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PHILCO

C O R P O R A T I O N



51st Annual Report
for the year ended December 31, 1942

BOARD OF DIRECTORS

LARRY E. GUBB, *Chairman*

WILLIAM BALDERSTON	DAVID GRIMES
JOHN BALLANTYNE	RUSSELL L. HEBERLING
RAYMOND A. BOYCE	W. PAUL JONES
JAMES T. BUCKLEY	THOMAS A. KENNALLY
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CHARLES S. CHESTON	SAYRE M. RAMSDELL
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OFFICERS

LARRY E. GUBB	<i>Chairman of the Board of Directors</i>
JAMES T. BUCKLEY	<i>President</i>
GEORGE E. DEMING	<i>Vice-President and Secretary</i>
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WILLIAM BALDERSTON	<i>Vice-President in Charge of Commercial Division</i>
HAROLD W. BUTLER	<i>Vice-President in Charge of Industrial Relations</i>
JAMES H. CARMINE	<i>Vice-President in Charge of Merchandising</i>
JOSEPH H. GILLIES	<i>Vice-President in Charge of Radio Production</i>
DAVID GRIMES	<i>Vice-President in Charge of Engineering</i>
RUSSELL L. HEBERLING	<i>Vice-President in Charge of Auto Radio Division</i>
ROBERT HERR	<i>Vice-President in Charge of Service Division</i>
W. PAUL JONES	<i>Vice-President in Charge of Refrigerator Division</i>
THOMAS A. KENNALLY	<i>Vice-President in Charge of Sales</i>
JOHN S. TIMMONS	<i>Vice-President in Charge of Production, (On leave of absence) Refrigerator Division</i>
WILLIAM R. WILSON	<i>Treasurer</i>

SUMMARY OF PHILCO'S OPERATIONS

1939—1942

(CONSOLIDATED, FOR YEARS ENDED DECEMBER 31)



	1942	1941	1940	1939
Gross Sales	\$73,505,979*	\$77,073,636	\$52,311,131	\$45,421,078
Net Profit before Provision for Income and Excess Profits Taxes	\$68,505,979**	\$8,481,169	\$3,595,790	\$2,431,111
Income and Excess Profits Taxes	\$5,863,689	\$5,967,600	\$1,347,222	\$531,788
Net Profit	\$2,209,992	\$2,513,569	\$2,248,568	\$1,899,323
Dividend Payments	\$1,029,107	\$1,369,768	\$1,438,406	\$927,086

*Before voluntary reduction of \$5,000,000 in prices of military equipment supplied to the Army and Navy in 1942.

**After above voluntary reduction of \$5,000,000.

†After providing Reserve for Contingencies of \$1,000,000.

PHILCO CORPORATION
PHILADELPHIA
PENNSYLVANIA

March 27, 1943

To the Stockholders:

THE 51st Annual Report of Philco Corporation, dealing with its operations during 1942, is here presented to the stockholders.

Conversion of the Company's plants and facilities from civilian to war production, under way well before Pearl Harbor, was completed in 1942. Philco is now turning out electronic and radio communications equipment for planes, ships, tanks, and ground forces, artillery shells and fuzes, and industrial storage batteries for the armed services and war plants. The Company's output of war goods is still increasing in scope and importance.

**Civilian
Production** Production of domestic electric refrigerators, civilian radio receiving sets and single-room air conditioning units stopped in the order named in the first part of 1942, in accordance with Government regulations. Stocks of refrigerators and air conditioners were frozen in manufacturers' hands to keep the completed units available for anticipated war needs. Consequently, the Company has on hand a considerable number of refrigerator models and air conditioning units.

The manufacture and sale of civilian merchandise resulted in a profit despite the unusual conditions incident to the stoppage and conversion from civilian to war production. A loss of \$1,105,776 was sustained and absorbed on inventories rendered valueless on account of the stoppage of production caused by the war. As a result, the special reserve for civilian inventory and commitment contingencies of \$750,000 taken from surplus at the end of 1941 has been restored to surplus.

Sales Total sales of civilian products and war goods before refunds amounted to \$73,505,979 in 1942, as compared with \$77,073,636 in 1941. The decline in sales was largely the result of the stoppage of all civilian output before products ordered by the armed services had reached the production stage in sufficient volume to take up the slack. As manufacture of military equipment progressed, and increased efficiency was achieved, costs were lowered and the Company voluntarily reduced its prices by refunds to the extent of \$5,000,000 to the Army and Navy on the work done for them in 1942. Sales of the Company last year, giving effect to this adjustment, were \$68,505,979.

Earnings Net income for 1942, after all federal income and excess profits taxes and after providing a Reserve for Contingencies of \$1,000,000, totaled \$2,209,992, or \$1.61 per share, as compared with \$2,513,569, or \$1.83 per share for the year 1941. Included in the earnings for 1942 is the post-war refund of excess profits taxes amounting to \$538,792, or 39 cents per share, as provided for by the Revenue Act of 1942.

The Company created the Reserve for Contingencies referred to above to provide against the uncertainties attending wartime operations and post-war adjustments arising therefrom, together with claims involving possible additional federal taxes and other contingencies.

In August, 1942, the Company began to review its war production contracts with the Price Adjustment Board of the War Department representing both the Army and Navy and presented its estimates of the year's operating results. On the basis of the estimates presented, the Company was advised that its budget did not indicate excessive profits on war orders, but in an agreement between the Company and the Army and Navy, it was recognized that the subject should be reviewed when actual operating results were finally determined. It became evident toward the end of the year that manufacturing efficiencies would reduce costs below earlier estimates, and as a result the Company elected to make the \$5,000,000 of refunds which have been described. Further adjustments may be made

when the final results of the year's operations are reviewed with the Price Adjustment Board as contemplated by the agreement with the Army and Navy.

V-Loan In view of the volume of its war orders, the Company determined that it would be prudent to make provision for additional working capital as required. Arrangements were therefore concluded on January 29, 1943, to obtain a \$30,000,000 three-year credit agreement under Regulation V of the Federal Reserve System based upon the President's Executive Order No. 9112 of March 26, 1942. This credit is being extended by a group of 21 banks, and to date \$15,000,000 has been borrowed. Terms of this and similar V-loans provide that in the event of cancellations of war orders, the Company is protected by suspension of its loan obligations until the Government has settled with it on account of the cancellations.

**Army-Navy
"E" Awards** The Philadelphia plants of the Company received the joint Army-Navy "E" Award "for high achievement in the production of war equipment" on August 14, 1942. Philco was one of the first companies to be so honored.

In succeeding months, the Philco plants in Trenton, N. J., Sandusky, Ohio, and Chicago, Ill., were similarly honored with the Army-Navy "E."

On February 15, 1943, at the end of the first six-months' period, the award to the Philadelphia plants was renewed, and a White Star was added to the "E" flag by the Army and Navy for continued "meritorious services on the production front." Congratulations are extended to the employees in all plants whose war production achievements have been thus publicly recognized by the Army and Navy.

**Production of
Radio and
Electronic
Equipment** The Company has contributed many improvements to radio manufacturing techniques to meet war needs. Through co-operation of purchasing, factory engineering, material control and production, essential war equipment to meet urgent needs of the Army and Navy has been manufactured in shorter periods of time than the industry had previously believed possible.

The requirements of Army and Navy equipment, which must not be rendered ineffective by temperature, altitude or humidity changes or by vibration, are very different from home receivers. Former test methods which required lengthy periods of time have in many instances been speeded up and made even more exact by the development of various types of automatic and semi-automatic precision equipment.

One of the outstanding examples of this is found in an automatic calibrator for Army Signal Corps wave meters. These meters, used to check the radio frequencies of transmitting and receiving stations, were formerly calibrated by hand. The operation required 2½ hours of painstaking work by individual employees. In addition, a 24-hour test period was necessary to eliminate strains in the mechanical components of the wave meter. Through the development of an automatic calibrator, which employs electronic principles, the time for the whole operation has been reduced to only 15 minutes and the possibility of human errors has been eliminated.

It might also be mentioned that last year, at the request of the Signal Corps, the Company undertook the manufacture of quartz crystals, which are essential for frequency control in many military radio sets.

The Company's wholly-owned Canadian subsidiary, Philco Corporation of Canada, Limited, is fully converted to war work and is engaged in the production of important radio equipment for the Dominion Government.

In another field, the Watsontown Cabinet Company, a wholly-owned subsidiary, which normally manufactures cabinets for civilian radio sets, has obtained war work which employs its facilities.

**Research
and
Engineering**

Instantaneous communication between land, sea and air forces is of greater importance in the present war than ever before. Successful military action today depends upon complete coordination of all branches of the service, and this requires that uninterrupted communications facilities be available at all times. Modern radio equipment is meeting this test under most difficult combat conditions in remote corners of the earth.

In many other ways also, radio and electronics are helping to win the war. Many of the weapons now in use by the United Nations are the result of new practical applications given to radio principles.

In this vital work the Philco Research Laboratories are playing an important part. The special knowledge and skills acquired in peacetime engineering activities have been transferred to the needs of the war program. A large number of special research projects are being carried on in the field of electronics and radio for both the Army and Navy. This activity, under the urgency of war requirements, is telescoping into weeks and months the development, engineering and production cycle between the time a new idea is conceived in the laboratory and the time it becomes usable in equipment that can be turned out on a mass production basis.

Television While normal research work on television has been put aside for the duration of the war, the Philco station, WPTZ, has been removed to Wyndmoor, Pa., to obtain improved television transmission, and release space formerly occupied in the Company's main plant for important war work. The equipment has undergone installation tests preparatory to resuming the broadcasting of programs. The knowledge and experience gained from this television activity are contributing to the war effort.

Ordnance Engineering For the past year the Company has been engaged in special engineering work for the Ordnance Department of the Army. As the shortage of non-ferrous metals used in war production became critical, Philco undertook to develop satisfactory substitutes for brass, copper and aluminum in various ordnance items. New methods and processes in the production of two types of artillery fuzes were developed which saved large quantities of these critical materials.

Other efforts by the Company along these lines were acknowledged by the citation of its personnel in conjunction with Army Ordnance officers for making "a marked contribution to the vital war production program to

conserve critical material and machines." This recognition was given for the redesigning of booster bodies, an essential part of the firing mechanisms of 75 mm. and 105 mm. shells which are being used so effectively in modern tank warfare. The new design was calculated to save a total of 166,000,000 pounds of brass on the then existing national requirements for this matériel.

**Storage
Batteries**

Shipments of the Storage Battery Division, now located in Trenton, New Jersey, increased substantially in 1942 over the dollar volume of the previous year. Storage batteries manufactured by the Company are going to the armed services, the Maritime Commission, or organizations engaged in the war effort.

**Philco
Training
School**

To help meet the need for trained personnel to maintain and service modern electronic equipment, Philco is operating an advanced radio training school in Philadelphia for civilian employees of the Army Signal Corps. Approximately 2,000 students are being given an intensive course of instruction and laboratory experience in electronics. Instructors are being similarly trained for the Navy in the service and maintenance of the latest types of equipment.

The Company has arranged with the Army Air Corps to provide field engineers at air fields in the United States and overseas to supervise the installation and maintenance of all types of air-borne radio equipment. Another group of field engineers is engaged in the same kind of activity for the Navy Department. First-hand reports are thus obtained on various types of equipment, and suggestions for improvements can be made.

**Distributors
and
Dealers**

With stoppage of all production of the Company's principal peacetime products, Philco distributors and dealers have been confronted with serious problems. They have made a great contribution to the growth of the Company, and the merchandising of its regular products at the end of the war will depend in large measure on their efforts. Beginning early in 1942 the Company laid plans to aid

distributors and dealers insofar as possible by obtaining new products of non-critical materials made by other manufacturers for them to sell. Many new products have thus been offered to distributors wishing to handle them. In addition, efforts have been made to develop the repair parts and service business of distributors through the Philco Wartime Service Plan.

**Post-War
Planning**

The Company is continuing to look ahead and plan for post-war developments insofar as possible without interfering in any way with its war production responsibilities. Studies are being made of post-war markets, including those in foreign countries, and possible new products, and plans are being developed for prompt reconversion of the Company's plants and facilities to peacetime operation at the end of the war, so that the Company may be in a position to make the greatest contribution to reconstruction through the creation of jobs and the production of goods.

Outlook

The immediate task confronting the Company, in common with industry generally, is to supply the armed forces with the equipment they need in the quantities required at the earliest possible moment. Every effort is being made to do this, and nothing will be permitted to interfere with this primary responsibility. The sooner the war is won, the smaller will be its cost in lives, wealth and dislocation of our economic system.

This year especially it is a privilege to record the outstanding service rendered by the men and women of the Company during a period of unusual difficulty, and to pay tribute to the many Philco people who are serving in the Army, Navy, Marine Corps and other services. Cooperation and united devotion to duty have made it possible for us to adjust successfully to war conditions and to do our part in supplying the fighting forces of the nation.

JAMES T. BUCKLEY,
President.

LARRY E. GUBB,
Chairman of the Board of Directors.

CONSOLIDATED
PHILCO CORPORATION AND WHOLLY

December 31

<i>Assets</i>		1942	(1) 1941
Current			
Cash in Banks and on Hand		\$ 5,501,903.57	\$ 6,819,925.11
Accounts Receivable—War Contracts		8,899,488.29	220,343.74
Notes and Accounts Receivable, Trade, less Reserve for Credits, Allowances and Uncollectible Notes and Accounts (1942—\$386,712.86—1941—\$497,503.12)		1,742,174.64	8,053,738.88
Account Receivable, Subsidiary not Consolidated		4,515.63	21,094.28
Investment in United States Bonds		217,258.45	—
Inventories (Civilian Inventories at Lower of Cost or Market) (War Inventories—Note A)		11,887,817.32	8,067,217.21
Total Current Assets		<u>\$28,253,157.90</u>	<u>\$23,182,319.22</u>
Investments in and Amounts Due from Subsidiaries, not Consolidated—Note B			
Stocks		567,384.69	432,293.55
Bonds and Accrued Interest		777,721.10	776,760.04
Deferred Accounts Receivable		71,433.59	183,873.05
		<u>\$ 1,416,539.38</u>	<u>\$ 1,392,926.64</u>
Deferred Payment Accounts Receivable		—	94,311.55
Miscellaneous Advances and Investments		46,880.12	49,303.00
Estimated Post-War Refund of Excess Profits Tax		538,791.50	—
Fixed Assets			
Land, Buildings, Machinery and Equipment		4,976,489.94	4,976,658.79
Less, Reserves for Depreciation		1,752,783.30	1,642,711.45
		<u>\$ 3,223,706.64</u>	<u>\$ 3,333,947.34</u>
Intangible Assets			
Patents and Patent Applications, Net of Amortization		147,712.49	129,093.77
Television License and Expense, Net of Amortization of License		121,009.92	127,941.52
		<u>\$ 268,722.41</u>	<u>\$ 257,035.29</u>
Deferred Charges to Future Operations			
Insurance Premiums		258,211.80	196,551.06
Other		51,580.57	74,329.37
		<u>\$ 309,792.37</u>	<u>\$ 270,880.43</u>
		<u>\$34,057,590.32</u>	<u>\$28,580,723.47</u>

(1) Submitted for purposes of comparison.

The Notes on Pages 13 and 14 are an integral part of this Statement.

BALANCE SHEET

OWNED DOMESTIC SUBSIDIARIES

31, 1942

Liabilities

	1942	(1) 1941
Current		
Notes Payable, other than Banks or Trade	\$ —	\$ 28,936.18
Accounts Payable, Trade	4,666,636.47	2,381,585.95
Account Payable, Subsidiary not Consolidated	85,925.83	66,662.53
Provision for Voluntary Refund to U. S. Government—Note C	1,250,000.00	—
Accrued Items		
Commissions and Pay Roll	344,529.57	345,980.28
Federal and State Taxes	7,121,339.41	6,744,759.73
Allowances to Customers	513,394.03	1,127,550.49
Royalty and Other Expense	20,640.60	150,525.43
Employee War Bond Accounts	62,267.28	—
Miscellaneous	110,566.29	92,498.48
Reserve for Refrigerator Guaranty	398,230.42	542,126.86
Reserve for Warranty on Government Contracts	197,787.20	—
Reserve for Inventory and Commitment Contingencies	—	750,000.00
Total Current Liabilities	\$14,771,317.10	\$12,230,625.93
Deferred Income	122,293.58	117,002.45
Reserve for Contingencies—Note E	1,000,000.00	—
	\$15,893,610.68	\$12,347,628.38

Capital Stock and Surplus

Capital Stock		
Common—Par Value \$3.00 per Share		
Authorized	2,000,000 Shares	
Outstanding	1,992,200 Shares	\$ 5,976,600.00 \$ 5,976,600.00
Less, in		
Treasury	620,057 Shares	1,860,171.00 1,860,171.00
	1,372,143 Shares	\$ 4,116,429.00 \$ 4,116,429.00
Capital Surplus		4,535,998.85 4,535,998.85
Surplus—Note C		9,511,551.79 7,580,667.24
		\$18,163,979.64 \$16,233,095.09
		\$34,057,590.32 \$28,580,723.47

The Notes on Pages 13 and 14 are an integral part of this Statement.

CONSOLIDATED PROFIT AND LOSS STATEMENT
PHILCO CORPORATION AND WHOLLY OWNED DOMESTIC
SUBSIDIARIES, CONSOLIDATED

For the Year Ended December 31, 1942

	1942	(1) 1941	(1) 1940
Gross Sales, less discounts, returns and allowances	\$73,505,978.85	\$77,073,636.09	\$52,311,131.91
Less, Voluntary Refunds to U. S. Government— Note C	5,000,000.00	—	—
	<u>\$68,505,978.85</u>	<u>\$77,073,636.09</u>	<u>\$52,311,131.91</u>
Cost of Goods Sold (Including Excise Tax and Royalty)—Note A	\$49,617,048.71	\$57,303,891.48	\$39,609,865.87
Gross Profit on Sales	<u>\$18,888,930.14</u>	<u>\$19,769,744.61</u>	<u>\$12,701,266.04</u>
Administrative, General and Selling Expenses	\$ 8,581,314.53	\$10,745,009.19	\$ 8,740,869.77
Incentive Compensation	(2) 512,255.00	(2) 564,132.00	(2) 388,213.33
Net Loss on Inventories	(3) 1,105,775.73	—	—
	<u>\$10,199,345.26</u>	<u>\$11,309,141.19</u>	<u>\$ 9,129,083.10</u>
Profit before Other Income and Deductions	<u>\$ 8,689,584.88</u>	<u>\$ 8,460,603.42</u>	<u>\$ 3,572,182.94</u>
Other Income			
Dividends and Interest	\$ 107,395.60	\$ 115,187.97	\$ 81,470.19
Net Available Profit of Canadian Subsidiary, Not Consolidated	37,816.27	28,311.57	40,578.45
Miscellaneous	125,193.32	33,150.44	31,217.18
Net Adjustments applicable to prior periods	139,075.48	—	37,306.55
	<u>\$ 409,480.67</u>	<u>\$ 176,649.98</u>	<u>\$ 190,572.37</u>
Other Deductions			
Expense in the Registration and Sale of Securities	\$ —	\$ —	\$ 80,172.00
Storage Battery Plant Moving Expense	—	103,617.56	—
Miscellaneous	25,385.25	30,332.97	86,793.33
Net Adjustments applicable to prior periods	—	22,134.24	—
	<u>\$ 25,385.25</u>	<u>\$ 156,084.77</u>	<u>\$ 166,965.33</u>
Net Profit before Provision for Federal Income and Excess Profits Taxes and State Income Taxes	<u>\$ 9,073,680.30</u>	<u>\$ 8,481,168.63</u>	<u>\$ 3,595,789.98</u>
Provision for Income and Excess Profits Taxes			
Federal Income Tax	\$ 871,810.00	\$ 1,783,775.00	\$ 994,646.65
Federal Excess Profits Tax (Net of Post-War Refund of \$538,791.50 for 1942)	4,849,123.50	4,039,150.00	233,450.00
State Income Tax	142,755.00	144,675.00	119,125.00
	<u>\$ 5,863,688.50</u>	<u>\$ 5,967,600.00</u>	<u>\$ 1,347,221.65</u>
Net Profit before Provision for Contingencies	<u>\$ 3,209,991.80</u>	<u>\$ 2,513,568.63</u>	<u>\$ 2,248,568.33</u>
Less, Provision for Contingencies—Note E	1,000,000.00	—	—
Profit Transferred to Surplus—Note C	<u>\$ 2,209,991.80</u>	<u>\$ 2,513,568.63</u>	<u>\$ 2,248,568.33</u>

(1) Submitted for purposes of comparison.

(2) Paid under authority of shareholders' resolution of May 27, 1940, which limits bonuses or additional compensation payable in any year to directors, officers and salaried employees to $\frac{3}{4}$ of 1% of consolidated net sales for such year.

(3) Net loss on inventories rendered valueless on account of the stoppage of civilian production.

The Notes on Pages 13 and 14 are an integral part of this Statement.

SURPLUS ACCOUNT
 PHILCO CORPORATION AND WHOLLY OWNED DOMESTIC
 SUBSIDIARIES, CONSOLIDATED

For the Year Ended December 31, 1942

Balance, January 1, 1942	\$ 7,580,667.24
Add, Profit Transferred from Profit and Loss Statement	2,209,991.80
Restoration to Surplus of Reserve for Inventory and Commitment Contingencies deducted from Surplus in 1941	750,000.00
	\$10,540,659.04
Deduct, Dividends Paid—Cash—75c per Share	1,029,107.25
	\$ 9,511,551.79
Balance, December 31, 1942 (includes \$12,073.79 of available undistributed earnings of Canadian subsidiary for the years 1941 and 1942)	\$ 9,511,551.79

CAPITAL SURPLUS ACCOUNT

Balance, January 1 and December 31, 1942	\$ 4,535,998.85
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NOTES TO CONSOLIDATED STATEMENTS

Note A—Inventories—Cost of Goods Sold

The taking of physical inventories was not possible nor permissible with respect to certain war inventories amounting to \$6,796,301.89 because of the nature of the material and in order not to interrupt production.

The accounting for peacetime business has been consistently on the basis of standard costs which seldom varied substantially from actual costs.

The Company has applied to its accounting for war production contracts, costing methods which allocate wherever and to the extent possible all elements of actual cost directly to specific contracts including in addition to direct materials, labor and burden, provisions for tool, die, special equipment and plant rearrangement cost, as well as a provision for material losses during fabrication, material obsolescence arising from engineering changes and other uncertainties present but unknown because of the absence of experience. The above elements of cost formed the basis for the submission of estimates for war contracts and were reflected in contract prices. In view of the above method of costing deliveries of war material, the management believes the inventory valuations resulting therefrom are conservatively stated.

Note B—Investments in Subsidiaries Not Consolidated

The investment in stocks of subsidiaries not consolidated amounting to \$567,384.69 and the equity represented by such investments, as disclosed by financial statements certified by independent public accountants, are summarized as follows:

	Investment	Equity Represented by Such Investment	Excess of Equity over Investment
Philco Corporation of Canada, Limited	\$ 22,073.79	\$ 307,346.23	\$285,272.44
National Union Radio Corporation	545,310.90	936,881.57	391,570.67
	<u>\$567,384.69</u>	<u>\$1,244,227.80</u>	<u>\$676,843.11</u>

The excess of equity over investment represents earnings since acquisition of \$285,272.44 with respect to Philco Corporation of Canada, Limited, and capital surplus of \$391,570.67 with respect to National Union Radio Corporation which represents acquired surplus at the date of acquisition of this subsidiary, increased by subsequent earnings which on the books of the subsidiary reduces an operating deficit.

Note C—Renegotiation—"War Profits Control Act"

The Company has voluntarily extended price reductions totaling \$5,000,000.00 on account of war material supplied to the War and Navy Departments during 1942.

The results of operations for the year ended December 31, 1942, may be the subject of further renegotiation proceedings, in accordance with an agreement between the Company and the Under Secretary of War, approved by the Under Secretary of the Navy, dated November 5, 1942.

Note D—V-Loan

Under date of January 29, 1943, the Company entered into a credit agreement (V-Loan) with various participating banking institutions providing for a maximum extension of credit of \$30,000,000.00. Reference is made to the agreement for the terms and conditions thereof. The Company is not required to assign collateral except upon the occurrence of an event or events of default, or upon the suspension of the maturity of the loan or any portion thereof. Likewise, there is no limitation upon the payment of dividends, except where such payment would have the effect of reducing the consolidated net working capital below \$8,000,000.00.

Note E—Contingent Liabilities

The Company has created a Reserve for Contingencies of \$1,000,000.00 out of 1942 earnings to provide against the uncertainties attending wartime operations and post-war adjustments arising therefrom, together with claims involving possible additional Federal taxes.

There are suits or threatened suits involving primarily claims of patent infringement. It is not possible to state amounts with respect to these suits because no claims in dollar amount have been made. No provision has been made in the books of account for such contingent liabilities because the actual liability, if any is established, should not be significant.

MATHIESON, AITKEN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
PACKARD BUILDING
PHILADELPHIA

Philco Corporation
Philadelphia, Pennsylvania

We have examined the Consolidated Balance Sheet of Philco Corporation and its wholly owned domestic subsidiaries as of December 31, 1942; and the Consolidated Profit and Loss Statement and Surplus Account for the year ended that date, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate.

We were unable to obtain confirmation of accounts receivable due from agencies of the United States Government. By tracing collections on these accounts subsequent to the statement date and by other investigation, we believe they are fairly stated.

Normal auditing standards were applied to civilian and some war production inventories valued at \$5,091,515.43 at December 31, 1942. Due to the nature of the other products being manufactured and in order not to interrupt production, we were unable to inspect physically the material inventories or to make test checks thereof. Likewise, the Company was unable to take a physical inventory. The Companies' accounting methods provide for a book inventory by contracts representing the difference between total costs and charges allocated to each contract, and the estimated cost of deliveries transferred to cost of sales. Such methods produce an effective control of inventories and cost of sales, but in the absence of a physical inventory it is impossible to determine the extent of the sufficiency of the provision for uncertainties included in the amounts transferred to costs of sales. We investigated the Companies' accounting methods and records with respect to war production and on the basis of such investigation we have reason to believe the inventories are conservatively stated.

Otherwise, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

The Sixth Supplemental National Defense Appropriation Act of 1942, as amended by the Revenue Act of 1942, provides for the renegotiation of war contracts and the return of excessive profits which may be found to be included therein. The Company, voluntarily, has returned or has made provision to return \$5,000,000.00 to the respective departments of the Government. Under the terms of an agreement between the Company and the Under Secretary of War, approved by the Under Secretary of the Navy, the results of operations for the year ended December 31, 1942, may be the subject of further renegotiation proceedings, the result of which cannot be appraised at this time.

In our opinion, subject to the comments in the preceding paragraphs concerning inventories and renegotiation, the accompanying Balance Sheet and related Statements of Profit and Loss and Surplus present fairly the consolidated position of Philco Corporation and its wholly owned domestic subsidiaries at December 31, 1942, and the consolidated results of their operations for the year 1942. Generally accepted accounting principles with respect to peacetime production were applied on a basis consistent with that of the preceding year. Generally accepted accounting principles, likewise, were applied to war production which assumed major proportions for the first time during the year 1942.

Philadelphia, Pennsylvania
March 25, 1943

MATHIESON, AITKEN & CO.
Certified Public Accountants

PHILCO CORPORATION

Philadelphia, Pennsylvania

RADIO DIVISION

Philadelphia, Pennsylvania
Chicago, Illinois Sandusky, Ohio

ORDNANCE DIVISION

Philadelphia, Pennsylvania
Watsontown, Pennsylvania

COMMERCIAL DIVISION

REFRIGERATOR DIVISION

RADIO CRYSTAL DIVISION

EXPORT DIVISION

STORAGE BATTERY DIVISION

Trenton, New Jersey

PHILCO RADIO & TELEVISION CORPORATION

Philadelphia, Pennsylvania

PHILCO DISTRIBUTORS, INCORPORATED

New York, Chicago, Philadelphia, Detroit

SIMPLEX RADIO CORPORATION

Sandusky, Ohio

WATSONTOWN CABINET COMPANY

Watsontown, Pennsylvania

PHILCO CORPORATION OF CANADA, LIMITED

Toronto, Ontario, Canada



PHILCO PRODUCTS



WAR

ELECTRONIC AND RADIO COMMUNICATIONS EQUIPMENT
FOR PLANES, SHIPS, TANKS AND GROUND FORCES
ORDNANCE MATÉRIEL
STORAGE BATTERIES



PEACE

PHILCO RADIOS
PHILCO RADIO-PHONOGRAPHS
PHILCO REFRIGERATORS
PHILCO-YORK AIR CONDITIONERS
PHILCO ROOM VENTILATORS
PHILCO STORAGE BATTERIES
PHILCO DRY BATTERIES
PHILCO RADIO TUBES
PHILCO REPLACEMENT PARTS
PHILCO EXPORT PRODUCTS

