40 on the 8.3 million shares now outstanding. The overall pretax margin would be 12.7%.

Management, although refusing to provide specific projections on sales, is forecasting an overall margins improvement to at least 15% by the 1966-67 period. Also NCR expects a better growth in EDP than outlined above. Using industry projection of a population of 18,000 computers by 1965 (about 12,000 installed now), NCR would have less than 8% of the market if the above objectives are met.

It should be kept in mind that higher than expected rate of delivery of EDP systems several years hence could push earnings further into the future. In order to break even, the average age of all computers outstanding on lease must be between 2 to 3 years. After 4 years, a leased computer yields a normal profit (same profit as if sold outright) and after six years the normal profit is doubled.

FJH:lh
9-3-63

John W. Bristol & Co., Inc.

In - Finance Comm

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JOHN W. BRISTOL
CHARLES W. CALL, JR.
EDMOND COTTY
JOHN M. FELLEMAN

Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

June 3, 1963

INSTITUTE FOR ADVANCED STUDY

TELEVENTS CORPORATION
7% Subordinated Debentures due 8-1-72 with Bonus common stock

Progress Report

CAPITALIZATION:

	Book Value March 31, 1963 (000)	(%)
Long Term Debt	$7,436	76.2%
Common & Surplus	2,311	23.8
(1,000,000 shs.)	$9,747	100.0%

Note: No public market for either debt or common stock.

RECENT OPERATING STATISTICS:

Month	# of Subscribers End of Month	Total Income	Controllable Expenses	Non-Controllable Expenses	Net Before Taxes Depr. & Int.	Deprec. & Amort.	Interest	Net Income (Def.)	Cash Earnings
1962									
Aug.	43,465	$194,343	$55,919	$30,810	$107,614	$60,501	$43,112	$16,489	$76,990
Sept.	44,346	202,465	73,766	31,649	97,050	59,501	43,141	(15,684)	43,817
Oct.	45,273	204,255	66,332	34,686	103,237	96,571	43,141	(57,454)	43,449
Nov.	45,665	206,820	70,050	35,731	101,040	96,571	43,141	(53,122)	43,449
Dec.	46,198	207,270	70,977	42,162	94,131	96,591	43,090	(71,671)	24,920
1963									
Jan.	46,653	208,925	70,080	53,743	85,102	96,571	44,775	(60,842)	35,729
Feb.	46,694	207,600	61,032	50,311	96,258	96,571	41,771	(54,730)	41,841
Mar.	46,787	206,197	54,927	51,254	100,016	96,107	41,868	(48,544)	47,563
Apr.	46,734	205,323	55,758	46,716	102,849	96,107	41,745	(46,671)	49,436

COMMENT:

In June, 1962 the Committee approved the purchase of Televents Subordinated Debentures with bonus common stock. Since August 1, 1962 the Company has been operating the eleven community antenna television systems that it acquired with the funds raised last Summer from institutional investors and the Chase Manhattan Bank.

The Company's operating results since August, 1962 are set forth above. These results indicate progress despite the fact that no rate increases have been effected yet, and no new systems have been acquired. The number of subscribers has increased about 7 1/2% from 43,465 in August, 1962 to 46,734 at the end of April, 1963. It is expected that the number of subscribers will show little or no growth until the Fall of 1963 since some subscribers disconnect for Summer vacations.

Operating profits are averaging about 50% of total income as was expected prior to the financing of these systems. Televents is depreciating its assets over a period of 7.8 years and these charges have exceeded $800,000 since the Corporation commenced business in August, 1962. By using rapid depreciation and amortization schedules the Company is deferring income taxes and net income until the plant is substantially written off.

In January of this year management began to compare monthly figures with a budget that it compiled in the latter part of 1962. Expenses were divided into two main sections. The first, controllable expenses, includes salaries, maintenance, advertising, supplies and related charges. The second category, non-controllable expenses, includes rental of poles and tower sites, power, microwave service charges, auditing and legal, taxes, and insurance. Total expenses have been reduced from about $123,000 a month in January to about $103,000 a month in April as a result of management's cost-cutting efforts. It is expected that expenses will decline to about $98,000 a month for the Summer, and average about $102,000 a month in the Fall and Winter of 1963.

Televents' capital expenditures have totaled about $206,000 since August 1, 1962 and should exceed $230,000 for the fiscal year ended July 31, 1963. The bulk of these expenditures are considered normal for proper upkeep of the systems. However, the addition of microwave equipment at Coos Bay, Oregon should permit clearer reception of a greater number of stations and will allow the Company a rate increase in that area. A rate increase of $0.50 per month in Pottsville, Pennsylvania will go into effect in September of this year since the Company has increased reception facilities so that a greater number of channels will be available to the 6,000 viewers in that area.

The Company's long term debt has been reduced by $375,000 since August, and cash flow has increased every month since December, 1962. Televents' operations are on schedule, and we continue to be impressed by this cost-conscious management.

JMF:lh
6-3-63

John W. Bristol & Co., Inc.

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

June 3, 1963

INSTITUTE FOR ADVANCED STUDY

UNITED ARTISTS CORPORATION

Progress Report

HOLDINGS:

	Book Cost	Market Value	Income
6% Subordinated Notes due 2-1-76	$245,000	$245,000	$15,000
5,000 Warrants Exercisable at $37.50 expiring 2-23-67	$ 5,000	$ 5,000	

CAPITALIZATION:

	Book Value December 29, 1962		Market Value May 24, 1963	
	(000)	(%)	(000)	(%)
Long Term Debt	$58,132	58.9%	$ 58,132	53.5%
Common & Surplus (1,741,473 shares)	40,710	41.1	50,600	46.5
	$98,842	100.0%	$108,732	100.0%

Note: Warrants outstanding evidence right to purchase 200,000 shares of common stock at $37.50 per share. In addition, 75,000 shares are reserved for possible issuance to noteholders at $33.33 per share.

RECENT OPERATING STATISTICS:

	GROSS INCOME ($000)		NET PER SHARE	
	1962	1961	1962	1961
1st Quarter	$ 32,138	$ 27,059	$0.53	$0.51
2nd Quarter	30,048	30,991	0.62	0.59
3rd Quarter	29,643	27,488	0.63	0.65
4th Quarter	34,981	27,461	0.41	0.59
YEAR	$126,810	$112,999	$2.19	$2.34

COMMENT:

Since the present management acquired United Artists (UA) in 1951 from Charles Chaplin and Mary Pickford the Company's operations have been almost completely changed so that UA is now basically a financing and distributing agent for independent producers of motion pictures. It owns no studios, has no stars under contract and is not directly involved in the actual making of pictures.

As the above statistics indicate the Company's revenues increased about 12% in 1962 but net earnings per common share declined 6% from $2.34 to $2.19. These earnings were definitely disappointing and management attributes them to the following factors:

(1) During the fourth quarter the Company's accountants, Peat, Marwick, Mitchell & Co., increased amortization of old pictures by about $1.1 million. This was a non-recurring increase.

(2) The United Artists Television Division (formerly Ziv) operated at about an $800,000 deficit in 1962.

(3) Gross revenues of certain movies were substantially below budget. Particularly disappointing films included: "Taras Bulba", "Judgment at Nuremberg", "Pressure Point", and "A Child Is Waiting".

(4) The Company's tax rate increased from 44.5% in 1961 to about 47.8% in 1962. Management believes an overall tax rate of about 48% will persist in the foreseeable future.

The outlook for United Artists in 1963 appears more promising in the television area, but is not particularly improved in the movie segment of the business. Since 1960 the Company's television subsidiary has been at a disadvantage in the industry because its specialty has been syndication which is the sale of T.V. programs to independent stations. Meanwhile, the independent stations were utilizing more and more network-arranged shows. In the Fall season of 1962 UA had only one hour of network time. However, starting in September, 1963 UA will have at least 4 1/2 hours of network time. Management expects that this substantial increase in network scheduling will permit the T.V. division to operate at less of a deficit in 1963, and at a profit in 1964.

In 1963 the Company will introduce about 24 new movies and a number of them are expected to gross in excess of $6 million. Also, about $15 million of the gross from "West Side Story" is expected to flow into United Artists' 1963 revenues. About the same amount was included in 1962 revenues. Offsetting factors which will probably not permit net earnings to increase in 1963 include: higher interest charges as a result of the $10 million long term financing completed in the second half of 1962; and the absence of movie sales, for use on television, which occurred in the first quarter of 1962.

At this time management is most optimistic about two movies currently being filmed which appear to have gross revenue potentials substantially in excess of any movie being distributed by the Company. The movies are "It's a Mad, Mad, Mad, Mad World" produced and directed by Stanley Kramer, and "The Greatest Story Ever Told", an adaptation of Fulton Oursler's book "Life of Christ", produced and directed by George Stevens. Both of these movies will be shown in the perfected one-panel system of Cinerama and will command higher box-office prices than ordinary movies. The first will be introduced in October, 1963 and the latter in July, 1964.

The Company continues to have an impressive backlog of new movies with 26 to be released in 1964 and at least 21 in 1965. We would expect net earnings per common share to total about $2.00 in 1963, but can visualize significantly improved earnings in 1964 if the Television Division becomes profitable, and if the two above mentioned movies meet management's expectations.

During 1962 United Artists' total interest requirements were covered 3X, and the bonds continue to have adequate interest and asset coverage. The common stock is currently selling at about $29 per share, or 13.2X 1962's earnings, and the $1.60 dividend yields about 5.5%. The exercise price of the warrants is $37.50 or about 30% above the current market price of the common stock.

JMF:lh
6-3-63

John W. Bristol & Co., Inc.

Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

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INSTITUTE FOR ADVANCED STUDY

PHOENIX INSURANCE CO.

CAPITALIZATION:

	Book Value 12-31-62 (*)	Market Value 4-12-63
Common (962,400 shares)	$150,233,000	$120,000,000

(*) - Excludes Company's equity in unearned premiums of about $28,000,000.

COMMENT:

Phoenix Insurance Co. was established in 1854 and is regarded as one of the fine old names in the American Insurance Industry. The Company's premium volume was divided at end of 1962 about as follows: fire, 61.2% and casualty, 38.8%.

The Company's management was strengthened in 1961 through the election of a new President and Chief Executive Officer. Management brought in new casualty division executive and set-up profit campaigns for its agents. The Company's underwriting experience was better in 1962 than in any year since 1953.

Phoenix Insurance Co. certainly qualifies as a possible takeover candidate. Connecticut General's 1961 court victory over the Insurance Department of New York regarding its right to acquire control of a fire-casualty insurer and subsequent acquisition of Aetna Insurance opens the way for a series of such takeovers. New York has now passed legislation permitting such acquisitions by life companies, those domiciled in the state as well as those transacting business there. Connecticut General's exchange-of-stock offer for Aetna represented a premium of about 40% above market and was equal to about 105% of Aetna's net worth.

At its current market price of about $125 Phoenix Insurance sells about 55% less than its estimated March 31, 1963 book value of $195. Phoenix has a high quality portfolio of common stocks. I.B.M., Standard Oil, N.J., First National City Bank, First National Bank of Chicago, and General Electric are the five largest stock holdings.

Phoenix' common stock appears to offer good value at 15x 1962's investment income of $8.27 per share. Investment Income has grown every year since the end of World War II and should increase to at least $8.50 per share in 1963. The possibility of a takeover also offers an opportunity for significant capital appreciation. It should be pointed out, however, that the timing of such a takeover is uncertain.

1. **Per Share Statistics:**

Year	Stat. Underwriting Gain/Loss	Change in Prem. Reserve Equity	Net Investment Income	Taxes	Net Income After Taxes	Dividends Paid	Plow-back	Price Range
1958	$ -8.49	$ - .04	$6.30	$ .02cr.	$ -2.21	$3.00	$ -5.21	88-57
1959	-1.59	-2.73	6.61	.06	2.23	3.00	- .77	85-71
1960	-2.67	-1.09	7.06	.22cr.	3.52	3.00	.52	84-75
1961	-7.29	1.49	7.40	.08	1.52	3.00	-1.48	143-81
1962	-4.56	2.93	8.27	.06	6.58	3.00	3.58	136-82

2. **Financial:** (000)

Year	Total Admitted Assets	Capital	Surplus & Special Reserves (Cash Basis)	Reserve for Losses and Loss Expenses & Other Reserves	Unearned Premiums	Adjusted Book Value (Case Basis) (Liq. Val.)
1958	$249,797	$10,000	$116,666	$42,358	$80,773	$151.34
1959	257,251	10,000	128,269	45,131	73,851	158.38
1960	260,659	10,000	131,180	47,975	71,504	165.85
1961	300,830	10,000	162,711	52,378	75,741	199.52
1962	288,289	10,000	140,233	54,031	84,025	189.76

JMF:lh
4-15-63

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

April 10, 1963

INSTITUTE FOR ADVANCED STUDY

MIDLAND ENTERPRISES, INC.

Progress Report

In November, 1956 the Institute purchased at par a $200,000 participation in a $7,500,000 private placement of 5 1/2% First Preferred Mortgage Bonds due December 1, 1966. Sinking fund payments have reduced the outstanding commitment to $128,000.

The bonds, which are non-callable, constitute a first lien on a group of steel barges and towboats owned and operated by Ohio River Company, a wholly-owned subsidiary of Midland Enterprises. Midland Enterprises, on a consolidated basis, has long term debt outstanding in the amount of $17,480,000 and has a book equity of $7,100,000. Of the total debt outstanding over 65% matures subsequent to 1966.

For the year ended December 31, 1962 interest coverage on a consolidated basis was 5.47 times which compared with coverage of 4.38 times in 1961. In addition depreciation is currently more than twice interest charges so that on a cash basis interest coverage is 7.51 times. Net income plus depreciation in 1962 amounted to more than 1.5 times debt retirements scheduled for 1963.

In August, 1961 Midland Enterprises, Inc. was acquired by Eastern Gas and Fuel Associates for common shares having a market value at that time in excess of $8,000,000. While this does not change the contractual relation between the lenders and Midland Enterprises it does lend credence to our belief that Midland Enterprises is in very sound condition.

CWC:lh

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April 10, 1963

INSTITUTE FOR ADVANCED STUDY

REVIEW OF NATURAL GAS HOLDINGS

Recommendations:

SELL

4,950 shares Atlanta Gas Light, common stock

Book Cost:	$ 49,302
Present Market Value:	$138,000

Atlanta Gas' erratic record of earnings can be traced to the year-to-year winter weather valuations in the Company's territory, which are expressed in degree days - the higher the total of degree days for a heating season, the colder the weather experienced. For the Atlanta area, the average annual degree days are 2,800.

	Per Share Earnings	Degree Days
1956	$1.38	2,883
1957	1.04	2,239
1958	1.28	3,323
1959	1.14	2,795
1960	1.57	3,219
1961	1.42	3,109
1962	1.28	3,039

Due to weather conditions, therefore, Atlanta Gas' earnings have espoused a cyclical pattern rather than sustained growth as is generally the case for public utilities.

It is expected that the Company's earnings for the 12 months as of March 31, 1963 will be up sharply in view of the severe past winter. This is apparently already reflected in the price of the common stock, which is traded at its all time high of 29. In consideration of the unpredictable pattern of the Company's earnings, it is suggested that this opportunity be seized to sell the Institute's small holding.

SELL

2,420 shares Consolidated Natural Gas, common stock

Book Cost:	$ 57,514
Present Market Value:	$140,000

Consolidated Natural Gas' earnings record has been quite disappointing: 1962 results of $3.14 per share were well below the 1957 peak earnings of $3.41 and, except for 1961, were below the earnings reported since 1955.

This situation has resulted from a gradual erosion of the return on net plant from 6.7% in 1957 to the present 5.5%. This is directly attributable to the higher prices paid for gas without compensating rate relief. In order to correct this situation, the Company applied for rate increases in Ohio and Pennsylvania aggregating $35 million which, upon preliminary negotiations, have been reduced to $22 million. A decision is not expected for a number of months, but it is generally anticipated that, when and if approved, the actual rate increase will not exceed $10 million, which would add 50¢ per share to earnings after taxes.

Inasmuch as the price of the stock seems to discount at least to some extent the benefits to be derived from the rate increase, the sale of the Institute's small holding in Consolidated Natural Gas is recommended.

* * *

Consideration could be given to use the proceeds of the sale of the Atlanta Gas Light and Consolidated Natural Gas holdings aggregating $275,000 for the purchase of 8,000 shares Houston Natural Gas, common stock, whose present investment merits are discussed in the enclosed memorandum.

BC/hm
Enc.

John W. Bristol & Co., Inc.

INSTITUTE FOR ADVANCED STUDY

NATURAL GAS COMPANIES

	Present Price	1962/63 Price Range	Net Earnings Per Share 1961	1962	E. 1963	P/E Ratio 1962	Dividend	Yield
Arkansas Louisiana Gas	31	43 - 24	$1.71	$1.73	$1.95-$2.00	17.9X	$1.00	3.2%
Atlanta Gas Light	28	28 - 21	1.42	1.28	$1.30 +	22.0	1.00	3.6
Colorado Interstate Gas	40	50 - 34	2.92	2.95	3.00 +	13.5	1.25	3.1
Consolidated Natural Gas	59	65 - 46	2.85	3.14	3.30	18.8	2.30	3.9
Peoples Gas Light & Coke	49	53 - 37	2.25	2.44	2.50	20.0	1.64	3.3
Pioneer Natural Gas	33	35 - 24	1.25	1.42	1.57	23.2	1.04	3.1
Southern Union Gas	28	30 - 22	1.48	1.53	1.65	17.0	1.00	3.6

Growth Rate

	1957-62	1960-62
Arkansas Louisiana Gas	11.8%	-
Atlanta Gas Light	-	-
Colorado Interstate Gas	8.2	11.4%
Consolidated Natural Gas	-	-
Peoples Gas Light & Coke	10.7	6.4
Pioneer Natural Gas	7.9	14.3
Southern Union Gas	-	10.5

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

April 11, 1963

INSTITUTE FOR ADVANCED STUDY

HOUSTON NATURAL GAS CORPORATION

Common Stock

Recommendation

Purchase of 8,000 shares - Approx. $270,000

Present Price	1962/63 Price Range	Net Earnings Per Share* 1962	E. 1963	Poss. 1964	P/E Ratio E. 1963	Current Dividend	Yield
35	35 - 21	$1.40	$1.60**	$1.90	21.7X	$0.80	2.3%

* Fiscal Year: July 31.
** Fully diluted.

OPERATING RECORD

Fis. Yr. Ended July 31	Degree Days % of Norm.*	Total Revenues (Mills.)	Bal. to Com. (Mills.)	Earnings Per Share	Dividend Per Share
1957	70	$26.7	$1.6	$ .91	$0.48
1958	117	34.4	2.3	1.08	.52
1959	112	36.4	2.1	.92	.52
1960	130	47.5	3.5	1.47	.52
1961	105	47.6	3.4	1.26	.64
1962	78	49.0	3.7	1.40	.64

* Based on average of 1,276 degree days for 1922-1950 as published by the U. S. Weather Bureau. The higher the total of degree days for a heating season, the colder the weather experienced.

All figures adjusted for 5-for-4 split in March 1963.

BACKGROUND

Houston Natural Gas Company and its subsidiaries comprise an integrated natural gas company engaged in all phases of the natural gas business. Distribution operations are carried on by the parent company in more than 100 Texas Gulf Coast cities. The load center is in Houston and surrounding areas, a territory which the Company has shared with United Gas Corporation for a number of years. Houston Pipe Line Company, a wholly-owned subsidiary purchased in 1956, operates a pipeline system extending from the Louisiana border to Corpus Christi, and thus has access to nearly all of the rapidly growing industrial areas along the Texas Coast. Houston Natural Gas Production Company is engaged in a modest way in oil and gas production and has recently acquired an interest in a small plant that will extract liquid hydrocarbons from natural gas. This subsidiary's principal production properties were acquired from McCarthy Oil & Gas Corporation in 1957 under a reserved oil and gas production payment that is expected to be completed in 1964. Of consolidated operating revenues of about $49 million for fiscal 1962, roughly 50% are obtained from the non-regulated sale of gas to industrial customers, 43% from regulated sales of gas to residential and small commercial customers, 6% from the transportation of gas, sale of oil and condensate.

* * *

The following developments enhance the outlook for Houston Natural Gas' revenues and earnings which, assuming normal weather conditions, could reach $2.20 per share in 1965:

a) Rate Increases

The Company was granted in 1962 various rate increases totaling about $2.5 million on an annual basis, including $1.2 million in Houston. An estimated 46% of higher rates, or about 40¢ per common share, should carry down to after tax earnings and be reflected as follows on a fiscal year basis: 7¢ in 1962, 24¢ in 1963, and 9¢ in 1964.

b) Impact of Weather Conditions

An important feature of the new rate schedule is an increase in the minimum billing charge which should lessen the effect of weather on future earnings.

c) Conversion of Preferred Stocks

In 1956 the Company issued 100,000 preferred shares convertible into 725,000 common shares (adjusted for subsequent splits and stock dividends). As shown in the above table, the issuance of approximately 575,000 shares in exchange for such preferreds has slowed down since 1957 the growth in per share earnings. At the end of the first quarter ended October 31, 1962, an additional 62,000 shares had been issued, leaving a maximum of 90,000 shares to be created in exchange for the balance of preferreds. This represents only 4% of the shares now outstanding. Potential dilution of per share earnings will be nominal from now on.

d) McCarthy Oil & Gas Corporation

In 1957 the Company acquired the production properties of McCarthy Oil & Gas Corporation under a reserved oil and gas production payment. This is expected to be liquidated early in 1964, after which these properties may contribute an estimated 12¢ - 16¢ to per share earnings on an annual basis.

e) The NASA Manned Spacecraft Center

The Company was awarded the contract to supply the full gas requirements of the NASA Manned Spacecraft Center to be completed in 1964 near Houston. The impact of this Center on the Houston area can be measured by the following projections stated by President Kennedy in a speech at Rice University in September 1962: "During the next five years, the National Aeronautics and Space Administration expects to double the number of scientists and engineers in this area - to increase its outlays for salaries and expenses to $60 Million a year - to invest some $200 Million here in plant and laboratory facilities - and to direct or contract for new space efforts at the rate of $1 Billion a year from this space center alone!"

It is predicted that as many as 6,000 different business firms will be required to serve the widely diversified needs of the NASA project within the next decade.

All the above factors point to an acceleration in the growth of Houston Natural Gas' per share earnings which, under normal weather conditions, could reach $1.90 in 1964 and possibly $2.20 in 1965.

Although the stock is currently traded at its all time high, the improved prospects justify fully the purchase of that stock.

EC/hm

John W. Bristol & Co., Inc.

JOHN W. BRISTOL & CO.
INCORPORATED
233 BROADWAY
NEW YORK 7, N. Y.

CORTLANDT 7-1137

JOHN W. BRISTOL
CHARLES W. CALL, JR.
EDMOND COTTY
JOHN M. FELLEMAN

INSTITUTE FOR ADVANCED STUDY

Equity Holdings in Excess of $500,000

as of March 31, 1963

		Book Value	Market Value
3,900 shs.	International Business Machines	$ 7,000	$ 1,642,000
21,224 shs.	Texaco Inc.	218,000	1,401,000
15,000 shs.	Louisiana Land & Exploration	70,148	1,230,000
700 shs.	Superior Oil California	110,300	915,000
15,426 shs.	Falconbridge Nickel Mines Ltd.	436,994	848,000
10,500 shs.	Newmont Mining	309,797	777,000
1,000 shs.	Great-West Life Assurance	356,748	730,000
17,201 shs.	Gulf Oil	96,450	722,000
14,250 shs.	Allied Chemical	616,988	641,000
18,000 wts.	Coastal States G. P., $2.50	-.-	612,000
11,520 shs.	Peoples Gas Light & Coke	163,295	576,000
16,000 shs.	Peabody Coal	203,861	560,000
10,000 shs.	Southern Company	356,527	550,000
3,600 shs.	Connecticut General Life Ins.	221,090	533,000
11,000 shs.	Royal Dutch Petroleum	303,016	517,000
		$3,471,209	$12,254,000

15 Largest Equity Holdings in % of:

Equity Portfolio:	39%
Total Assets:	29%

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INSTITUTE FOR ADVANCED STUDY

Equity Holdings Below $200,000
as of March 31, 1963

	Book Value	Market Value
5,000 shs. Middle South Utilities	$ 28,932	$ 195,000
4,000 shs. Federated Department Stores	9,896	184,000
2,000 shs. Bristol Myers	141,546	182,000
6,000 shs. Russell Stover Candies, Inc.	120,000	180,000
7,000 shs. Industrial Acceptance Corp. *	219,780	171,500
4,000 shs. Norwich Pharmacal	135,154	160,000
4,000 shs. Upjohn Company	138,169	156,000
2,420 shs. Consolidated Natural Gas	57,514	145,200
4,950 shs. Atlanta Gas Light	49,302	138,600
2,750 shs. Harris-Intertype	116,151	132,000
5,050 shs. Mergenthaler Linotype Co.	85,083	126,250
10,000 shs. North American Coal Corp.	171,693	85,000
6,000 shs. Canadian British Aluminium Ltd. Cl. A	61,727	50,280
	$1,334,947	$1,905,830

* Progress Report is enclosed.

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April 11, 1963

INSTITUTE FOR ADVANCED STUDY

INDUSTRIAL ACCEPTANCE CORPORATION

Common Stock

Progress Report

Present Price*	1962/63 Price Range	Net Earnings Per Share 1961	1962	P/E Ratio	Dividend	Yield
26	34 - 19	$1.99	$1.85	14X	$1.00	3.8%

* Canadian dollars.

REVIEW OF 1962 OPERATIONS

During the first six months of 1962, Industrial Acceptance Corporation's net income was at par with that of the corresponding period of 1961. During the second half, earnings declined 14% in relation to 1961, so that net earnings per share for the full year declined 7%.

Industrial Acceptance's unfavorable showing during the second half of 1962 reflects the impact of the measures which were advocated in the Canadian budget message and enforced in June 1962, namely the devaluation of the Canadian dollar, the austerity program, and the increase in the discount rate to 6%. Reflecting the sharp increase in Canadian interest rates during the third quarter of 1962, Industrial Acceptance's interest expenses as percent of earned income rose to 30.6% from 25.6% the preceding quarter.

Since August 1962 the Canadian discount rate has been reduced three times from 6% to its present level of 4% and the yield on Canadian Treasury Bills has declined from 5.1% to about 3.8%. The decline in Canadian interest rates is of course beneficial to Industrial Acceptance. It was not fully reflected in its fourth quarter results, although interest expenses as percent of income were 29.2%, down from 30.6% in the third quarter.

In 1962 the losses incurred by Industrial Acceptance Corporation's consolidated subsidiary, Merit Insurance Company, were down to $9.3 million from $11.6 million in 1961. The losses incurred during the fourth quarter of 1962 were equivalent to 10% of the Industrial Acceptance earned income, the best such ratio since the fourth quarter of 1959. Obviously Industrial Acceptance is meeting some success in its effort to straighten out its insurance subsidiary's operations in enforcing stricter underwriting rules.

At the end of 1962, the Company's receivables amounted to $606 million, as against $534 million at the end of 1961 and $547 at the end of 1960. Therefore, notwithstanding the unsettled economic and financial conditions which prevailed in Canada in 1962, the Company's volume of business increased to new highs.

At the end of 1962, Industrial Acceptance acquired the Sovereign Life Assurance Company of Winnipeg, Canada, a small but fast growing company with insurance in force of $219 million at the end of 1962.

1963 PROSPECTS

As underlined above, the improvement in the Canadian interest rate structure should lead to a gradual improvement in Industrial Acceptance's operating earnings.

The earnings performance should also be helped by the improvement in the underwriting results of the Merit Insurance Company.

PRESENT INVESTMENT MERITS

1) Industrial Acceptance is Canada's leading finance company. In view of the Company's standing, the common stock is a high grade holding.

2) It is available currently at 14X relatively depressed 1962 earnings and at 13X possible 1963 earnings, a relatively moderate appraisal.

3) The current economic and money market trends in Canada are favorable to Industrial Acceptance's own economics.

4) The $1.00 dividend, equivalent to 50% of the Company's "normal" earning power, provides at present a yield of 3.8%. It has been Industrial Acceptance's policy in the past to increase gradually and annually the dividend rate and an increase later on this year is likely if earnings improve as expected.

EC/hm
Enc.

John W. Bristol & Co., Inc.

INDUSTRIAL ACCEPTANCE CORPORATION

Quarterly Income Statements
$'000

	1961				1962			
	1.	2.	3.	4.	1.	2.	3.	4.
Earned Income	$20,872	$20,550	$20,632	$22,298	$19,978	$19,999	$20,585	$21,803
Less: Interest on notes	4,951	4,758	4,224	4,071	3,970	3,879	5,066	5,261
Debenture interest	977	990	1,122	1,123	1,186	1,250	1,235	1,215
(Total Interest)	(5,948)	(5,748)	(5,346)	(5,194)	(5,156)	(5,129)	(6,301)	(6,476)
Insurance losses	3,226	2,479	2,656	3,238	2,703	2,073	2,336	2,184
General & admin. (incl. depreciation)	6,103	6,456	6,147	6,182	6,422	6,734	5,994	6,687
Net before taxes	$ 5,595	$ 5,867	$ 6,483	$ 7,684	$ 5,697	$ 6,063	$ 5,954	$ 6,477
Income taxes	2,968	2,870	3,303	3,952	3,051	3,019	3,073	3,291
Net Profit	$ 2,627	$ 2,997	$ 3,180	$ 3,732	$ 2,646	$ 3,044	$ 2,881	$ 3,186
Preferred dividends	215	215	211	211	210	209	207	206
Net to Common	$ 2,412	$ 2,782	$ 2,969	$ 3,521	$ 2,436	$ 2,835	$ 2,674	$ 2,980
Shares outstanding	5,656	5,758	5,792	5,855	5,887	5,887	5,889	5,889
Earned per share	$ .42	$ .48	$ .51	$ .59	$ .41	$ .48	$ .45	$ .51
Analysis								
Total interest as % of earned income	28.5%	27.9%	25.9%	23.3%	25.8%	25.6%	30.6%	29.2%
Insurance losses as % of earned income	15.5%	12.1%	12.9%	14.5%	13.5%	10.4%	11.3%	10.0%
General & admin. as % of earned income	29.2%	31.4%	29.8%	27.2%	32.1%	33.7%	29.1%	30.5%
Pretax profit margin	26.8%	28.6%	31.4%	34.5%	28.5%	30.3%	28.9%	29.6%
Apparent tax rate	53.0%	48.9%	50.9%	51.4%	53.6%	49.8%	51.6%	51.0%

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April 10, 1963

INSTITUTE FOR ADVANCED STUDY

REVIEW OF ELECTRIC PUBLIC UTILITY HOLDINGS

Statistical data pertaining to the Institute's electric public utility holdings are enclosed.

The list includes four companies which have adopted the "flow-through" method of accelerated depreciation, according to which the resulting tax savings are included in net income without an offsetting provision for deferred income taxes. This contributes to lessen the quality of reported earnings and distorts the actual growth in operating earnings.

The most obvious illustration of the impact of flow-through on companies' earnings is Atlantic City Electric, whose enclosed figures reveal that without flow-through benefits earnings have grown at a compounded rate of 5.3% per annum over the five year period 1957-62, as against a rate of growth of 7% on the basis of actual reported figures. In 1962 flow-through benefits amounted to 31¢ per share, equivalent to 17% of reported earnings. Ex such tax benefits, earnings were $1.55, only 7¢ more than the current dividend rate of $1.48.

We believe that Atlantic City Electric is overpriced under present market conditions and the sale of the Institute's holdings of 7,500 shares is recommended (book cost: $216,545; present market value: $350,000).

EC/hm
Enc.

INSTITUTE FOR ADVANCED STUDY

Review of Electric Public Utilities

A. Companies Which "Normalize" Tax Benefits from Accelerated Depreciation

	Market	1962/63	Net Earnings Per Share			P/E Ratio		Current		Compounded Rate of Growth	
I. Growth	Price	Price Range	1961	1962	E. 1963	1962	E. 1963	Dividend	Yield	Recent	E. Future
Central & South West	44	47 - 31	$1.48	$1.68	$1.80	26.0X	24.5X	$1.18	2.7%	5%	7%
II. Straddle Stocks											
Carolina Power & Light	65	66 - 45	2.39	2.68	2.80	24.0X	23.0X	1.84	2.8	7	6
Central Illinois Publ. Serv.	25	26 - 17	1.05	1.13	1.20	22.0	21.0	.80	3.2	6	6
Gulf States Utilities	38	44 - 27	1.31	1.59	1.65	24.0	23.0	1.12	2.9	4	7
Louisiana Gas & El.	36	40 - 25	1.40	1.53	1.60	23.5	22.5	.90	2.5	11	7
Middle South Utilities	39	40 - 25	1.51	1.66	1.70	23.5	22.5	1.10	2.8	6	7
Oklahoma Gas & El.	25	25 - 15	.79	.92	.95	27.0	26.0	.72	2.9	5	8
South Carolina Electric & Gas	58	58 - 39	2.24	2.35	2.45	24.5	23.5	1.70	2.9	9	5
Southern Co.	55	57 - 38	1.98	2.26	2.35	24.0	23.0	1.60	2.9	5	6

INSTITUTE FOR ADVANCED STUDY

B. "Flow Through" Companies

AMERICAN ELECTRIC POWER (36)

	Reported Earnings	Flow-Through Benefits	3% Tax Credit	Earnings ex-tax adjust.	Dividend
1957	$1.06	$0.01	-	$1.05	$ .70 1/2
1958	1.09	0.01	-	1.08	.79
1959	1.18	0.01	-	1.17	.83 1/2
1960	1.24	0.02	-	1.22	.88 1/2
1961	1.26	0.07	-	1.19	.95
1962	1.46	0.07	$0.04	1.35	1.08
1963 E.	1.60				
Compounded Rate of Growth 1957-1962	6.5%			5.1%	
P/E Ratio(1962)	24.5X			26.5X	
" (E. 1963)	22.5X				
Present Yield	3%				

ATLANTIC CITY ELECTRIC (47)

	Reported Earnings	Flow-Through Benefits	3% Tax Credit	Earnings ex-tax adjust.	Dividend
1957	$1.33	$0.13	-	$1.20	$ .87
1958	1.45	0.17	-	1.28	.93
1959	1.39	0.20	-	1.19	1.00
1960	1.57	0.25	-	1.32	1.10
1961	1.65	0.24	-	1.41	1.20
1962	1.86	0.31	-	1.55	1.48
1963 E.	1.95				
Compounded Rate of Growth 1957/1962	7%			5.3%	
P/E Ratio(1962)	25.3X			30.1X	
" (E. 1963)	24.0X				
Present Yield	2.7%				

COLUMBUS & SOUTHERN OHIO (73)

	Adjusted for Flow-Through	Flow-Through Benefits	3% Tax Credit	Earnings ex-tax adjust.	Dividend
1958	$2.20	$0.30	-	$1.90	$1.60
1959	2.70	0.41	-	2.29	1.60
1960	3.25	0.42	-	2.81	1.70
1961	3.42	0.41	-	3.01	1.90
1962	3.54*	0.43	-	3.09*	2.20
1963 E.	3.75	0.54	-	3.21	
Compounded Rate of Growth 1957-1962	6.5%			3.8%	
P/E Ratio (1962)	20.5X			22.5X	
(E. 1963)	19.5X				
Present Yield	3%				

* After increase of depreciation reserve equivalent to $0.26 per share, non-recurrent expenses of $0.09 per share, and excluding income of non-consolidated subsidiaries of $0.07 per share.

VIRGINIA ELECTRIC & POWER (64)

	Adjusted for Flow-Through	Flow-Through Benefits	3% Tax Credit	Earnings ex-tax adjust.	Dividend
1957	$1.52	-	-		$ .97 1/2
1958	1.62	-	-		1.02 1/2
1959	1.66	-	-		1.10
1960	1.82	0.05	-	$1.77	1.20
1961	2.06	0.08	-	1.98	1.30
1962	2.35	0.21	-	2.14	1.40
1963 E.	2.60	0.25	0.15	2.20	
Compounded Rate of Growth 1957-1962	9.9%			7.0%	
P/E Ratio (1962)	27X			30X	
" (E. 1963)	24.5X			29X	
Present Yield	2.2%				

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JOHN W. BRISTOL
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EDMOND COTTY
JOHN M. FELLEMAN

April 11, 1963

Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

INSTITUTE FOR ADVANCED STUDY

AMERICAN ELECTRIC POWER

Common Stock

Present Price	1962/63 Price Range	Net Earnings Per Share 1961	1962	E. 1963	PER E. 1963	Current Dividend	Yield
36	36 - 26	$1.26	$1.46	$1.60	22.5X	$1.08	3%

Recommendation

SELL: 12,858 shares. Book Value: $94,450. Present Market Value: $460,000. Income: $13,887.

AEP's investment standing is such that its common stock rates the earnings multiplier of a growth situation which, as attested by its past record and future prospects, it is not. Earnings per share have grown and are anticipated to continue to grow at an annual compounded rate of 5 1/2% - 6% or slightly better than the average for all electric public utilities. Notwithstanding this average performance, its present price/earnings ratio of close to 25X 1962 earnings commands a 20% premium over the average 20.5X earnings ratio now prevailing for situations with a past and prospective growth rate comparable with AEP's.

For several reasons which are stressed below, we believe that the present premium for AEP is not fully justified and thus that the stock should be sold.

a) Deterioration in the Quality of Reported Earnings

AEP has adopted the so-called "flow-through" method for accelerated depreciation, according to which the resulting tax savings are shown as net income without accruing such savings as a provision for deferred income taxes. Contribution from that source to 1962 earnings was $.07 per share, the same as in 1961.

It is also flowing through to net income the 3% tax credit on new investments enacted by Congress in 1962, which is retroactive to January 1, 1962. This new contribution to net earnings has amounted to \$.04 per share in 1962.

It is not known yet whether AEP will flow through to net earnings any of the tax savings resulting from the new depreciation guideline.

The more conservative alternative which is used by the majority of electric public utilities, is the "normalization" method which does not reflect the tax savings in reported earnings. In addition and in common with most electric utilities, AEP's earnings include interest charged to construction, the benefits of which vary from year to year.

As a matter of comparison, Florida Power & Light, which has achieved a superior record of growth, excludes from reported earnings not only interest charged to construction but also the tax benefits from accelerated depreciation and from the 3% tax credit. Its stock is currently traded on the basis of 30X 1962 earnings and 28X tentative 1963 earnings. Should AEP report on the same basis, its stock would be traded now at 29X 1962 adjusted earnings of \$1.25 per share and 27X tentative 1963 adjusted earnings. This comparison gives at least a measure of the present overvaluation of AEP (of course, if tax savings were not flowed through, AEP would probably be entitled to some rate increases).

b) Management Changes

The high investment standing of AEP is, at least in part, a tribute to its former President, Mr. Sporn, now retired, who is considered as the elder statesman of the U.S. electric industry. An engineer himself, he is credited with the post war construction of some of the most efficient electric plants in the Country. Mr. Sporn remains as a Director and member of the Executive Committee of AEP.

Thanks in part to AEP's leadership, the efficiency of other electric utilities is now catching up and AEP's relative advantage is declining.

c) Revenue Growth Below Average

AEP's revenues increased 83% from \$192 million in 1951 to \$352 million in 1961, while the total industry's revenues increased during the same period 105%. AEP's net income rose during the period 127%, as against 125% for the whole industry. Over the five year period 1956/61, however, AEP's revenues gained 32.1%, compared to an industry gain of 36.5% and net income 36.3% against 37.4% for the industry.

d) Territory and Population Growth

AEP's subsidiaries operate in seven states which are not particularly desirable: Tennessee is the home of TVA; West Virginia is a chronically depressed region; Kentucky has seen public power activities become more prevalent; and Ohio, Indiana, Michigan, and Virginia do not allow more than standard returns.

During the ten year period 1951/61, the population of the territory served by AEP rose 13.7%, well below the gain of 19% for the Nation as a whole. During that period, the population of West Virginia actually declined, Kentucky's increased only 2.3%, and Tennessee's 7%.

e) Vulnerability to Recession

Close to 60% of the system's KWH sales and 40% of its revenues are obtained from industrial customers. This has not prevented earnings from showing a year to year increase, but has slowed down the rate of growth during periods of economic slow-down.

f) Anticipated Rate of Growth

Notwithstanding the lack of conservatism in the accounting practices of AEP, which is flowing through to net income all permissible items (tax savings from accelerated depreciation and the 3% tax credit), net earnings are not expected to grow at a faster rate than 6% compounded per annum. Therefore, by 1965, optimum earnings can be appraised at $1.90 per share, on the basis of which the present price reflects a price/earnings ratio of 20X 1965 earnings, which is about the valuation of comparable utilities on the basis of their present earnings.

EC/hm

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JOHN W. BRISTOL
CHARLES W. CALL, JR.

September 14, 1962

THE DRUG INDUSTRY

Pharmaceutical manufacturers have enjoyed genuine growth in terms of services performed, sales, earnings and net worth since the beginning of World War II. Medicine has made spectacular advances in combating disease during the past 25 years. No more encouraging proof of the industry's progress can be shown than that from 1937 to 1957 when the life expectancy of American babies rose some ten years. In recognition of its superior long term record the common stocks of this industry have far outperformed the stocks comprising the Dow-Jones Industrial Average. We had believed drug stocks were overpriced relative to their growth prospects, and as a result have not recommended their purchase since 1958.

Since May, 1962 drug common stocks have suffered a severe price correction along with other growth-type stocks. In addition to the general market decline these shares have been adversely affected by a series of politically motivated investigations, such as the Kefauver probe, the Justice Department suit against the Salk producers (defeated in Court), and the Federal Trade Commission complaint against the antibiotic producers. In August, 1962 it appeared that any legislation regulating the drug industry coming out of Congress would be moderate. Then wide and emotional press coverage was given to the tragic incidence in both foreign countries and in the U. S. of birth deformities as a result of a German sleeping pill, thalidomide. The timing of this publicity has given strong arguments for proponents of increased governmental legislation regulating the drug industry. The net result of this activity now appears to be more intensive regulation so that the rate of new product development will probably be much slower and more costly than was characteristic of the mid-1950's. Following this unfortunate thalidomide incident the drug stocks declined further.

We have consistently believed that the long term outlook for the drug industry was favorable, and despite the recent adverse publicity we feel the industry's future growth is assured. The following health problems are presently under industry study, and offer tremendous sales potential to the industry, upon their successful treatment.

(1) Cardiovascular-renal diseases (diseases of the circulatory system and kidney) accounted for about five of every ten deaths in 1960.

(2) Cancer accounted for approximately two of every ten deaths in 1960.

(3) The viral and bacterial diseases such as influenza, colds, staphylococcus infections and others affect the entire population and have not yet been conquered.

(4) Little is known about neurological disorders, such as Parkinsonism, epilepsy, cerebral palsey, multiple sclerosis, muscular dystrophy, and similar disorders that afflict over 5 million of our population.

(5) Over 17 million people in the United States are suffering from some form of mental illness. While the mental health drugs have proven extremely valuable in increasing the cure rate, there are still no basic cures for some disorders.

(6) Although the corticosteroids have proven effective for some serious eye diseases, glaucoma and cataracts are still blinding many people. Nearly one out of four blind persons over age 60 has cataracts. Glaucoma is the cause of about 14% of the blindness in people over age 35.

(7) Many animal diseases and nutritional problems remain to be solved.

(8) The decaying disorders that usually occur with old age are of particular interest to several leading drug companies. This has created the sub-division of medicine known as geriatrics.

These are some of the challenges that face the American pharmaceutical industry. The decade of the 1960's will not require drugs that cure but only drugs that alleviate some of these conditions, to provide a very great impetus to drug sales.

Regardless of these possible drug innovations, the industry is insured of further volume growth because of the following reasons:

(1) Population growth.

(2) The expectation of life at birth is now considerably higher than it was in 1939 and with increasing health programs and new medical methods it is expected that this trend will continue. Thus, the potential market for drugs will be enlarged.

(3) The segments of the population that generally consume more drugs than any others are the age groups under 14 and over 70. The Department of Commerce estimates that the growth of these two groups will be above average during the coming decade.

(4) Personal disposable income has risen every year since 1947 at an average annual rate of 6%. Continuation of this growth trend is anticipated by most economists and as personal disposable income increases it will be possible for Americans to improve their health standards.

(5) The United States per capital expenditures for drugs have been in a strong growth trend since 1947 despite the fact that drug prices have declined since World War II.

(6) The Health Insurance Council of America indicates that a growing number of Americans are covered by various forms of health insurance. There has been a strong growth trend in this coverage since the end of World War II and it appears likely that this trend will continue; as it does it will provide an impetus for drug sales.

(7) The importance of foreign markets to the major American drug companies has increased during the last several years. As per capita income increases overseas, health standards will improve and the American pharmaceutical industry as the world leader will benefit from the expected upgrading of drug purchases.

The American pharmaceutical industry satisfies all of the universal yardsticks desirable for investment purposes. The industry has a secular growth trend of sales and earnings which is generally recession proof. The companies in the industry have virtually no overcapacity problem and they have sustained their high margins, and high return rate on invested capital during the past several years. The companies are very strong financially, have low labor cost factors, and spend over 5% of sales in new product research and development. New competition in the industry is limited by the necessity of high research expenditures, large sales staffs, and trade names well known either to the medical profession or the ultimate consumer. The following table sets forth six of the best managed, diversified drug companies, whose prospects for the longer term appear very favorable. The severe price corrections in the common stocks of Richardson-Merrell, Norwich Pharmacal Co. and Upjohn more than discounts any new regulation that could tend to slow down the rate of new product development. We suggest the purchase of these three common stocks at the present time and favor all of the companies included in the table on a longer term basis.

JMF:lh
9-10-62

John W. Bristol & Co., Inc.

Company	1961-1962 Price Range	Current Price	% Decline From 1961-1962 High	Est. 1962 Earn.	1962(E) PER	% Compound Annual Growth In Per Sh. Earn. 1957-1962 (E)	Dividend	Yield
Bristol-Myers	103 - 60	76	26%	$2.85	26.6X	16.1%	$1.20	1.6%
Merck & Co.	95 - 60	64	33	2.65	24.2	4.0	1.60	2.5
Norwich	70 - 32	32	54	1.70	18.8	10.4	1.05	3.3
Richardson-Merrell	112 46	50	55	2.90	17.2	14.8	1.00	2.0
Smith Kline & French	77 - 45	50	35	2.05	24.4	7.8	1.25	2.3
Upjohn	59 - 29	30	49	1.70	17.7	6.7	0.80	2.7

JMF:hm
9-14-62

John W. Bristol & Co., Inc.

INSTITUTE FOR ADVANCED STUDY

Shell Oil shs. held	Shell Oil of Can. shs. to be rec'd.	Approx. Value
8,800	1,760	$23,000

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CORTLANDT 7-1137

JOHN W. BRISTOL
CHARLES W. CALL, JR.

September 27, 1962

DISTRIBUTION OF SHELL OIL CO. OF CANADA SHARES TO SHELL OIL STOCKHOLDERS

Shell Oil Co. will distribute to its shareholders on November 1, 1962, one share of Shell of Canada for every five shares held. Upon completion of that distribution, public shareholders will own approximately 4,200,000 shares of "A" stock representing 17.5% of the total capitalization. The balance of the "A" shares and the totality of the "B" shares will continue to be held directly or indirectly by units forming part of the Royal Dutch - Shell group of companies.

Shell Oil of Canada was founded in 1911. It is a fully integrated company with annual revenues to exceed $300 million in 1962.

Operating Record

	1959	1960	1961	6 months 1962
Operating revenue ($ million)	206.6	245.2	278.1	159.9
Depreciation, etc. ($ million)	15.8	26.0	25.7	13.5
Cash flow ($ million) (net income plus depreciation, etc.)	6.4	8.9	13.9	12.5
Per share* ($)	.26	.37	.57	.57
Net profit ($ million)	(9.4)	(17.0)	(11.8)	(1.0)
Per share* ($)	(.39)	(.70)	(.49)	(.04)

* Adjusted to the equivalent of 24.2 million shares to reflect new capital structure.

With no public shareholders to reckon with the Shell Oil group has been obviously concerned to generate the highest possible cash flow for financing its Canadian subsidiary's expansion. It is now expected that a profit will be shown for the last six months of 1962 and possibly for the whole year. The Company's past results are thus not indicative of its actual earning power due to its new profit consciousness.

In consideration of the very small holding of Shell Oil of Canada which will result from the forthcoming distribution, it is felt that it should be sold inasmuch as its investment prospects are not so promising that they warrant an increase at this time.

The common stock of Shell Oil of Canada is traded on a "when issued" basis on the Over-the-Counter market at 13 1/2. We recommend its sale now without waiting for the actual distribution of the certificates.

EC/hm

John W. Bristol & Co., Inc.

Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

October 8, 1962

INSTITUTE FOR ADVANCED STUDY

DRUG INDUSTRY

	Oct. 5, 1962 Price	1962 Price Range	% Decline from 1962 high	1952-54 to 1961 EPS Comp.Gr.	1955-57 to 1961 EPS Comp.Gr.	E.1962 Earn.	P/E Ratio	Div.	Yield
Abbott	62	82 - 56	24%	3.7%	1.1%	$3.35	18.5X	$1.90	3.1%
American Home	46	79 - 44	42	17.5	10.4	2.25	20.2	1.54	3.3
Bristol Myers	69	100 - 61	31	20.0	15.8	2.85	24.2	1.40	2.0
Merck	65	95 - 60	32	11.8	5.7	2.65	24.4	1.60	2.5
Norwich	34	60 - 32	43	17.5	12.6	1.70	20.0	1.05	3.1
Richardson Merrell	45	102 - 42	56	14.2	16.0	2.60	17.3	1.00	2.2
Schering	31	61 - 31	49	19.5	def.	2.55	12.1	1.50	4.8
Searle	86	145 - 78	41	9.9	8.6	3.00	28.6	1.80	2.1
Upjohn	33	55 - 29	40	12.4	9.0	1.70	19.4	0.80	2.4
Warner Lambert	18	28 - 17	36	12.7	6.3	1.20	15.0	0.60	3.3

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JOHN W. BRISTOL
CHARLES W. CALL, JR.

September 14, 1962

WISE HOMES, INC.

It will be recalled that last June we reported the insolvency of Wise Homes, a condition precipitated by the recourse provision between the company and senior collateral lenders, which required that Wise repurchase for cash any mortgage notes in default over 90 days. Because the factoring companies were in no position to service the collection of mortgages themselves it was to their best interest to keep Wise in business. Therefore they agreed to a moratorium on the recourse privilege. The terms of the deferment agreement were most stringent and in effect put the Company in the control of the factors.

The current operations of Wise Homes are resulting in substantial operating losses. As we have pointed out before, the basis of new-house sales in today's competitive shell home market is the amount of the monthly payment, not the aggregate or sum total of payments. The decision of the factoring companies not to extend maturities to 10 years on new-house sales has made it virtually impossible for Wise to compete in a market where all other companies' sales are based on monthly payments over periods of 10 and 12 years. Furthermore cash unavailability of recent months has created serious delinquencies in Wise's payments to trade creditors. Most of the Company's suppliers have discontinued shipments of materials needed to complete building contracts. Because of the current cash drain and because the factors are not advancing enough to the Company to keep it current it is just a matter of time until the Company is bankrupt.

We are convinced that the management have given up all hope of their common stock having any value. Their prime interest now is to save as much of our institutions' investment as possible and they are ready and willing to take any steps we think advisable to accomplish this. We have, together with counsel, had several extended meetings with Paul Schnabel, Griswold Smith and other directors of the Company, to analyze the various alternatives open to us. It is our belief that the Company's best chance of working itself out of its present difficulties would be along the following lines: go out of the new home business altogether and concentrate on the collection and servicing of accounts for the Company, for the factors and others. The strongest asset of the Wise organization at this time appears to be a capable, competent collection force, including facilities to handle repossessions. The factors' primary interest is in keeping Wise Homes alive for the service operation, since for the most part they are not in any position to do the job themselves. Because our proposal will accomplish this and also relieve the factoring companies of the necessity of further cash advances, it is hoped that they will go along with the program presented to them this week.

In brief the program presented to the factors requests the following concessions:

(1) The right to withdraw from the shell house building business and reorient the Company into a servicing, collecting and repossessing independent contractor. The fees received for this work must be sufficient to break even.

(2) The lenders must permanently release Wise from repurchase agreements.

(3) The lenders must reduce their present interest rate from 11% to 6%.

(4) The lenders must pay off trade creditors in order to give the new organization a chance to get started.

(5) The 6 3/4% Debenture holders should agree to continue deferment of interest until such time as the obligations of the factors are paid in full. The Debenture holders would take in place of interest payments subordinated non-interest bearing notes.

If the factors refuse to go along with the program, the Company must be prepared to go into bankruptcy. As of June 30th Wise had outstanding mortgage notes receivable with a face value of $18.2 million. (This amount includes unearned time charges of $4.6 million). All of this paper is currently pledged as security to the senior lenders whose notes amounted to $11 million. The only unencumbered assets of the company are some 400 repossessed houses.

We are anxious to have the advice and counsel of all committee members among the several Debenture holders. We do not wish to take any steps, including a request that the Company go into bankruptcy, until all investors have indicated their approval.

We have purposely left out many details in an effort to keep this memorandum short, but are prepared to discuss this fully at the investment committee meeting.

JWB/hm

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JOHN W. BRISTOL
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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

November 12, 1962

INSTITUTE FOR ADVANCED STUDY

CENTRAL STATION SIGNALS, INC.

6% Senior Notes due 1976, with Bonus Stock

The attached memorandum describes Central Station Signals, Inc. a major supplier of fully monitored fire and burglary protection in the New York metropolitan area. Central station fire and burglary protection has many aspects of a utility. The industry is economically indispensable because the cost of the service is significantly less than the insurance premiums which are saved if premises are so protected. Although there is competition for new installations, once the equipment is installed competition ceases. Service is rarely discontinued until the building is razed. Costs of rendering the service are highly predictable. Fees are collected in advance eliminating any credit problems and there is no significant dependence on any single customer.

Central Station Signals has shown uninterrupted growth throughout its existence. The primary sources of growth are protection of new structures and installations in very old buildings which fail to meet fire department regulations. The company has also grown by gradually increasing its service area into Westchester, Nassau and Suffolk counties. Future growth may come from acquisition of similar operations in other cities.

Projections, which in this type business are quite reliable, indicate that the new Company will earn $1.45 per share in its sixth year and over $3.00 per share in its tenth year of operation. Assuming a price-earnings ratio of 12.5 (A.D.T. currently sells at 15X) the bonus stock will produce an indicated capital gain on the investment of 36% in the sixth year and 75% in the tenth year. Interest coverage on a cash basis will be 3.9 times in the first year and will rise rapidly thereafter.

The founders, who started the business twenty-five years ago, have agreed to sell all the assets to a new corporation for $2,640,000. The present President will remain as a consultant and one Vice President who has been relatively inactive, will retire. All other personnel will remain and the Executive Vice President will assume the office of President.

The new President and his associates will purchase 20% of the Common Stock and $100,000 Subordinated Notes for a total investment of $184,000. Shields & Company will arrange the sale of additional Common Stock for $216,000. The balance of the purchase price will come from a $200,000 bank loan and sale of $2,040,000 of 6% Senior Notes. The Notes will carry a bonus of approximately 39% of the total outstanding Common Stock.

It is recommended that the Committee approve purchase of $200,000 Central Station Signals 6% Senior Notes with 4,000 shares of bonus stock.

JWB:lh
11-12-62

John W. Bristol & Co., Inc.

CENTRAL STATION SIGNALS, INC.

6% Senior Note due 1976, with Bonus Stock

CAPITALIZATION: (000)

			% of Capital	% of Equity
Bank Loan	$ 200,000		7.6%	- %
6% Senior Note, 1976	2,040,000	40,800 bonus	77.3	38.9
6% Subordinated Note, 1977	100,000	4,200 "	3.8	4.0
Common Stock	300,000	60,000 at $5/sh.	11.3	57.1
Total	$2,640,000	105,000	100.0%	100.0%

BUSINESS:

Central Station Signals, Inc. provides fire and burglary detection service in Metropolitan New York City and in Westchester, Nassau and Suffolk Counties, N. Y. Operating under contractural plans, the Company installs detection devices on the subscriber's premises and connects these to its own central station where twenty-four hour monitoring is provided. When a device gives a warning signal in the central office the fire and/or police departments are alerted and the Company dispatches its own personnel to the scene.

Broadly, the following fire protection services are offered.

(a) Valve alarm service which is actuated by water flow through a sprinkler system.
(b) Sprinkler Supervisory service whereby the company monitors the working order of sprinkler control valves. This entails supervision of air pressures in dry pipe valves, room temperatures where wet pipe valves are exposed to possible freezing, water levels in gravity tanks, water pressures in pressure resevoirs, position of each valve, etc.
(c) Automatic fire alarm service which is independent of any sprinkler system and is activated by heat, gases and/or smoke.
(d) Manual fire alarms for use by any person who detects a danger before the automatic devices are actuated.
(e) Automatic oil burner protection which signals the central office on any significant malfunctioning of the burner.
(f) Elevator emergency call service which enables trapped persons to signal the central office.

Burglar protection offered includes:

(a) Accessible openings protection which protects doors and windows.
(b) Vibration detectors which protect against attack through walls or ceilings.
(c) Space protection which monitors all movement in the area by means of ultra-sonic waves or infra-red light.
(d) Electronic safe protection which signals the central office when the safe or vault is approached.
(e) Vault Protection which picks up the first blow in attempting penetration.
(f) Holdup alarm service by which victims silently signal the central station in event of attempted crime.
(g) Photo-electric eye protection which can protect the perimeter of open areas or provide invisible traps within premises.
(h) Police alarm service whereby the police are notified if a local gong operates.

CONTRACTUAL PLANS

Fire protection is written on the basis of five year contracts which require the customer to pay an initial installation charge plus an annual fee. It is the company's responsibility to make the monthly inspections required by law and to repair the protective system whenever necessary. Burglar protection contracts are written for one to five years duration but otherwise are similar to the fire contracts. All fees are paid in advance with over 60% of payments being for the full annual charge. The balance are paid on semi-annual, quarterly or monthly bases.

SALES

Most types of commercial buildings cannot afford to be without fire protection and where valuables are on the premises the same thing is true with regard to burglary protection. The reason is that the insurance rates greatly favor the protected customer. The following indicates the approximate cost of fire insurance on a building and contents valued at $500,000.

Premises	Insurance cost/yr.	Installation cost	Annual Service
No fire protection	$10,000	-	-
Sprinklered building	5,000	$25,000	-
Central station valve alarm	2,000	500	$500
Complete sprinkler supervision	500	650	650

It can readily be seen that a sprinkler system will pay for itself by the insurance premium savings over the first five years. It can further be seen that valve alarm protection or complete sprinkler service supervision costs less than the insurance premium reductions which result.

COMPETITION

In the area served by Central Station Signals approximately 50% of the fire protection business is controlled by American District Telegraph, a 76% owned subsidiary of Grinnell Corporation. Central Station Signals has about 40% of the total and the remaining share, less than 10%, is controlled by Owl Protective Co.

Competition is limited to acquisition of new business. Because of the initial installation charges, once a customer is acquired, contract renewals are virtually automatic. Service is rarely discontinued because additional insurance costs exceed the cost of protection service.

Sources of new installations are primarily insurance brokers and sprinkler system contractors. Because Grinnell is a major installer of sprinkler systems, independent contractors are anxious to avoid giving business to American District Telegraph. While there is no particular incentive for insurance brokers to choose Central Station Signals over A. D. T. the fact is that over the past 25 years the company has built up good relations with the principal brokers in the city.

Holmes Electric Protection Company, formerly owned by A. T. & T., completely dominated the burglary protection field prior to 1950. In that year as a result of an anti-trust action, A. T. & T. sold Holmes to Grinnell and made its lines available to others for the purpose of operating central stations. Central Station Signals entered the business in 1955 and has gradually increased its billings for this type service to the present level of about 20% of service revenues.

MANUFACTURING OPERATIONS

Because certain devices are not available elsewhere the Company manufactures such items as water flow detectors, proprietary fire alarm panels, temperature transmitters, registers and burglary devices. Central Stations makes these products available to local independent central station companies, sprinkler contractors, government agencies and others. In 1961 sales to others amounted to $328,000. While manufacturing operations contribute only modestly to net income (average for the last five years: $26,800 per annum) this division absorbs some $50,000 annually in general and administrative overhead.

EARNINGS RECORD

The figures presented below indicate the steady upward progress that has been made by Central Station Signals. Also listed is the Company's historical record of net income as filed for Federal Income Taxes. It should be appreciated that this closely held Company paid salaries to all stockholders as well as year-end bonuses that bore more relation to stock holdings than to services rendered. Comparable data are given for A. D. T. The larger company operates throughout the country. Its New York business is only slightly larger than that of Central Station Signals.

	CENTRAL STATION SIGNALS				AMERICAN DISTRICT TELEGRAPH			
Yr. End Dec. 31	Total Revenues	Net Before Taxes (000)	Net Before Taxes (% Revs.)	Net Income	Gross Revenues	Net Before Taxes (000)	Net Before Taxes (% Revs.)	Net Income
1940	$ 74	$ 7	10.0%	$ 6	$ 9,252	$1,819	19.6%	$1,378
1945	132	26	19.9	16	13,132	2,525	19.2	1,150
1950	347	94	27.2	55	23,022	4,224	18.3	2,297
1955	599	140	23.4	73	36,460	5,652	12.8	2,945
1956	658	158	23.7	81	39,711	5,745	14.4	2,995
1957	718	200	27.9	101	43,582	7,214	16.5	3,644
1958	791	191	24.1	97	47,298	8,186	17.3	4,245
1959	864	270	31.3	136	50,562	8,453	16.7	4,403
1960	983	144	14.6	77	53,926	8,266	15.3	4,336
1961	1,080	295	27.3	149	57,686	8,399	14.5	4,235

Percentage Gains in Total Revenues

	1940-61	1950-61	1955-61	1960-61
A.D.T.	+ 532%	+151%	+58%	+ 7%
C.S.S.	+1,360%	+211%	+80%	+10%

As the figures indicate, there has been steady growth of revenues for both companies. Central Station Signals extraordinary profits in 1959 were due to an exceptionally large and profitable manufacturing order filled in that year. Competition was particularly severe in 1960 taking the form of charging very low installation fees. Management feels that it was not a coincidence that this "price war" raged for a number of months prior to A.D.T.'s offer to purchase Central Station Signals. This price competition stopped almost immediately after the anti-trust suit was instituted and purchase negotiations were broken off.

RECAPITALIZATION

The original founders of the Company are now in their seventies and are desirous of retiring and getting their estates in more liquid form. The President, Mr. James H. McDowell, Sr., 73, owns 22% of the stock and Mr. L. D. Forman, Vice President, who is already semi-retired, owns 20% of the stock. The balance is held by individuals who take little active part in the business.

Mr. J. Hugh McDowell, Jr., 45, who is the son of the President, has spent his entire business life with Central Station Signals. He will assume the Presidency of the new organization and, together with his associates, will purchase 20% of the total shares to be outstanding. Legal counsel has advised that, because he is an immediate relative of one of the selling stockholders, if he purchased more than 20% of the stock the new Company could be prevented from depreciating the assets on the basis of its purchase price. In order that he would have a substantial personal monetary stake in the business he has agreed to purchase $100,000 of subordinate notes. The total investment of he and his associates will be $184,000 consisting of the 100M notes with 4,200 bonus shares plus 16,800 shares at $5.00 each.

Shields & Company will sell privately the remaining 43,200 shares at $5.00 per share to individuals. They also will arrange a $200,000 bank loan and the private sale of $2,040,000 Senior Notes. The new company will therefore be capitalized in the following manner.

CAPITALIZATION: (000)

			% of Capital	% of Equity
Bank Loan	$ 200,000		7.6%	- %
6% Senior Note, 1976	2,040,000	40,800 bonus	77.3	38.9
6% Subordinated Note, 1977	100,000	4,200 "	3.8	4.0
Common Stock	300,000	60,000 at $5/sh.	11.3	57.1
Total	$2,640,000	105,000	100.0%	100.0%

OUTLOOK

Central Station Signals has demonstrated over the past twenty-five years that it can compete effectively for the available electric protection business. As the record indicates, revenues have been increasing at the rate of $100,000 per year and this trend is expected to gradually rise. Based on an increase of $100,000 per year the new Company should have the following operating results:

Yr. End Dec. 31	Total Revenues	Avail. for Interest	Interest Charges Amt.	Interest Charges (XEarned)	Depreciation	Net Before Taxes Amt.	Net Before Taxes (% Revs.)	Net Income
1963	$1,180M	$547M	$141M	3.9X	$445M	$(39)M	- %	$(39)M
1964	1,280	569	135	4.2	388	46	4.6	44
1965	1,380	601	129	4.7	362	110	8.0	55
1966	1,480	633	120	5.3	349	164	11.1	82
1967	1,580	665	111	6.0	358	196	12.4	88
1968	1,680	697	101	6.9	292	304	18.1	152
1969	1,780	729	92	7.9	301	336	18.9	168
1970	1,880	761	83	9.2	307	371	19.7	185
1971	1,980	793	74	10.7	314	405	20.4	202
1972	2,080	825	64	12.9	319	542	26.0	271

As indicated, interest coverage on a cash basis is nearly four times even in the first year. Sinking fund requirements on a cash basis exceed 2.5 times at the lowest point. Depreciation will be taken as rapidly as possible and this, of course, results in lower net earnings in the early years. Earnings per share, cash available for debt retirement and capital expenditures together with a schedule of debt retirement over the life of the bonds is presented below.

Yr. End	Per Common Share		Cash	Debt	Available for
Dec. 31	"Cash"	Net	Flow	Retirements	Cap. Expends.
1963	$3.87	$(0.37)	$406M	$100M	$306M
1964	4.10	0.42	432	100	332
1965	3.97	0.52	417	153	264
1966	4.10	0.78	431	153	278
1967	4.25	0.84	446	153	293
1968	4.23	1.45	444	153	291
1969	4.45	1.60	469	153	316
1970	4.69	1.77	492	153	339
1971	4.91	1.93	516	153	363
1972	5.61	2.59	590	153	437
1973	4.62	3.01	485	153	332
1974	4.83	3.19	519	153	356

SENIOR NOTES

Amount: $2,040,000
Interest Rate: 6%
Term: 14 Years - Average Life, 9.05 years.
Sinking Fund: 7.5% per annum commencing in the third year, 17.5% due at maturity.
Optional Sinking Fund: Up to $100,000 annually provided that such payments do not reduce working capital below $500,000.
Prepayment: Callable at 106 initially decreasing to par in the last year.
Dividend Restrictions: No dividends until Senior Debt has been reduced to $1,500,000. Thereafter, dividends may be paid out of surplus earned subsequent to the period when debt is reduced to $1,500,000 provided that such payments do not reduce working capital below $500,000.
Priority: The Notes will be unsecured but the Company may not incur any additional funded debt ranking equally with the Senior Notes.
Bonus: 20 shares of Common Stock per $1,000.

CWC:lh
11-12-62

John W. Bristol & Co., Inc.

TRAILER COMPANY

Finance Committee

INCOME ACCOUNT SYNOPSIS ($000):

Yr. End 12-31	Net Sales	Depreciation	Pretax Operating Net ($)	Pretax Operating Net Margin	Pretax Fin. Co. Net	Net Profit
1952	$160,958	$1,238	$ 9,937	5.8%	$1,970	$ 5,847
1953	192,628	1,330	12,902	6.7	1,884	7,218
1954	152,229	1,337	6,278	4.1	2,400	4,351
1955	233,615	1,554	15,295	6.6	2,841	8,712
1956	255,620	2,214	5,673 a	2.2	4,846	4,266
1957	232,042	2,361	1,178	0.5	5,192	1,809
1958	210,467	2,412	9,355 a	4.4	4,847	5,413
1959	249,683	2,537	20,229	8.1	6,619	12,971
1960est.	215,000	2,500	13,600	6.3	6,600	9,700

	Per Common Share b Earned	Paid	Range
1952	$1.85	$1.00	12 - 10
1953	2.32	1.00	12 - 10
1954	1.29	1.00+stk	18 - 11
1955	2.11	1.00+stk	29 - 16
1956	0.68	1.40+stk	38 - 22
1957	0.23	0.70+stk	24 - 9
1958	0.87	--	20 - 9
1959	1.92	--	31 - 19
1960est.	1.40	1.20	30 - 17

a. Including net special charges, 1956 $2,141, (499); 1958 $5,900, (108).

b. As reported, on average shares.

BALANCE SHEET ITEMS ($000):

Year End	Cash	Receivables	Inventories	Current Assets	Current Liabilities	Net Current Assets
1956	$24,956	$40,364	$101,476	$167,758	$71,833	$95,825
1957	16,462	38,146	82,588	138,235	47,929	90,306
1958	16,022	35,416	56,883	109,489	29,893	79,596
1959	23,197	47,824	58,725	130,935	45,224	85,711
9/30/60	19,374	39,699	49,692	110,187	27,102	83,085

	Property Account Gross	Property Account Net	Invest.	Debt	Preferred Stock	Common Equity
1956	$47,777	$33,678	$48,050	$67,606	$7,914	$103,987
1957	47,906	31,931	60,322	71,359	7,855	100,719
1958	47,196	28,634	61,260	66,432	7,855	93,069
1959	50,018	29,552	62,841	62,098	7,855	106,157
9/30/60	51,221	29,541	63,094	59,503	7,855	109,198

Finance Com.

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JOHN W. BRISTOL
CHARLES W. CALL, JR.

Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
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Mr. Strauss

June 13, 1962

INSTITUTE FOR ADVANCED STUDY

ARVIDA CORP. NOTES & WARRANTS
Progress Report

I. HOLDINGS:

Quantity		Book	Market	Income
200,000	6% Note 4-1-76	$200,000	$200,000	$12,000
6,000	Warrants, $11.00 (4-1-76)	-	$ 6,000	-

II. Capitalization:

	Book Value 1-31-62		Market Value 5-29-62	
	(000)	(%)	(000)	(%)
Long Term Debt	$ 39,797	37.5%	$39,797	50.5%
Common Stock & Surplus (5,984,463 shares) (curr. mkt. - $6 1/2)	66,319	62.5	38,800	49.5
	$106,116	100.0%	$78,597	100.0%

Note: 525,000 (300,000 attached to long term notes and 225,000 reserved for management group) common shares reserved for stock purchase warrants exercisable at $11. Also, 50,000 shares reserved for stock options.

III. Operating Statement:

Yr. to July 31	Property Sales (000)	Hotel Revenues (000)	Petroleum & other Rev. (000)	Total Revenues (000)	Depreci-ation (000)	Interest Charges (000)	Interest Charges (XEarned)
1959	$11,412	$3,656	$1,483	$16,551	$ 631	$1,641	3.95X
1960	17,740	4,154	1,562	23,456	864	1,288	3.08
1961	3,126	3,373	2,258	8,757	1,070	1,509	def.
6 mos. to Jan. 31							
1961	1,698	1,527	729	3,954	481	904	def.
1962	5,274	2,187	720	8,181	463	1,084	def.

Yr. to July 31	Pretax Net (000)	Pretax % Margin	Net Income (000)	Net Per Share
1959	$4,830	29.2%	$3,530	$0.59
1960	2,659	11.3	1,754	0.29
1961	def. 1,677	def.	def. 1,222	def. 0.20
6 mos. to Jan 31				
1961	def. 1,074	def.	def. 874	def. 0.15
1962	def. 1,365	def.	def. 1,365	def. 0.23

IV. Summary Balance Sheet: (000)

	1-31-62	1-31-61
Cash & Govts.	$ 3,317	$ 3,313
Current Assets	15,084	16,112
Current Liabilities	5,087	7,996
Net Working Capital	9,997	8,116
Land & Land Improvements	73,599	74,538
Long Term Debt	39,797	38,643
Capital & Surplus	66,319	67,506

V. Comment:

Arvida Corporation is a Florida real estate company with holdings of about 100,000 acres. The major portion of these lands are located in Dade (Miami area), Broward (Fort Lauderdale) and Palm Beach Counties. In addition, the Corporation owns the former John Ringling properties in Sarasota County on the West Coast of the peninsula. With the exception of the Sarasota block, these properties had been assembled over a period of years by Arthur Vining Davis who sold them to the Corporation at his cost in 1958. Although Arvida has had other interests, such as the Boca Raton Hotel & Club, and a chain of gasoline stations (sold to Gulf Oil in February, 1962 for $1.2 million), the Company's basic source of revenues is derived from the sale of real estate. Since 1960 the Florida real estate market has been weak, and Arvida's management has deemed it to be in the best interest of shareholders not to aggressively press properties on the market. The decline of revenues and earnings since fiscal 1960, obvious from the above table, was primarily due to the lack of real estate sales.

In December, 1961 Arvida executed a management contract with Stockton, Whatley, Davin & Co., an old,well-regarded real estate and mortgage firm with offices throughout Florida. The previous managers of Arvida, Milton N. Weir and John H. Weir, are no longer on the Company's Board. Arvida's new management intends to pursue the following objectives: (1) sell the Company's high cost land (the Sarasota properties purchased by the Weirs from John Ringling) on a break-even basis as soon as possible; (2) avoid the development and construction of properties intended to attract potential land purchasers (e.g. the Royal Palm Yacht & Country Club was a luxury development built by Arvida which has been operating at a deficit); (3) avoid extraneous businesses, such as the chain of retail gasoline stations which Arvida sold in February, 1962; (4) sell properties through out-of-state real estate agents; and (5) sell Arvida's large low cost properties during good real estate markets, and during poor real estate markets use some portion of the proceeds from property sales to replenish inventory.

Following the close of the six months period on January 31, 1962, Arvida entered into contracts for the sale of improved and unimproved properties with sales prices in excess of $6.2 million. If these sales are closed in accordance with the contracts, the profits thereon are estimated to be $2.6 million. The management of Arvida expects profitable operations for the fiscal year to end July 31, 1962. During May, 1962 Arvida received its first lease payment of $219,000 from Aerojet-General for 25,000 acres in Dade County. The lease gives Aerojet an option to purchase the property during the next five years. If Aerojet completes plans for its Florida operations it would naturally have a favorable influence on the area economy in general and on Arvida's 32,000 acres which are immediately adjacent to the Aerojet site in South Dade.

At the time Arvida was formed, about three years ago, an appraisal was made by Joseph P. Day which indicated that the net asset value of the stock was about $16 per share. Management has recently indicated to us that over 95% of the properties sold since the appraisal have been at the appraised value or higher. Thus, they believe the Day appraisal is still fairly realistic. At the current price of about $6 1/2 per share this common stock appears to discount Arvida's relatively poor record. The outlook for Arvida in fiscal 1963 is difficult to assess at this time, but management does believe the recent sharp sell-off in the stock market will adversely affect the Florida real estate market in the Fall and Winter of 1962. Although Arvida's interest coverage has been erratic due to management's inclination to hold back real estate during the relatively poor Florida land market of the past two years, the book value coverage per thousand dollars equals $1,670.

JMF:lh
6-6-62

John W. Bristol & Co., Inc.

JOHN W. BRISTOL & CO.
INCORPORATED
233 BROADWAY
NEW YORK 7, N. Y.
CORTLANDT 7-1137

JOHN W. BRISTOL
CHARLES W. CALL, JR.

April 3, 1962

Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

INSTITUTE FOR ADVANCED STUDY

MASONITE CORP.

Current Price	1961 - 2 Range	Net Earnings Per Share 1962E	1961	Ind. Div.	Price/E Ratio	Yield
32	35 - 28	$2.75	$2.23	$1.20	11.6X	3.7%

CAPITALIZATION: (000)

	Book 8/31/61	Market 4/3/62
Long Term Debt	$ 8,248	$ 8,248
Common Equity (1,625,936 shares)	64,404	52,030
	$72,652	$60,278

OPERATING RECORD: (000)

Aug. 31st.	Net Sales	D&D	Pre-Tax Income Amount	Pre-Tax Income % of Sales	Net Income
1953	$46,312	$2,151	$ 7,383	15.9%	$3,671
1954	45,282	1,985	7,615	16.8	3,607
1955	53,984	2,016	12,515	23.2	6,093
1956	61,395	2,264	14,698	23.9	7,177
1957	58,861	2,451	10,102	17.2	5,077
1958	59,057	2,661	8,519	14.4	4,344
1959	71,819	3,291	11,519	16.0	5,589
1960	68,775	4,240	8,376	12.2	4,400
1961	71,347	4,484	6,989	9.8	3,628
6 Mos.					
2/28/61	32,474				1,100
2/28/62	35,394				1,752

OPERATING RECORD: (000) continued

Aug. 31st.	Per Common Share Earned	Per Common Share Paid	Per Common Share Range
1953	$2.55	$1.00	26 - 17
1954	2.50	1.00	28 - 17
1955	4.23	1.50	40 - 25
1956	4.98	1.70	51 - 32
1957	3.16	1.20	35 - 23
1958	2.70	1.20	42 - 26
1959	3.45	1.20	47 - 34
1960	2.71	1.20	39 - 27
1961	2.23	1.20	35 - 28
6 Mos.			
2/28/61	0.69		
2/28/62	1.08		

4-3-62
lh

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Mr. Hochschild
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Mr. Strauss

April 3, 1962

INSTITUTE FOR ADVANCED STUDY

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Masonite Corp.
(cont.)

OPERATING RECORD: (000) continued

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4-3-62
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JOHN W. BRISTOL
CHARLES W. CALL, JR.

April 11, 1962

CASCADE NATURAL GAS CORPORATION

The following letter received from the Chairman of the Board, Cascade Natural Gas Corporation, is self-explanatory. We regret that the financing previously approved by the Committee must be cancelled.

"Dear Mr. Bristol:

This letter is to advise you that we regret we are not now in a position to consummate certain financial agreements previously made between your clients and ourselves. This arrangement involved the sale to them of certain Subordinated Debentures of the Company with Warrants attached.

Upon application to the Washington Utilities and Transportation Commission, whose approval was necessary to the consummation of the arrangement, we were informed that, in light of market conditions at the time the application was presented, the Commission was of the opinion the cost of money to the Company was excessive.

Under Washington law and procedures, we are completely unable to change the attitude of the Commission without formally applying for an order, having it rejected and seek relief in the courts. Such a procedure would be extremely harmful to the Company in its future relations with the Commission.

This is rather an embarrassing position for the Company, and particularly its senior officers, to be in but under the circumstances we are afraid there is no alternative.

Sincerely yours,

/s/ C. Spencer Clark "

JOHN W. BRISTOL & CO.
INCORPORATED
233 BROADWAY
NEW YORK 7, N. Y.
CORTLANDT 7-1137

JOHN W. BRISTOL
CHARLES W. CALL, JR.

Memo to Mr. Leidesdorf
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

February 6, 1962

INSTITUTE FOR ADVANCED STUDY

CASCADE NATURAL GAS CORP.

6% 21-Year Subordinated Sinking Fund Debentures, With Warrants

Cascade Natural Gas Corp. distributes natural gas to some thirty-five cities in Oregon and Washington. The Company owns municipal distribution systems in several other cities where it is presently delivering LPG-Air. In addition Cascade holds a number of franchises and has applied for additional franchises in various cities not now served with gas.

After several years of deficit operations following the advent of natural gas to the Pacific Northwest, the Company in recent years has shown rising profits. The 1962 merger of Pacific Natural Gas Co. will help raise revenues above $15 million in the current year and growth is expected to continue at roughly 10% per annum throughout the decade.

Earnings are not now subject to Federal Income Tax and when this impact is felt in 1963 and 1964 there will be a temporary lag in growth of earnings per share. Within five years, however, we expect the Company to be earning at a rate in excess of $1.50 per share.

The Company is offering privately $6,000,000 6% Subordinated Debentures, due 1983. Each $1,000 of Debentures will carry 20 warrants to purchase common stock at $15 per share at any time within six years. The stock is currently trading near 14, a price that is approximately 11.5 times earnings expected to be reported for 1962. Since these earnings are not subject to income tax the present price is equivalent to 20 - 22 times fully taxed earnings, a price in line with other regional gas distributors.

It is expected that Cascade Natural Gas will be earning $1.50 - $1.65 per share (fully taxed) prior to the expiration of the warrants. It is reasonable to assume that under these conditions the common stock would sell near 30, an indicated gain of 15 points per warrant. With 20 warrants per $1,000, under this assumption the Debenture holder would have a capital gain of approximately 30%.

Cascade Natural Gas Corp.
(continued)

Interest coverage on the bonds is adequate and the earning power of the Company is rising. The Debentures provide a reasonable current return of 6.0% and, as outlined above, a potential capital gain of perhaps 30%. We regard this as an attractive return on a utility bond investment.

It is recommended that the Committee authorize the purchase of 200 M Cascade Natural Gas 6% Subordinated Debentures, due 1983, with warrants.

John W. Bristol & Co., Inc.

CASCADE NATURAL GAS CORP.

6% 21-Year Subordinated Sinking Fund Debentures, With Warrants

CAPITALIZATION

		P. F. Balance Sheet December 31, 1961		Market Value January 31, 1962	
		(000)	(%)	(000)	(%)
4.31%-6.00% 1st Mtge Bonds, '76-'82		$14,558	44.5%		
6% Subordinated Notes, '75	$3.104				
NEW: 6% Sub. Debs. W.W. '83	6,000	9,104	27.9		
Total Debt		$23,662	72.4%	$23,662	55.8%
5.5% Preferred Stock		3,589	11.0	3,410	8.0
Common Stock & Surplus (1,103,027 shares)		5,450	16.6	15,400	36.2
Total Capitalization		$32,701	100.0%	$42,472	100.0%

BUSINESS

Cascade Natural Gas Corp. distributes natural gas in some 35 communities in Oregon and Washington. The larger cities served are Yakima, Bellingham, Walla Walla, Wanatchee, Pasco and Kennewick, Washington and Eugene, Pendleton, Springfield and Bend, Oregon. The service areas are non-contiguous, the principal common denominator being that they all lie within a few miles of either the El Paso Natural Gas or Pacific Gas Transmission pipelines.

In addition to natural gas, Cascade is presently serving Bremerton and Shelton, Washington with LPG-Air. The Company holds franchises or has applied for franchises in a number of cities not yet connected to the natural gas system. El Paso Natural Gas has applied for permission to construct a 65 mile line to carry natural gas to Bremerton and Shelton and both El Paso and Pacific Transmission are expected to apply for additional permits to connect other population centers where Cascade would serve as the distributing utility.

Cascade Natural Gas Corp.
(continued)

OPERATIONS

The operating history of the Company is typical of gas utility companies operating in territories which have only recently been served with natural gas. In those cities that had been served with manufactured gas or LPG-Air the operator has considerable costs of conversion and, in old systems, capital expenditures are required to bring the old pipe system to efficient operating conditon for the higher pressures ordinarily used with natural gas. In areas not previously served with gas the operator not only has to build distributing systems but must conduct an effective sales effort to convert potential customers from the fuels they have previously used.

Cascade Natural Gas began receiving natural gas in 1956. As indicated on the tabulation below, after several years of deficit operation the Company showed a profit in 1959 and the trend has continued upward. During the current year Cascade will consolidate Pacific Natural Gas, a Company operating in western Washington in which Cascade has bought over 98% of the outstanding common stock.

Yr End	Gross	Depre-	Interest Charges		Net	Per	Common	Share
Dec 31	Revenues	ciation	(000)	XEarned	Income	Earned	Paid	Range
1956	$ 1,435	$187	$ 87	(d) 5.19X	(d) $ 537	(d) $1.05	-	13 - 9
1957	3,803	384	758	(d) 0.71	(d) 1,281	(d) 1.61	-	11 - 4
1958	5,911	428	875	0.42	(d) 97	(d) 0.12	-	8 - 4
1959	6,946	385	806	1.16	200	0.25	-	10 - 7
1960	9,003	468	853	1.71	546	0.47	-	9 - 7
1961e	10,124	541	766	2.38	1,067	0.79	-	15 - 8
1962e	15,834	692	1,260	2.24	1,560	1.23		
1963e	17,424	792	1,396	2.50	1,429	1.12		
1964e	19,100	860	1,425	2.80	1,400	1.10		

e - Estimated. 1961 based on 10 months actual plus two months estimated.

The decline in Net Income in 1962 and 1963 reflects the impact of Federal Income Taxes. It is anticipated that approximately 60% of 1962 results will be subject to income tax and thereafter taxes will be at regular rates.

OUTLOOK

Estimates given above indicate the growth expected over the next several years. Beyond 1964 a growth rate in earnings per share of approximately 10% per annum is a reasonable expectation. If additional service areas can be opened up the growth rate could be modestly improved. Interest charges should continue to be covered from 2.50 to 3.00 times after rising to that level during the next several years.

Cascade Natural Gas Corp.
(continued)

NEW ISSUE

The Company is offering privately, through White, Weld & Co., a total of $6,000,000 Subordinated Debentures having the following basic terms:

Interest Rate	6.00%
Maturity	April 1, 1983
Sinking Fund	Commencing April 1, 1967, $300,000 annually. $1,200,000 due at maturity.
Average Life	14.20 years
Redemption	Redeemable for sinking fund at par. Non-refundable at a lower interest rate through April 1, 1967. Otherwise callable at 106 through April 1, 1967, decreasing thereafter to par in last year prior to maturity.
Subordination	Subordinated to Mortgage Bonds and bank loans.
Debt Restriction	Funded Debt may not exceed 75% of total capitalization.

CWC:lh
2-2-62

John W. Bristol & Co., Inc.

Memorandum from
RALPH E. HANSMANN 10/26/61

To: Mr. Oppenheimer

As promised at the Institute's Finance Committee meeting, enclosed herewith is a copy of the Reaves memorandum on Illinois Power Co.

Regards,

R. E. H.

REAVES, HEWITT & CO., INC.
74 Trinity Place
New York 6, N. Y.

HAnover 2-1435

Confidential
Memorandum

October 13, 1961

ILLINOIS POWER COMPANY

A Reappraisal

The common stock of Illinois Power Company has risen 100% since January 1960. During this period per share earnings increased 13 %. At the current market of 83, the yield is 2.65%. The price/earnings multiple rose from an average of 15.5 over the 5-year period 1956-1960 to the current level of 27.2 times latest earnings. In view of this price action, it would seem appropriate to analyze the company's record and prospects to see if the market has gone overboard in its enthusiasm.

As shown in the table below, the earnings record has been good since 1954 but was uninspiring from 1949 to 1954. The table also shows the company's rate of return (as measured by the relationship of net operating income to net plant) rose from 5% in 1954 to 7% in 1960.

Year	Earned Per Share	Net Operating Income as % of Net Plant	Year	Earned Per Share	Net Operating Income as % of Net Plant
1960	$2.92	7.0%	1954	$1.41	5.0%
1959	2.70	6.8%	1953	1.37	4.7%
1958	2.10	5.9%	1952	1.44	5.1%
1957	1.95	5.8%	1951	1.39	5.3%
1956	2.00	5.7%	1950	1.41	5.5%
1955	1.73	5.5%	1949	1.52	5.4%
% Increase during 6 Year Period	69%			(-) 7.2%	
Compounded Annual Increase	11.1%			-	

If 1954 is used as the base year, the compounded annual increase to 1960 is 12.9% in per share earnings. The good trend since 1954 results primarily from rate increases. In mid 1954, Illinois Power obtained rate increases for its electric, gas and steam divisions which resulted in a two year spurt in earnings. By 1957 additional relief was considered necessary and the company applied for higher rates. The Illinois Commission permitted new gas rates to become effective on August 15, 1958 and new electric rates on November 6, 1958. These higher rates contributed to a rise in earnings from $2.10 per share in 1958 to $2.70 in 1959 and to $2.92 in 1960. A further increase to $3.24 per share was estimated by the company earlier this year for 1961. Another factor contributing to the earnings gain over the period was the rapid development of the gas division in the southern part of the territory following the completion in 1959 of underground gas storage facilities. Working against a waiting list, the company added 22,880 gas house heating customers in the last two years, an increase of 27%, and gas net operating income gained 43% between 1958 and 1960 versus a 25% gain for the electric department.

In the last few years, the market appears to have developed a dangerous tendency to project the short term earnings trend of a company well into the future and to use the short term trend and projection as justification for a substantially higher price/earnings multiple. There are all too many examples in the market place of growth companies which have stumbled, to make it necessary to emphasize that rewards are meager and risks substantial when the projection of the future earnings trend proves too optimistic.

One central point should not be overlooked in appraising the past earnings trend of Illinois Power Company and its relationship to the future. The trend of per share earnings since 1954 reflects moving from an inadequate rate of return (5%) to an extremely generous rate of return (7%). In order for earnings to continue this rate of gain, the return would have to continue to improve in a way that simply is not foreseeable for this regulated company. In fact, if we assume the current rate of return (7%) will be earned on projected net plant at the end of 1965, the indicated earning power would be approximately \$3.55 per share, only 20% higher than in 1960 (see projection in appendix). This would represent a gain of only 3.7% per year. The gain ~~from the~~ estimated 1961 level of \$3.24 per share would be less than 10%. Furthermore, the price/earnings ratio has risen to such a level that prudent investors might do well to consider the possible effects of a change in earning power. If, for example, a 6% rate of return were realized on net plant in 1965, earnings would be held to \$2.80 per share - less than the 1960 level. A 6 1/2% rate of return would result in earnings of approximately \$3.15 per share.

The 1958 rate increase may have yielded the company more than was anticipated. In appraising the potential value and risk of Illinois Power Common, the investor should at least consider the possibility of rate cuts which might have an adverse effect on the ability of the company to earn a high rate of return in the future:

1. Illinois Power usually makes an official forecast of earnings for the year in progress. In 1959, actual results of \$2.70 per share exceeded the forecast by \$0.30 per share.

2. The electric rate increase granted by the Illinois Commerce Commission was approximately 69% of the amount requested by the Company. The new rates were expected to provide a return of 5.85% on a fair value rate base of \$305,000,000 as of June 30, 1958. The fair value rate base was set between net original cost and estimated reproduction cost. Excluding an allowance of about \$8,500,000 for working capital, it appeared to be roughly 13% greater than the value of electric plant in service as carried on the Company's books, less depreciation. On this basis, a return of 5.85% on the fair value

base would be equivalent to about 6.62% on net original cost. The Illinois Commission also established a fair value rate base for the gas department of $56,000,000 as of June 30, 1957 and considered 5.95% to represent a fair rate of return. The margin between the fair value rate base and net original cost of gas plant was considerably smaller than for the electric department. Since current earnings represent a return of approximately 7% of total net plant, some caution would seem justified regarding the possibility of voluntary or involuntary rate cuts. Earnings would have been approximately $2.67 per share if the Company had earned 6.62% in 1960.

3. As shown in the table below, construction costs have levelled off during the last 5 years following a substantial rise since 1945. In fact, the cost situation in recent years is even better than indicated since the installation of extremely large generators and other major equipment has reduced and should continue to reduce the per kilowatt cost.

Cost Trends of Electric Light and Power Construction
North Central Region
(Handy-Whitman Index — 1911 = 100

Year (As of January 1)	1961	1960	1959	1958	1957	1956	1955	1950	1945	1940
Index	603	608	609	595	575	533	498	374	238	222

Not only are current earnings well in excess of the rate apparently set by the Commission as a fair return in 1958, but investors should not overlook the erosion that can take place in a fair value rate base. Obviously, if the company continues to add new plant at relatively stable costs, the amount of plant constructed in the pre-war and immediate post-war periods (which has a high reproduction value) will represent a declining proportion of the total rate base. At the end of 1958, approximately $93,000,000, or 22.8% of the company's plant, was constructed subsequent to 1955. An additional $53,500,000 was installed in 1959-1960. The fair value of property added since 1955 cannot be materially higher than the original cost figures. Over the next 5 years, the company may add close to $188,000,000 of new plant. At the end of 1965, therefore, about 52% of plant will have been constructed since 1955. The actual percentage at the end of 1965 should be even higher since plant retirements can be expected to be concentrated in the older plant. The figures set forth above, (without allowance for other important factors, some unpredictable), suggest the rate base might be reduced from 13% above net plant cost to somewhere in the neighborhood of 9.6%. The result, theoretically, might be to reduce the effective allowable rate of return from 6.62% to 6.4%.

4. Two developments in 1953 marked the beginning of a favorable regulatory period in Illinois. First, in the Illinois Bell Telephone case of January, 1953, the Illinois Supreme Court reversed the Commis-

sion's order because it failed to give consideration to reproduction cost as one of the elements of fair value for rate base purposes. Second, with the election of Governor Stratton, a Republican, George R. Perrine, was appointed Chairman of the Illinois Commerce Commission in January, 1953. Over the last few years, under his leadership, this Commission has become recognized as providing one of the most favorable regulatory climates in the nation. However, Illinois elected a Democrat administration last year and now there are three Democrats on the five-man Commission instead of the reverse as was the case from January, 1953 to a few months ago. Mr. Perrine resigned from the Commission on October 1, 1961. Therefore, to some extent today, policies of the Illinois Commission must be regarded as subject to new interpretation and possible revision.

5. Illinois Power's rates for residential electric service are higher on average than neighboring utilities* as shown in the following comparison:

Typical Net Monthly Bills for Residential Service in Illinois

Town	40 kwh	100 kwh	250 kwh	500 kwh	Utility providing Service
Decatur	$2.00	$4.06	$7.96	$13.46	Illinois Power
Peoria	1.72	3.34	6.71	10.01	Central Illinois Light
Rockford	1.97	3.70	7.07	11.02	Central Illinois Electric & Gas
East St. Louis	2.00	3.50	7.25	9.50	Union Electric Power Co.
Quincy	2.07	4.37	8.12	11.25	Central Illinois Public Service

*Excluding Commonwealth Edison because of the big city nature of much of its operation.

The evidence suggests the Company may be vulnerable to pressure for rate cuts unless rising costs and other factors act soon to reduce the rate of return. Many other utilities in the same position have considered it good business to make selective, voluntary reductions and thus head off a possible formal rate investigation.

* * * *

In conclusion, Illinois Power Commission at the current market of 83 is considered dangerously overpriced. There is a strong possibility of rate reductions. Moreover, prospects for earnings growth over the next five or six years appear quite limited, even assuming a favorable rate of return. Since future price action of any stock is subject to many variables, estimates are highly theoretical. However, as a rough measure, the price/earnings multiple could be revised downward to perhaps 20 times earnings when the limited prospects of the company are recognized. On this basis, our estimates of earning power in 1965 would result in the following prices.

Assumed Rate of Return	Estimated Earnings - 1965	Price at 20 Times Earnings	Decline from Current Market of 83
7%	$3.55 per share	71	14.5%
6 1/2%	3.15 per share	63	24.0%
6 %	2.80 per share	56	32.5%

The price risk, of course, is greater at the beginning of the period between now and 1965.

Current strength, apparently reflecting to some extent expectation of a stock split, provides a good opportunity to eliminate or reduce positions in the stock. Should a replacement be desired, we recommend Pioneer National Gas, (32 1/2), Houston Natural Gas (33 1/2), and Arkansas Louisiana Gas (39 1/2).

William H. Reaves

Details of 5-Year Projection to 1965

Construction expenditures over the 5-year period 1961-1965 may approximate \$188,000,000. In addition, about \$10,000,000 is needed to replace working capital. These funds may be obtained as follows:

Internal Cash Generation	\$113,000,000
Common Stock	15,000,000
Debt	70,000,000
Total Needed	\$198,000,000

Estimated Capitalization at 12/31/65

Bonds	\$243,500,000	52.0%
Preferred Stock	49,300,000	10.3%
Common & Surplus	177,000,000	37.7%
	\$469,800,000	

Estimated Net Plant 12/31/65 \$492,000,000*

Return on Net Plant	6%	6 1/2%	7%
Net Operating Income	\$29,600	\$32,000	\$34,500
Estimated Interest	9,060	9,060	9,060
	20,540	22,940	25,440
Est. Preferred Dividends	2,110	2,110	2,110
Balance for Common	\$18,430	\$20,830	\$23,330
Per Share (6,620,000 shs.)	\$2.79	\$3.15	\$3.53

* Net plant includes approximately \$25,500,000 represented by the Reserve for Deferred Taxes. Indications are the Illinois Commission may either eliminate this property from the rate base or adjust the rate of return. If this amount is deducted from the rate base, earnings of \$353 per share would be equivalent to a 7.4% rate of return instead of 7% as shown in the table above.

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JOHN W. BRISTOL
CHARLES W. CALL, JR.

October 10, 1961

INSTITUTE FOR ADVANCED STUDY

COMPARATIVE DATA - COLLEGE ENDOWMENT FUNDS

	June 30, 1961 (000)		Percentage at Market			
	Book	Market	Bonds	Preferred	Common	All Other
Yale	$259,653	$351,988	27.7%	3.8%	59.5%	9.0%
Princeton	109,892	197,979	27.3	3.0	67.5	2.2
Cornell	116,034	146,810	47.4	0.3	49.3	3.0
Amherst	32,880	51,027	34.5	2.1	62.5	0.9
INSTITUTE	25,599	39,606	30.4	3.0	66.6	0.0
Smith	30,002	38,562	36.8	2.0	56.0	5.2
Swarthmore	16,202	29,433	16.6	1.6	76.3	5.5
AVERAGE --	49 COLLEGES		29.5	2.2	58.0	10.3

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Memo to Mr. Leidesdorf, Chairman
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

October 20, 1961

INSTITUTE FOR ADVANCED STUDY

NORTH AMERICAN COAL CORPORATION

Common Stock

While the income accounts of North American Coal for the past several years would appear to indicate a deterioration of operations they in fact conceal a major realignment of the business. This program, involving divestment of unprofitable mines and improvements in the better properties, necessarily penalized earnings for a time but the foundation now has been laid for a period of outstanding growth. The property program has been completed and ample cash and cash flow are available for implementation of a major automation program destined to produce a sharp gain in profit per ton of coal mined.

The favorable results of the program began to appear in 1960 as profit margins improved steadily throughout the year. Earnings per share should reach about $0.85 this year compared to $0.67 in 1960. We look for substantial gains in 1962 and in 1963. Thereafter, earnings should continue to grow at perhaps 6% annually, reflecting the major portion of sales (currently about 75% and growing) going to electric utility companies.

A major plus value, which we feel is not reflected at all in the price of the stock, exists in North American's joint venture with Strategic Materials Corp. aimed at producing useful products from coal mine wastes. A process for producing alumina from this material has been technologically proven and its economic feasibility is currently being determined. With an unlimited supply of raw material, at no cost and located on the plant site, the potential of the process is obviously great if its other commercial aspects can be worked out.

We believe this common stock is undervalued in relation to intermediate and long term potential growth in earnings, excluding the possibilities of the alumina process. We recommend that the Committee approve the purchase of 12,000 shares of North American Coal common stock.

NORTH AMERICAN COAL CORPORATION
Common Stock

Range 1960-61	Recent Price	Earned per Share 1960	Earned per Share 1961est.	Price/earnings ratio 1961est.	Dividend	Yield
21 - 10	**16**	$0.67	**$0.85**	**18.8X**	$0.60	**3.8%**

CAPITALIZATION ($000):

	Balance Sheet 12-31-60		Market Value 10-19-61	
5 1/4% Notes, 1963-72	$ 7,500	23.4%	**$ 7,500**	**21.2%**
5 1/4% Conv. Notes, 1973*	2,500	7.8	**2,500**	**7.1**
Common and Surplus (1,589,603 shs)	21,971	68.8	**25,400**	**71.7**
Total	$31,971	100.0%	**$35,400**	**100.0%**

* Convertible @ 19 1/2 = 128,203 shares.
Management has options on 42,500 shares at aggregate cost of $569,500 or $13.40 per share.

BUSINESS

North American Coal is the eighth largest commercial producer of bituminous coal in the United States. It has reserves, located in Ohio, West Virginia and North Dakota, in excess of 300 million tons, or about a 50-year supply at the present rate of production. Some 70% of the present reserves are located on the Ohio River which provides barge transportation to major customers.

The statistical record of North American Coal over the past several years is not one that would attract the favorable attention of investors. The record of the past two years becomes interesting, however, when viewed on a quarterly basis in conjunction with a study of the steps taken by management during this period. The record is as follows:

		Net Sales ($000)	Net Income Before Taxes ($000)	Net Income Before Taxes (% of Sales)	Earned Per Share ($)
1st. Q.	1959	$10,252	$ 327	3.2%	$0.17
2nd Q.	"	8,585	370	4.2	0.19
3rd Q.	"	7,559	def. 107	(1.4)	0.03
4th Q.	"	8,246	def. 190	(2.3)	0.03
1st. Q.	1960	8,083	168	2.1	0.10
2nd Q.	"	7,541	252	3.3	0.16
3rd Q.	"	6,653	239	3.6	0.15
4th Q.	"	6,653	558	8.4	0.26
Year	1959	$34,642	$ 400	1.2%	$0.42
Year	1960	28,930	1,217	4.2	0.67

The period is characterized by a declining sales volume and, in 1960, steady improvement in profit margin. When the program of divestment of unprofitable properties was completed, the margin improved sharply in the last quarter of the year. In addition to the sale or abandonment of a number of properties, other factors also affected earnings. The 1959 steel strike severely affected operations of certain properties which have subsequently been disposed of. Three mines that were purchased in June, 1959 showed substantial losses before moving into the balck in the second half of 1960. A change in accounting methods, expensing certain mine development expenditures which had previously been capitalized, reduced net income by $226,000 or 14¢ per share in 1959.

OPERATING OUTLOOK

The transition period has been completed and the Company is now in a position to achieve strong gains in earnings over the next several years. The projected growth in earnings can be achieved in the near term through improved margins resulting from increased use of highly automated mining equipment. For example, management expects to improve its pretax profit per ton of coal from 57¢ to 77¢ by 1962 at its largest mine with new equipment. Company-wide profit per ton showed the following pattern in the four quarters of 1960: 9.5¢, 14.8c, 16.0¢ and 36.5¢. For the month of December the figure was 43¢. It is expected that the pretax profit can be increased to 60¢ per ton by 1963. This rate of profit would compare favorably with the better bituminous producers such as Peabody Coal ($0.61/T in 1960), Consolidation Coal ($0.76/T in 1960) and United Electric Coal ($0.65/T in 1960). Increased volume from North American's presently operated properties will also contribute to improve margins.

LONG TERM PROSPECTS

A steady growth in volume can be expected based on the increasing proportion of Company sales going to utilities and the ever-expanding consumption of coal by these customers. The percentage of sales going to electric companies reached 67% in 1960 and may be 75% this year, up from 51% in 1955.

The long term fixed price contracts with utilities provide excellent leverage to a Company achieving significant gains in production efficiency. At the same time they afford protection against increased labor costs through escalation clauses. Some of the utilities served are American Electric Power, Cincinnati G & E, Cleveland Electric Illuminating, Consumers Power, Detroit Edison, Ohio Edison and Pennsylvania Electric. A very large new contract is expected when American Electric builds a new plant, currently in the design stage, adjacent to a North American mine in Ohio.

Financial condition is strong with cash of \$8.9 million versus current liabilities of \$3.8 million. Estimated cash flow of \$2.8 million, after dividends, will amply cover 1961 capital expenditures of \$2.4 million. According to the annual report, "This estimate (capital expenditures) may change after we have examined the performance of certain new and novel mining equipment which has recently been placed in operation". The large cash position provides wide leeway for increased expenditures as well as virtually guaranteeing the safety of the dividend.

UTILIZATION OF COAL MINE WASTES

Another very great potential, now in the advanced development stage, exists in the research being conducted jointly with Strategic Materials Corp. on processes for extracting useful products from coal mine waste shales. Strategic contributes the technology and North American the capital, receiving in return Strategic common stock of which it now holds about 66,000 shares.

The first commercial application of the process will be inaugurated this year with the construction of an alum (aluminum sulphate) plant by North American at its Powhatan (Ohio) mines. The 40,000 ton plant is scheduled for completion in August at a cost of \$1.3 million.

The next step, and the one with the most interesting potential, is the decomposition of alum to alumina, the raw material for aluminum. Quoting from the annual report, pilot plant operations "have successfully demonstrated beyond question the technology of decomposition from alum to alumina . . . . . The chief objective this year is to ascertain the economic feasibility of the process . . . . . If the results . . . . . indicate that this process is economically feasible then we will recommend toward the end of the year the construction of facilities for this purpose as an addition to the alum plant". The obvious advantage of this process as opposed to the conventional one using bauxite is that here the raw material, coal wastes, is available in virtually unlimited supply at literally no cost on the site of the plant. The location of three existing primary aluminum reduction plants on the Ohio River (Ormet, Kaiser and Alcoa) could provide a market for alumina produced by North American.

It bears repeating that the alumina process has not yet been proven commercially feasible. A sizable investment in money and management effort has been made, however, and North American's officers are highly optimistic on the probabilities of success.

RECOMMENDATION

We feel that the stock is very attractive on the basis of the coal business alone. The alumina process represents a very large but undefinable plus value. At the current price level the stock offers the potential of large gains without exposure to an undue degree of risk.

INCOME ACCOUNT SYNOPSIS ($000)

Year	Sales	Depr., Depl. & Amort.	Net Before Tax ($)	Net Before Tax (%)	Net Income	Tonnage Mined	% of tonnage Sold to Utilities
4/30/55	$28,710	$1,300	$ 759	2.6%	$ 510	4,261 T.	NA
4/30/56	36,522	1,437	2,160	5.9	1,505	5,629	NA
4/30/57	44,650	1,564	2,836	6.3	1,949	6,176	56%
12/31/57	46,305	1,865	2,660	5.7	1,929	6,141	59
12/31/58	39,434	2,008	1,542	3.9	1,087	5,326	62
12/31/59	34,642	2,052	400	1.2	661	6,357	63
12/31/60	28,930	1,956	1,217	4.2	1,065	6,355	67

	Per Common Share: Earned	Paid	Range (Calendar Years)
4/30/55	$0.43	$0.19	Offered
4/30/56	1.33	0.20	7-19-56 @12
4/30/57	1.33	0.45	20 - 12
12/31/57	1.32	0.60	20 - 11
12/31/58	0.74	0.60	14 - 10
12/31/59	0.42	0.60	14 - 10
12/31/60	0.67	0.60	15 - 10

BALANCE SHEET ITEMS ($000)

	Cash	Receivables	Inventories	Total Current Assets	Current Liabilities	Net Working Capital
4/30/57	$2,273	$4,691	$5,572	$12,535	$4,907	$ 7,628
12/31/57	1,765	4,906	8,824	15,495	5,471	10,024
12/31/58	1,711	4,667	7,774	14,152	4,101	10,051
12/31/59	6,356	5,266	1,913	13,535	3,610	9,925
12/31/60	8,894	3,733	1,510	14,136	3,785	10,352

	Fixed Assets			
	Gross	Net	Long Term Debt	Common Equity
4/30/57	$33,838	$18,814	$ 4,245	$23,388
12/31/57	38,324	22,097	10,094	23,830
12/31/58	40,605	22,476	10,089	24,038
12/31/59	42,952	21,774	10,000	23,945
12/31/60	38,734	18,903	10,000	21,971

John W. Bristol & Co., Inc.

CROSS REFERENCE

FILE: Trustee Fund Raising Committee

RE:

LETTER DATED: May 25, 1961

SEE: Inst. Gen. - ~~Ford Fdn. Study of Institute~~
Institute, Study of by Ford Fdn.

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JOHN W. BRISTOL
CHARLES W. CALL, JR.

Memo to Mr. Leidesdorf,
Chairman pro tem
Mr. Linder
Mr. Hochschild
Mr. Mitchell
Mr. Shanks
Mr. Strauss

April 12, 1961

INSTITUTE FOR ADVANCED STUDY

W. R. GRACE & COMPANY

Common Stock

Until the early 1950's almost all of the profits of W. R. Grace & Co. were derived from shipping and activities in Latin America that were designed to develop traffic for the ship line. Since that time the emphasis has been drastically shifted toward chemical operations which now produce almost three fourths of the Company's profits. Chemical earnings have grown at about 15% annually in recent years, far outpacing the record of the chemical industry in general.

The excellent progress achieved in chemicals has been hidden in Grace's overall results by declines in earnings from its other operations. It now appears that the erosion of profits has been arrested and that a strong growth trend should develop beginning this year. Some loss operations have been disposed of and the Grace Line, which lost money last year but is currently in the black, could be sold this year. Chemicals continue to show healthy growth despite general business conditions and a large increase in earnings appears assured for 1961.

Grace's interest in a Libyan oil venture provides a source of important future profits which should begin to accrue in 1963 and could exceed $1.00 a share soon thereafter. An agreement by Esso to market Grace's share of the crude relieves Grace from becoming involved in marketing problems.

The stock is selling at less than sixteen times estimated 1961 earnings and less than seven times cash flow. Growing awareness of the greatly improved quality of earnings and above average growth prospects should result in a considerably higher multiple applied to growing earnings, producing excellent appreciation in market value. We recommend that the Committee approve the purchase of **5,000 shares**.

Common Stock

Range 1961	Recent Price	Earned Per Share 1960	Earned Per Share 1961 est.	Price/earnings ratio 1960	Price/earnings ratio 1961	Dividend	Yield
62-35	58	$3.16	$3.75	18.4x	15.5x	$1.60+stk	2.8%

CAPITALIZATION ($ millions):

	Balance Sheet 6-30-60		Market Value 4-6-61	
Long Term Debt	$195.7	41.9%	$195.7	37.7%
Minority Interest	28.0	6.0	28.0	5.4
Preferred Stock	12.6	2.7	12.6	2.4
Common and Surplus (4,873,776 shs)	230.6	49.4	282.7	54.5
Total	$466.9	100.0%	$519.0	100.0%

Transition to Chemicals

Until the early 1950's almost all of the profits of W. R. Grace and Co. were derived from shipping and activities in Latin America that were designed to develop traffic for the ship line. Since that time the emphasis has been drastically shifted toward chemical operations. Although this reorientation program is general knowledge in the investment community, the extent of the progress and current status of the Company's earning power are not adequately reflected in the price of Grace common stock. One good reason for this is that declines in Grace's other operations have hidden the excellent progress made in chemicals, as is clearly demonstrated by the following sales and earnings figures.

	Chemical Sales ($ millions)	% increase	Earnings per common share Before long term debt interest & pfd. divs. Chemical	% of total	Other operations	% of total	Total
1956	$156	8%	$1.71	35%	$3.17	65%	$4.88
1957	167	7	1.54	33	3.11	67	4.65
1958	170	8	1.90	59	1.30	41	3.20
1959	203	19	2.73	65	1.48	35	4.21
1960est.	229	13	3.06	73	1.11	27	4.17

The record of Grace's chemical operations has been truly outstanding, both in absolute terms and relative to the industry. The period 1956-1960 was not a favorable one for the chemical industry in general and several of the leading companies have failed to regain the levels of earning power achieved in 1955 or '56.

The decline in earnings from Grace's other activities has more than offset the gains in chemicals so that 1960 results will be far below the 1956 level. Steadily increasing depreciation and debt interest charges have also cut into earnings although these are, of course, necessary ingredients of a rapidly growing chemical complex.

Outlook

It now appears that the erosion of overall profits has been arrested and that a growth trend should develop beginning this year. Latin American paper properties which had shown a larger loss in each succeeding year from 1956 through 1960 have been sold. Grace Line, which had produced good profits in 1956 and 1957, declined in 1958 and 1959 and showed a loss in 1960. Except for these two factors, 1960 net per share before interest and preferred dividends would have equaled 1956. Grace Line will do no worse than break even in 1961 and there is a good chance the line may be sold this year. Other South American activities have remained profitable although below 1956-7 levels. The "general business" category, of which Grace Bank is the most important factor, has shown a good trend of earnings and should contribute to growth.

The cash acquisition by Grace of a 53% interest in Cosden Petroleum augmented Grace's 1960 earnings by some 15¢ per share before interest and preferred dividends. As over 20% of Cosden's profits are said to come from petrochemical activities, the relationship seems logical and could prove increasingly valuable to Grace.

Libyan Oil Venture

A source of important future profits for Grace exists in its 24.5% interest in a Libyan oil venture in association with Standard Oil of New Jersey and Texas Gulf Producing. Drilling efforts have been highly successful and a pipeline is being laid to transport the oil to the Mediterranean Coast. As Esso has agreed to purchase and market Grace's share of the crude oil, at Grace's option, the Company need not become involved in marketing problems unless it is clearly advantageous to do so. Although it is impossible to estimate accurately the timing and extent of profits from this venture it appears that they should begin to accrue in 1963 and could exceed $1.00 per Grace share shortly thereafter.

Earnings Projections

For 1961, elimination of loss operations and a further moderate growth in chemical earnings should produce a worthwhile gain in reported profits with $3.50 per share a minimum expectation. If the general economic situation improves significantly earnings of better than $4.00 per share are a definite possibility. First quarter results will show excellent gains from the previous year's level reflecting the factors mentioned above. The ship line is currently in the black and chemical sales show continued healthy growth.

Continuation of the favorable trends now in evidence should produce earnings of $5.00 per share within a few years and above average growth can be anticipated thereafter with chemical and oil profits contributing an increasing share of the total. Financing of this growth should not be a problem as cash flow, building up rapidly, reached a level of $44 million or about $9.00 per share in 1960.

Conclusion

Growing awareness of the greatly improved quality of earnings and growth prospects should result in a considerably higher valuation of Grace's common stock. Selling at less than sixteen times probable 1961 earnings and less than seven times cash flow, the stock offers exceptional value for appreciation.

HBT:lh
4-11-61

John W. Bristol & Co., Inc.

W. R. GRACE & CO.

INCOME ACCOUNT SYNOPSIS ($millions):

Year	Sales	Net Before Depr. & Tax ($)	Net Before Depr. & Tax (%)	Depreciation	Net Income	Unremitted Earnings of non-consol. Subs.	Total Net After Pfd. Dividends
1951	$294.4	$26.3	8.9%	$ 6.0	$ 9.9	$1.0	$ 9.9
1952	315.6	20.1	6.4	6.4	8.5	0.5	8.1
1953	331.0	30.6	9.2	7.5	12.6	0.9	12.5
1954	413.4	37.6	9.1	11.5	14.8	1.8	15.6
1955	427.1	45.7	10.7	14.1	18.8	1.2	19.1
1956	438.1	46.8	10.7	14.3	19.8	1.7	20.5
1957	459.7	43.3	9.4	17.6	15.5	2.0	16.5
1958	434.2	39.2	9.1	20.7	10.0	1.4	10.5
1959	469.7	48.4	10.3	21.8	14.8	1.8	15.7
1960est.[a]	553.0	54.4	9.8	28.2	16.2[c]	-	15.3[c]

	Per Common Share			Chemicals			
	Earned[b]	Paid	Range	Sales ($)	Sales % Total	Net Per Share (before int. & pfd. divs.)	% Total
1951	$2.71	$1.60	34-27	$ 45	16%	NA	-
1952	2.17	1.60	34-26	45	14	NA	-
1953	3.31	1.75	33-25	65	20	NA	-
1954	3.72	1.75	48-28	131	32	NA	-
1955	4.25	2.00	55-42	145	34	NA	-
1956	4.51	2.30	60-45	156	36	$1.71	35%
1957	3.54	2.40	57-39	167	36	1.54	33
1958	2.24	2.20	50-41	170	39	1.90	59
1959	3.30	1.60 +stk	55-43	203	43	2.73	65
1960est.	3.16[c]	1.60 +stk	45-32	229	42	3.06	73

a) including equity in Cosden.
b) On average shares, as reported; adjusted for 2% stk divs., 1959, '60, '61.
c) Including net capital gains of $1.3 million (27¢ per share) on slae of Foster & Kleiser.

BALANCE SHEET ITEMS ($millions):

Year End 12-31	Cash	Receivables	Inventories	Total Current Assets	Current Liabilities	Net Working Capital
1956	$56.5	$61.1	$77.0	$198.0	$89.8	$108.1
1957	59.8	61.0	77.6	202.3	81.7	120.6
1958	66.9	63.8	70.3	205.6	75.3	130.3
1959	63.3	83.8	77.0	228.6	90.5	138.1

	Property Accounts Gross	Property Accounts Net	Long Term Debt	Minority Interest	Preferred Stock	Common Equity
1956	$281.1	$163.9	$ 91.2	$12.2	$12.6	$210.8
1957	337.0	207.5	126.9	12.1	12.6	215.3
1958	362.6	221.9	163.5	6.9	12.6	215.6
1959	392.1	232.7	163.7	7.3	12.6	227.9

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JOHN W. BRISTOL
CHARLES W. CALL, JR.

Memo to Mr. Linder, Chairman
Mr. Hochschild
Mr. Leidesdorf
Mr. Mitchell
Mr. Shanks
Mr. Strauss

January 27, 1961

INSTITUTE FOR ADVANCED STUDY

COPELAND REFRIGERATION CORP.

Range 1960-61	Recent Price	Earned per Share 1960	Earned per Share 1961est.	Price/Earnings Ratio 1960	Price/Earnings Ratio 1961	Dividend	Yield
33-21	30	$2.50	$2.60	12.0x	11.5x	$1.00	3.3%

INCOME ACCOUNT SYNOPSIS:

Yr. End Sept. 30th	Net Sales (000)	Depreciation (000)	Net Before Tax (000)	Margin	Net Income (000)	# of Shares (000)
1951	$14,104	$110	$ 920	6.5%	$ 427	600
1952	14,138	117	934	6.6	481	600
1953	22,435	145	1,851	8.2	741	675
1954	23,212	172	2,178	9.4	978	675
1955	25,076	194	2,053	8.2	983	675
1956	29,237	228	1,791	6.1	882	800
1957	28,963	302	2,175	7.5	1,066	800
1958	30,195	379	1,627	5.4	796	800
1959	35,039	525	2,999	8.5	1,427	800
1960	39,562	592	4,179	10.6	2,007	803

	Per Common Share Earned	Paid	Range
1951	$0.71	$0.55	7 - 4
1952	0.80	0.25	8 - 4
1953	1.09	0.60	14 - 8
1954	1.44	0.75	17 - 12
1955	1.45	0.80	18 - 13
1956	1.10	0.90	17 - 13
1957	1.33	1.00	16 - 11
1958	0.99	0.70	16 - 10
1959	1.78	0.70	28 - 15
1960	2.50	0.90	33 - 21

BALANCE SHEET ITEMS:

Yr. End Sept. 30	Cash	Receivables	Inventories	Total Current Assets	Current Liabilities	Net Working Capital
1956	$1,255	$2,543	$5,139	$8,936	$3,781	$5,155
1957	855	2,851	4,889	8,595	3,248	5,347
1958	1,132	3,105	4,181	8,418	3,148	5,270
1959	2,421	3,309	4,589	10,318	4,198	6,120
1960	2,493	3,123	5,236	11,061	3,509	7,552

	Plant Accounts		Long Term	Common	Equity
	Gross	Net	Debt	Equity	Per Share
1956	$2,977	$1,947	$ 15	$ 7,321	$ 9.15
1957	5,198	3,965	-	7,587	9.48
1958	5,622	4,249	2,000	7,823	9.78
1959	6,011	4,249	2,000	8,694	10.86
1960	6,405	4,208	1,870	10,013	12.47

1/27/61

John W. Bristol & Co., Inc.

Trustee Finance Comm.

JOHN W. BRISTOL & CO.
INCORPORATED
233 BROADWAY
NEW YORK 7, N. Y.
CORTLANDT 7-1137

JOHN W. BRISTOL
CHARLES W. CALL, JR.

Memo to Mr. Linder, Chairman
Mr. Hochschild
Mr. Leidesdorf
Mr. Mitchell
Mr. Shanks
Mr. Strauss

February 2, 1961

INSTITUTE FOR ADVANCED STUDY

NATIONAL PROPANE CORPORATION

Range 1960-61	Recent Price	Earned per share 12 mos. 10-60	Price-earnings ratio	Dividend
22 - 12	20	$.90	22.3x	stock

INCOME ACCOUNT SYNOPSIS:

Fiscal Yr. Nov. 30th	Net Sales	Depreciation	Interest Charges (000)	Interest Charges (Times Earn.)	Profit Before Taxes (000)	Profit Before Taxes (%)	Net Income
1955	$ 3,524	$ 340	$240	4.0x	$ 304	8.6%	$135
1956	10,298	914	565	3.1	1,238	12.0	624
1957	11,879	1,079	595	3.7	1,639	13.8	826
1958	13,700	1,171	611	3.5	1,541	11.2	779
1959	19,146	1,334	686	3.4	1,670	8.7	890
5Mos. 4/30/60	8,890	576	273	4.3	898	10.1	471
12Mos. Oct. '59	18,274	1,370	685	4.1	1,663	9.1	838
'60	18,903	1,380	661	4.1	1,594	8.4	798

Nov. 30	Per Common Share Earned*	Paid	Range	# Shares Outstanding
1955	$0.32	-	10 - 10	201,680
1956	0.75	-	13 - 6	473,108
1957	1.05	-	10 - 6	476,660
1958	0.97	5%stk	14 - 7	500,071
1959	1.16	5%stk	18 - 11	573,601
5Mos. 4/30/60	0.62	5%stk	19 - 12	632,575
12Mos. Oct. '59	1.00			
'60	0.90		19 - 12	649,343

* Adjusted for stock dividends through 1/60.

NATIONAL PROPANE CORPORATION

BALANCE SHEET ITEMS:

Nov. 30	Cash	Receivables	Inventories	Total Current Assets	Current Liabilities	Working Capital
1955	$ 453	$ 844	$ 382	$1,716	$ 796	$ 920
1956	1,476	1,370	1,001	3,892	2,626	1,266
1957	937	1,939	1,130	4,006	2,570	1,436
1958	1,606	2,320	1,567	5,570	3,190	2,380
1959	947	3,263	1,492	5,738	3,557	2,181
4/30/60	1,008	3,270	1,475	5,877	3,330	2,547

Nov. 30	Property Account Gross	Property Account Net	Subsid.	Long Term Debt	Preferred Stocks	Common Equity	Per Sh.
1955	$ 6,781	$ 6,198	$75	$ 5,364	$1,155	$ 809	$2.84
1956	18,454	17,077	75	11,562	5,355	1,842	3.89
1957	20,233	17,838	75	11,951	5,355	2,402	5.04
1958	20,630	18,783	75	13,662	5,310	2,962	5.86
1959	23,276	18,632	75	12,679	4,909	4,001	7.23
4/30/60	23,617	18,444	75	12,499	4,640	4,549	7.29

2/2/61
HBT:lh

John W. Bristol & Co., Inc.

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Memo to Mr. Linder, Chairman
Mr. Hochschild
Mr. Leidesdorf
Mr. Mitchell
Mr. Shanks
Mr. Strauss

January 30, 1961

INSTITUTE FOR ADVANCED STUDY

COLORADO INTERSTATE GAS COMPANY
Common Stock

Range 1960-61	Recent Price	Earned Per Share 1960est.	Earned Per Share 1961est.	P/E Ratio 1959	P/E Ratio 1960est.	Dividend	Yield
43 - 32	42	$2.00	$2.25	21.0x	18.6x	$1.25	3.0%

One major factor tending to depress the gas transmission stocks has been the uncertainty regarding the final decisions to be made in many important pending rate cases and the effects that these decisions will have on past, present and future earnings of the companies concerned. Colorado Interstate, with all of its past rate cases settled and no new ones anticipated in the intermediate future, is not subject to this uncertainty and its past record can be accepted at face value as a valid pattern of earnings growth.

From 1954 through 1959 operating revenues increased at an average compound annual rate of 17 1/2% and earnings per share gained in every year, averaging over 10 1/2% annually.

The Company has submitted to the F.P.C. an expansion plan which would increase system capacity by some 75%. This can be accomplished with a very minor amount of new common stock financing and perhaps with none as the Company could derive the equity portion from the sale of some of the Colorado Oil & Gas common stock that it holds. The market value of this investment represents about $5 per Colorado Interstate share in excess of its value on the Company's books.

Earnings in 1960 are benefitting significantly from two new nonregulated contracts which total 150,000 MCF/day. Colorado Interstate recovers most of this gas after it is stripped of helium by the U.S. Government in one case and of liquid hydrocarbons by two oil companies in the other.

Colorado Interstate Gas Company
Common Stock (cont.)

The territory served is showing excellent growth and the Company enjoys one of the best gas reserve positions in the industry - 26 times 1959 sales. An earnings growth rate of 12% annually for the next several years appears to be entirely within reason.

Selling at 18.6 times estimated 1961 earnings (16.4 times if the market value Colorado Oil & Gas holding is deducted) the common stock offers above average attraction for growth.

COLORADO INTERSTATE GAS COMPANY
2,470,439 shs. '60

Yr. End Dec. 31	Operating Revenues ($000)	Net Income ($000)	Per Common Share ** Earned	Paid	Range
1954	$27,878	$2,704	$1.04	$0.89	37 - 27
1955	31,892	3,521	1.24	0.89	49 - 36
1956	36,123	3,793	1.34	0.89	55 - 39
1957	49,343	4,445	1.60	0.89	58 - 24
1958	54,288*	4,561*	1.64*	0.89	42 - 26
1959	62,341	5,287	1.71	0.89	42 - 29

*Note: 1958 restated to reflect final settlement of rate cases.
** Adjusted for 40% stock dividend in June, 1960.

HBT:lh
1-30-61

John W. Bristol & Co., Inc.

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Memo to Mr. Linder, Chairman
Mr. Hochschild
Mr. Leidesdorf
Mr. Mitchell
Mr. Shanks
Mr. Strauss

February 1, 1961

INSTITUTE FOR ADVANCED STUDY

FRUEHAUF TRAILER COMPANY

Range 1960-61	Recent Price	Earned per Share 1960est.	Earned per Share 1961est.	Price/Earnings Ratio 1960	Price/Earnings Ratio 1961	Dividend	Yield
30 - 17	23	$1.40	$1.80	16.4x	12.8x	$1.20	5.2%

CAPITALIZATION ($000):

	Balance Sheet 9-30-60		Market Value 1-26-61	
Long Term Debt	$ 59,503	33.7%	$ 59,503	26.9%
Preferred Stock	7,855	4.4	6,284	2.8
Common Equity (6,771,257 shares *)	109,198	61.9	155,733	70.3
	$176,556	100.0%	$221,520	100.0%

*Approximately 1,000,000 common shares are reserved for conversion of $26,500,(000) 4% Convertible Debentures.

INTRODUCTION

On November 3, 1955, the then President of Fruehauf Trailer Company presented what may be the most flambouyantly optimistic address ever given to a group of security analysts. It was said that sales would increase from $235 million in 1955 to $350 million in 1956 and $500 million in 1957 and "profit margins will be satisfactorily consistent with that high unit production and sales volume". Facilities were expanded and production was stepped up to meet the expected dynamic surge in demand.

Subsequent events proved to be painfully dissimilar to the Company's expectations. 1955 proved to be the high point for the trailer industry with shipments of 76,468 units. Shipments declined sharply for the next three years before recovering in 1959 to a level of 67,000. Fruehauf's sales advanced to $256 million in 1956 but dropped in the next two years. Margins plummetted after 1955 and earnings faded into a substantial loss by 1958. The common stock dropped from a 1956 high of 38 3/8 to a low of 8 3/4 in December, 1957.

This, briefly, is the history that earned for Fruehauf the low regard in which the stock has been held by investors. There now exists strong evidence that drastic internal changes have made Fruehauf a "new Company" that can not be validly compared with the old. The potential offered by the anticipated large scale acceptance of "containerization" could mean a new era for trailer manufacturers. These factors combine to make Fruehauf common stock extremely interesting for appreciation based on the probability of a strong recovery in earnings followed by above average growth.

MANAGEMENT

Practically all of Fruehauf's top level executives have assumed their positions within the last three years. William E. Grace was elected President in September, 1958 and was made Chief Executive Officer in September, 1959. Management, operations, product lines and finances have all been substantially altered. Many of the changes merely represented implementation, for the first time in the Company, of elementary business practices such as cost and inventory controls, sales projections, etc. Standardization of products and components substantially reduced capital requirements in addition to greatly improving efficiency. Sizeable write-downs were made to put inventories, receivables and plants on a sound accounting basis.

EVIDENCE OF IMPROVEMENT IN OPERATIONS

Although 1960 volume will approximate that of 1958 which was the lowest level since 1954, Fruehauf will report the second highest profits in its history. In 1958, a similar level of operations produced a loss of $3.5 million excluding $5.9 million of extraordinary charges and $4.8 million pretax income from finance subsidiaries. Despite the sharp drop in sales in the second half of 1960, results remained in the black and it appears that for the full year profit margins will have held up surprisingly well. Based on the recent depressed level of operations, the breakeven point, excluding finance company income, now is somewhere below a $170 million rate of sales. Related to a total capacity of perhaps $500 million, this would indicate a highly efficient operation.

The financial condition also indicates greatly improved control in that area. In the first nine months of 1960 net working capital declined moderately by $2.6 million (3%), an amount equal to the reduction in long term debt. Inventories have been reduced sharply and the cash position is strong. Debt has been reduced steadily since the end of 1957.

CURRENT SITUATION

It appears that the last quarter of 1960 probably was the low point in sales and earnings for the Company. According to recent statements by Mr. Grace, new orders turned up in December, prices are firm and backlog is rising. First quarter '61 earnings should exceed the 30¢ dividend. Some sizeable orders have been received from ship lines for containers.

Prices of trailers will be reduced shortly but not, according to Grace, due to competition. Reductions would reflect significant savings now being obtained in the cost of glass, tires and axles.

The bad order ratio of railroad rolling stock is currently at a very high level. A director of a major railroad states that many cars will not be repaired but will be replaced by containers. Piggyback operations were up 34% in 1960 over 1959.

The dividend appears entirely safe now, barring truly drastic further decline in general business. Management had intended to continue the 30¢ rate through the first two quarters of 1961 even if earnings did not turn up. The strong cash position justifies continuation of the rate even if the margin of coverage is narrow.

LONG TERM OUTLOOK

The economics of "containerization" offer such important advantages to ship lines, truckers and railroads that large scale usage of containers has to be merely a question of time. For example, a recent study made for an east coast ship line indicated that material handling costs could be reduced by over 80% when containers were used. Although related labor problems are not entirely solved, the agreement between shipowners and longshoremen is a major step in that direction.

The major roadblock to widespread acceptance of containers seems to be lack of standardization. Fruehauf expects its "Twin Twenty" unit, introduced in September, 1960, to become the standard. This is a 40-foot tandem axle unit that can be hauled on through highways and is separable into two 20-foot vans for local deliveries. The two 20-foot containers can be removed from the undercarriages for transport on ships or flat cars. The versatility of the unit and Fruehauf's leading position in the industry support the probability that the Twin Twenty could solve the standardization problem.

While it is impossible to predict the exact timing, we are convinced that a dynamic market for containers will develop and that this is likely to occur on the recovery phase of the current business cycle.

Apart from the potential offered by containers, the outlook for truck traffic and trailer manufacturing over the next several years is favorable. Trucks have been gradually increasing their share of the freight transportation market. Motor freight traffic approximately doubled in the ten years ending 1959. Revenue per ton-mile has increased steadily for trucks. The vast highway building programs have contributed much to the growth of trucking and will continue to do so. Replacement demand should be particularly strong in the next several years as the units produced in the early postwar period require replacement. Obsolescence of older units has been hastened by improved designs and by liberalization of restrictions on vehicle length and weight.

Although Fruehauf's business remains basically cyclical, increasing container sales should provide a higher level of "normal" earning power as well as contributing to an overall growth trend. Internal improvements should also result in greater stability of earnings. These factors should in time mitigate the Company's erratic past record and result in a higher average earnings multiple for the stock.

The level of earnings in 1961 will depend largely on the timing of an uptrend in general business and the rate of increase in orders for containers. We estimate a range from $1.60 per share under continued adverse conditions to over $2.00 if volume recovers rapidly. By 1962, a level of $3.00 to $3.50 should be easily obtainable with the economy in the recovery stage.

Longer term, estimates of $5 to $6 per share, fully converted, have been made. While we are unable to develop sound projections that support such figures, we do not feel that such levels of earnings must be expected to justify purchase of the stock at its current price. We must concede, however, that the very large potential market for containers and the leverage of the present excess plant capacity provide Fruehauf with the opportunity to achieve substantially higher earnings than we project for 1962.

We conclude that Fruehauf common stock offers a reasonable probability of substantial appreciation in addition to an attractive current yield at 23.

2-1-61
HBT:lh

John W. Bristol & Co., Inc.

FRUEHAUF TRAILER COMPANY

INCOME ACCOUNT SYNOPSIS ($000):

Yr. End 12-31	Net Sales	Depreciation	Pretax Operating Net ($)	Pretax Operating Net Margin	Pretax Fin. Co. Net	Net Profit
1952	$160,958	$1,238	$ 9,937	5.8%	$1,970	$ 5,847
1953	192,628	1,330	12,902	6.7	1,884	7,218
1954	152,229	1,337	6,278	4.1	2,400	4,351
1955	233,615	1,554	15,295	6.6	2,841	8,712
1956	255,620	2,214	5,673[a]	2.2	4,846	4,266
1957	232,042	2,361	1,178	0.5	5,192	1,809
1958	210,467	2,412	9,355[a]	4.4	4,847	5,413
1959	249,683	2,537	20,229	8.1	6,619	12,971
1960est.	215,000	2,500	13,600	6.3	6,600	9,700

	Per Common Share[b] Earned	Paid	Range
1952	$1.85	$1.00	12 - 10
1953	2.32	1.00	12 - 10
1954	1.29	1.00+stk	18 - 11
1955	2.11	1.00+stk	29 - 16
1956	0.68	1.40+stk	38 - 22
1957	0.23	0.70+stk	24 - 9
1958	0.87	--	20 - 9
1959	1.92	--	31 - 19
1960est.	1.40	1.20	30 - 17

a. Including net special charges, 1956 $2,141, (499); 1958 $5,900, (108).

b. As reported, on average shares.

BALANCE SHEET ITEMS ($000):

Year End	Cash	Receivables	Inventories	Current Assets	Current Liabilities	Net Current Assets
1956	$24,956	$40,364	$101,476	$167,758	$71,833	$95,825
1957	16,462	38,146	82,588	138,235	47,929	90,306
1958	16,022	35,416	56,883	109,489	29,893	79,596
1959	23,197	47,824	58,725	130,935	45,224	85,711
9/30/60	19,374	39,699	49,692	110,187	27,102	83,085

	Property Account Gross	Property Account Net	Invest.	Debt	Preferred Stock	Common Equity
1956	$47,777	$33,678	$48,050	$67,606	$7,914	$103,987
1957	47,906	31,931	60,322	71,359	7,855	100,719
1958	47,196	28,634	61,260	66,432	7,855	93,069
1959	50,018	29,552	62,841	62,098	7,855	106,157
9/30/60	51,221	29,541	63,094	59,503	7,855	109,198

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Memo to Mr. Linder, Chairman
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Mr. Mitchell
Mr. Shanks
Mr. Strauss

February 8, 1961

INSTITUTE FOR ADVANCED STUDY

UNITED ARTISTS CORPORATION

6% Subordinated Notes due 2-1-76
With Warrants

United Artists was purchased by the present management in 1951. The operations have been almost totally changed and have progressed from near bankruptcy to profitability and healthy growth. The Company no longer produces movies but functions mainly as a financing and distributing agent for independent producers. The main source of revenue is the distribution fee received for promotion and rental of films to theaters.

Excellent growth in gross and net income has been offset by substantial increases in outstanding common shares. Except for the proposed new warrants, remaining potential dilution is negligible and inordinate amounts of equity financing should not be required in the future.

The Notes are of satisfactory quality and provide an attractive yield of 6%. The management has achieved an excellent record in adjusting the operations to industry trends and then outperforming the industry. Assuming a curtailment of dilution, common share earnings should show above average growth. During the life of the warrants, the stock could well appreciate 70% which would produce a gain of 50% on the total investment.

The total issue will be in the amount of $10,000,000. Purchasers will include United States Steel Pension Fund ($6,500,000) and Ford Foundation ($1,500,000). The balance of $2,000,000 has been reserved for clients of John W. Bristol & Co., Inc.

It is recommended that the Committee authorize the purchase of $250 M United Artists 6% Notes with warrants.

UNITED ARTISTS CORPORATION

6% Subordinated Notes with Warrants

Amount: $10 Million

Price: Par

Warrants: 20 per $1,000 Note. Exercisable at 37 1/2 for six years and at 40 for four years. Protected against dilution. Company will pay for two registrations.

Sinking Fund: Beginning in the sixth year, to retire one half of the issue by the 14th year. Notes surrendered in payment for shares acquired through exercise of warrants may be applied against sinking fund requirements.

Optional Redemption: After the fourth year, at 106 declining to par in last year.

Subordinated: To bank loans, secured debt and other senior borrowings.

Other Provisions: Restrictions on dividends and additional subordinated debt and other standard provisions.

PRO FORMA CAPITALIZATION ($000):

	Balance Sheet 10-1-60		Market Value 2-2-61	
Notes Payable (banks)	$14,731		$ 14,731	
6% Participating Notes[a]	20,000		20,000	
	34,731	41.2%	34,731	32.0%
NEW 6% Notes	10,000		10,000	
6% Debentures (subsidiary)[b]	3,000		3,000	
Other long term	2,629		2,629	
	15,629	18.6	15,629	14.4
Common Equity[c]	33,877	40.2	58,247	53.6
	$84,237	100.0%	$108,607	100.0%

[a] Includes additional $5 million sold after 10-1-60.
Participating interest makes effective rate currently around 8%.

[b] Not guaranteed by parent company.

[c] 1,224,218 shares Common and 440,000 shares Class B, total 1,664,218 shares.
Class B is convertible into Common, share for share, and has equal rights but dividends have been waived on Class B.

HISTORY AND BUSINESS

The present management acquired United Artists from Charles Chaplin and Mary Pickford in 1951. The Company had not shown a profit since the war years and was near bankruptcy at that time. Since then the operations have been almost completely changed and gross revenues and net income have grown steadily.

United Artists is now basically a financing and distributing agent for independent producers of motion pictures. It owns no studios, has no stars under contract and is not directly involved in the actual making of pictures. If U. A. is sufficiently impressed with prospects for a proposed film it will undertake to obtain the financing for the producer and to distribute the film upon completion. The entire estimated cost of the picture is normally obtained through bank loans guaranteed by U. A. The Company may put up additional money to cover cost overruns and will generally have an equity interest of from 10% to 50% in the net profits from the film.

The main source of revenues is the distribution fee received from promotion and rental of films to theaters. This fee, which averages 32% of the gross film rental charged, is a "senior" charge which must be paid ahead of other expenses of the film producer. Thus, when a film loses money or breaks even from the equity standpoint, U. A. may still net a worthwhile profit from distribution fees alone. Distribution rights are usually obtained for a period of seven to ten years and, whenever possible, include television rights.

United Artists' accounting on equity positions is more conservative than that of the industry generally. The Company writes off probable loss films immediately but does not record any profits on successful films until all costs have been recovered. The usual practice is to amortize the investment at a fixed rate so that profits can be shown prior to full recovery of production costs.

While the number of conventional movie theaters has decreased, drive-ins have increased rapidly. While total attendance at movies is far below the peak levels of the Forties, the declining trend has been reversed and increased admission charges have offset much or all of the effect on total box office receipts. In any case, United Artists revenues and profits have grown at about 12% annually in recent years. In addition to the operations described above, the Company also distributes films for television showing and through subsidiaries produces phonograph records and television film shows.

EARNINGS RECORD

As shown in the statistical exhibit, the excellent trends in revenues and profits have been more than offset in recent years by substantial increases in the number of common shares outstanding. In 1955 and 1956 the Company bought and retired large blocks of stock. Subsequently, two public sales of common and conversion of a large debenture issue resulted in an increase of 122% in outstanding shares. Excluding the proposed new warrants, the remaining potential dilution is relatively insignificant.

1960 results were somewhat disappointing due mainly to a decline in the number of "big" pictures released. The increase in gross revenues was less than the gross added by the consolidation of two new subsidiaries engaged in producing TV films and distributing old films to television. As these subsidiaries made only modest contributions to profits, the pretax margin declined. However, since a greater proportion of earnings was derived from foreign sources, the effective tax rate was lower by about enough to leave earnings approximately unchanged for the year.

1961 is off to a good start with three major pictures, released in December, 1960, doing well. These three, "Exodus", "The Alamo", and "The Facts of Life", should produce a worthwhile gain in earnings this year. Longer term, the successful record of the management should continue and, if further dilution is minimized, will be reflected in increasing earnings per share. Gradual improvement is also expected in the profits of the subsidiaries mentioned above as amortization charges decline. The Company now possesses much greater investment stature than it did during the period when the heavy dilution was incurred. It is a reasonable assumption that future growth can be achieved without necessitating inordinate amounts of equity financing.

Current data on the common stock are as follows:

Range	Recent	Earned per Share		Price/earnings ratio			
1960-61	Price	1960est.	1961est.	1960	1961	Dividend	Yield
36 - 24	35	$2.45	$2.75	14.3x	12.7x	$1.60	4.6%

FINANCIAL CONDITION

Although pro forma debt amounts to almost 60% of the balance sheet capitalization this is not out of line when the nature of the business is considered. The borrowings are well covered by assets producing stable income to service the debt. Not reflected on the balance sheet are substantial residual values in successful productions that have been fully amortized. Investment in fixed assets is virtually nil.

SUMMARY

The Notes are of satisfactory quality and provide an attractive yield of 6%. The management has achieved an excellent record in adjusting the operations to industry trends. Assuming a curtailment of dilution, common share earnings should show above average growth. During the life of the warrants, the stock could well appreciate to a level $25 in excess of the exercise price which would produce a gain of 50% on the total investment.

2-7-61
HBT:lh

John W. Bristol & Co., Inc.

INCOME ACCOUNT SYNOPSIS ($000):

Year End	Gross Revenues	Depr. & Amort.	Net Before Tax $	Net Before Tax Margin	Net Income
1951	$ 19,625	$N.R.	$ 345	1.8%	$ 313
1952	29,001	N.R.	445	1.5	414
1953	38,475	N.R.	748	1.9	622
1954	43,629	158	1,803	4.1	883
1955	54,015	138	5,004	9.3	2,683
1956	64,167	140	6,282	9.8	3,106
1957	70,008	127	6,382	9.1	3,262
1958	84,072	182	7,132	8.5	3,702
1959	95,068	241	8,059	8.5	4,111
1960est.	105,000	----	6,700	6.4	4,075

	Per Common Share Earned	Per Common Share Paid	Per Common Share Range	# Shares (000)
1951	$0.21	$ -	-	1,500
1952	0.28	-	-	1,500
1953	0.41	-	offered	1,500
1954	0.58	-	4-25-57	1,500
1955	2.39	-	@ 20	1,125
1956	4.14	-	-	750
1957	3.05	1.05	25 - 15	1,071
1958	2.71	1.50	27 - 15	1,367
1959	2.47	1.60	32 - 24	1,664
1960est.	2.45	1.60	36 - 24	1,664

United Artists Corporation and Subsidiaries
Balance Sheet
($000)

	10-1-60*	1-2-60
Current Assets:		
Cash	$ 9,537	$ 5,980
Receivables	20,167	7,707
Advances and Investments:		
Production advances	28,575	22,261
Pictures and picture rights	30,791	28,220
Television productions (Ziv)	21,931	-
Prepaid expenses	807	387
Total current assets	$111,809	$64,554
Receivables due after one year	6,381	2,154
Film library, less amortization (UAA)	12,566	-
Due from UAA, Inc.	-	9,424
Foreign assets (current only)	14,775	15,158
Cash Value Life Insurance	728	728
Fixed assets, net	1,501	1,565
Other	1,701	988
Total assets	$149,461	$94,572
Current Liabilities:		
Notes Payable	$ 23,461	$10,769
Payables and accruals	11,590	4,106
To producers and under guaranties	18,126	13,153
Federal income tax	4,810	3,346
Total current liabilities	$ 57,986	$31,374
Foreign liabilities	11,567	12,292
Advance payments	555	628
Deferred film rentals (UAA)	6,366	-
Long-term liabilities:		
Notes payable (mostly UAA on 10-1)	14,731	180
6% Participating Notes, 1974	15,000	15,000
5.6% Notes, 1961-65 (gtd.)	3,750	-
6% Debentures, 1966-70 (Ziv)	3,000	-
Other	2,629	2,739
Total long-term liabilities	$ 39,110	$17,919
Equity:		
Common(1,224,218shs) and Class B (440,000shs) stock	1,664	1,664
Surplus	32,213	30,695
Total liabilities and equity	$149,461	$94,572

* Includes new subsidiaries: Ziv Television Programs and United Artists Associated.

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LONE STAR GAS COMPANY

Range 1960	Recent Price	Earned Per Share 1960est	1961est	Price/Earnings Ratio	Dividend	Yield
48 - 36	47	$2.60	$2.60	18.1x	$2.00	4.3%

Pro Forma Capitalization ($000)

	Balance Sheet 9/30/60 ($)	(%)	Market Value 1/6/61 ($)	(%)
Long Term Debt	$144,600	46.8%	$144,600	29.8%
Convertible Preferred	3,368	1.1	4,682	1.0
Common & Surplus (7,213,060 shs.)	161,116	52.1	339,011	69.2
	$309,084	100.0%	$488,293	100.0%

Adjusted for conversions of preferred stock through 1/5/61 and 1 for 10 rights offering of common stock.

Several favorable factors have combined recently to bring about an increase in the price of the stock to a high of 48 which approximates the highs reached in 1958 and 1959. The Company is experiencing its first significant gain in earnings since 1956. A 2 for 1 split has been proposed together with the intention to increase the dividend rate from $1.80 to the equivalent of $2.00 on the old stock. Major rate increases were obtained effective in 1960.

Lone Star distributes natural gas in a large territory in northeast Texas and southern Oklahoma which includes Dallas, Fort Worth, Waco and Wichita Falls. Although the territory duplicates much of that served by Texas Utilities Company, Lone Star has been unable to achieve earnings growth at all similar to that of the electric company. The cost of purchased gas has increased steadily and earnings per share declined in 1957 and 1958 and only slightly exceeded the 1956 level in 1959. It must be noted also that operations in recent years have benefited from favorable heating weather as shown below.

	1955	1956	1957	1958	1959	12 mos. Sept. 1960
Degree Day Deficiency % of Average	99.8	94.7	99.3	115.9	107.1	121.4

Lone Star Gas Company
(continued)

Although 1960 earnings will reflect only part of the rate increases they will have benefited from unusually cold weather. In 1961 the full effect of the new rates and increased deliveries to Dallas Power and Light should produce a good gain in revenues. A major wage increase granted December 1, 1960 will offset part of this. Dilution resulting from the 1 for 10 common stock offering would offset most of the resulting gain in earnings per share assuming similar weather conditions. Inasmuch as probabilities indicate the likelihood of warmer weather it is not expected that Lone Star can achieve any significant gain in 1961 earnings per share. Furthermore, a decrease in earnings is quite possible if the temperature pattern should reverse sharply.

For the long term it is difficult to see how Lone Star can achieve above average growth. The near - 100% space heating saturation limits residential customer growth to new construction or perhaps 3% a year. The exploration and production activities might be promising but they remain small relative to the total operation. Escalation clauses were not approved for the major portion of the Company's business so attrition will continue. The decision to sell common stock at this time despite an extremely strong capitalization confirms the managements reputation for conservatism. As the new dividend rate would represent a payout of 77% we would not expect another increase until earnings exceed $3.00.

It appears that "the good news is all out" and the stock is selling at an historically high multiple of 18 times 1960 and estimated 1961 earnings. We feel that this price discounts a rate of growth that is unlikely to occur and therefore recommend that the stock be sold.

	$000			Per Common Share		
	Gross Revenues	Net to Common ($)	Net to Common (%)	Earned	Paid	Range
1950	$ 51,617	$11,580	22.4%	$2.11	$1.20	28 - 22
1951	59,105	9.696	16.4	1.76	1.40	29 - 24
1952	63,080	8,545	13.5	1.55	1.40	28 - 25
1953	71,801	8,223	11.5	1.50	1.40	29 - 23
1954	78,102	10,004	12.8	1.82	1.40	30 - 23
1955	87,615	12,683	14.5	2.15	1.40	33 - 26
1956	95,362	14,111	14.8	2.37	1.65	35 - 28
1957	104,230	14,341	13.7	2.32	1.80	37 - 30
1958	112,514	14,061	12.5	2.26	1.80	47 - 31
1959	124,900	15,223	12.2	2.40	1.80	47 - 36
1960est	136,000	16,600	12.2	2.60	1.80	48 - 36

1/16/61
HBT:lh

John W. Bristol & Co., Inc.