

PLAINTIFF'S EXHIBIT

DOW-1512

THE DOW CHEMICAL COMPANY
MIDLAND, MICHIGAN

ANNUAL REPORT
FOR YEAR ENDED
MAY 31, 1942



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THE DOW CHEMICAL COMPANY
MIDLAND, MICHIGAN

Directors

E. O. BARSTOW
E. W. BENNETT
J. S. CRIDER

M. E. PUTNAM
C. J. STROSACKER
W. R. VEAZEY

L. I. DOAN
A. B. DOW
W. H. DOW

Officers

Chairman of the Board, President and General Manager	- - - -	W. H. DOW
Vice President and Treasurer	- - - -	E. W. BENNETT
Vice President and Secretary	- - - -	L. I. DOAN
Vice President	- - - -	E. O. BARSTOW
Vice President	- - - -	C. J. STROSACKER
Assistant Treasurer	- - - -	J. S. CRIDER

Assistant General Manager and Assistant Secretary	- - - -	A. P. BEUTEL
Assistant Treasurer and Assistant Secretary	- - - -	F. H. BROWN
Assistant Secretary	- - - -	L. A. CHICHESTER
Assistant Secretary	- - - -	R. L. CURTIS
Assistant Secretary	- - - -	C. M. SHIGLEY
Assistant Secretary	- - - -	D. J. LANDBOROUGH
Auditor	- - - -	C. PENHALIGEN

Registrars

The New York Trust Company
100 Broadway
New York City

The National City Bank of Cleveland
Cleveland, Ohio

Transfer Agents

Guaranty Trust Company of New York
140 Broadway
New York City

The Cleveland Trust Company
Cleveland, Ohio

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TO THE STOCKHOLDERS OF
THE DOW CHEMICAL COMPANY:

The forty-fifth annual report of your Company is presented herewith. The consolidated financial statements for the fiscal year ended May 31, 1942 have been audited by Messrs. Haskins & Sells, whose certificate is reproduced as part of this report.

FINANCIAL STATEMENTS—

The consolidated balance sheet, statement of consolidated income and statement of consolidated earned surplus for the year ended May 31, 1942 are shown herein. The total assets of the Company and its Subsidiaries amounted to \$103,094,230.70, which figure includes current assets of \$29,212,794.38. Current liabilities amounted to \$19,643,000.63.

EARNINGS—

The consolidated net income of the Company and its Subsidiaries amounted to \$9,221,485.76. After deducting dividends on the preferred capital stock of \$300,000.00, the consolidated net income was equivalent to \$7.14 per share on the number of shares of common capital stock outstanding at the end of the year. This compares with \$6.58 per share for the year ended May 31, 1941.

DIVIDENDS—

The Company distributed four equal quarterly dividends aggregating \$3.00 per share, to the common stockholders during the year. Including dividends on the preferred capital stock of \$300,000.00, the dividends disbursed to shareholders amounted to \$3,960,978.75.

NEW CAPITAL—

During the current year, 113,519 additional shares of common capital stock were offered to stockholders of record as of September 26, 1941. The common capital stock account was credited with the net proceeds of \$11,124,862.00 realized from the sale of these shares.

SURPLUS—

The net increase in consolidated earned surplus for the year amounted to \$5,878,462.46, bringing the consolidated earned surplus as of May 31, 1942 to \$24,812,306.81.

NET SALES—

Net sales for the year ended May 31, 1942 amounted to \$78,359,997.24, as compared to \$46,907,950.27 for the year ended May 31, 1941.

TAXES—

Total major taxes for the year amounted to \$12,183,783.74, which represents an equivalent cost per share on common stock of \$9.76. This compares with \$3.12 per common share for 1941.

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The Company's taxable year closed on May 31, 1942. In the accompanying financial statements, Federal taxes have been computed on the basis of the existing law. Ordinarily the contemplated Revenue Act to be passed this year would not apply to the Company's taxable year closed on May 31, 1942. However, there is the possibility the precedent previously established may be abandoned in the new Revenue Act. If so, this would adversely affect the Company's earnings, the extent of which is unknown at this time.

GENERAL—

The above comments have been submitted as a very brief summary of the financial condition of The Dow Chemical Company and, due to the present emergency, the graphs formerly appearing in our annual reports have been deleted, as well as a list of products produced by our Company. This is all in the interest of National Defense and we trust the stockholders will be willing to accept the necessary brevity of this report.

To add a little further general information, it will undoubtedly be of interest to every stockholder to know that a very large number of our men are serving on advisory committees in many of the National Defense organizations. Nearly every product we produce is on Government allocation for defense purposes. In addition, The Dow Chemical Company has designed, built and operated, or is in the process of building or operating new Government owned defense plants located throughout our country. Every effort in our organization has been applied to the accomplishment of an early victory and prompt execution of the very large defense program assigned to us. On four different occasions, we have brought defense plants into production ahead of schedule and every effort is made to continue the record.

We suggest that successful accomplishment during war times is a measure of the capacity of the organization to meet successfully new emergencies after the war. This is the only comment we feel justified in making pertaining to post-war activity.

WILLARD H. DOW,
President

Midland, Michigan
July 24, 1942

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HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

REGISTERED FIRM
HAROLD W. SCOTT C.P.A.
ETHEL W. BULLOCK C.P.A.

THE NATIONAL BANK BUILDING
DETROIT

ACCOUNTANTS' CERTIFICATE

The Dow Chemical Company:

We have examined the consolidated balance sheet of The Dow Chemical Company and its subsidiary companies as of May 31, 1942 and the related statements of consolidated income and earned surplus for the year ended that date, have reviewed the accounting procedures of the companies, and have examined their accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and earned surplus fairly present the financial condition of the companies at May 31, 1942 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

Haskins & Sells

July 16, 1942.

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THE DOW CHEMICAL COMPANY
(Incorporated in Michigan)
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, MAY 31, 1942

ASSETS

CURRENT ASSETS:

Cash		\$ 6,291,790.83
Notes and accounts receivable:		
Customers, \$9,420,886.92; associated company,		
\$107,152.55; employees, \$32,614.47; and		
sundry, \$142,767.41	\$ 9,703,421.35	
Less reserves for doubtful receivables	240,593.48	9,462,827.87
Billed and unbilled amounts receivable from agencies of the United		
States Government (other than for the sale of product)		1,263,792.85
Inventories:		
Finished goods and work in process (at lower		
of cost or market)	\$ 5,486,230.36	
Materials and supplies (at cost—approximately		
market)	6,708,152.47	12,194,382.83
Total current assets		\$ 29,212,794.38

INVESTMENTS AND SUNDRY RECEIVABLES:

Notes receivable and capital stock (at cost) of		
associated company (equity at May 31, 1942 as		
shown by unaudited balance sheet of associated		
company, \$3,458,524.24)	\$ 2,238,000.00	
Instalment notes receivable, maturing 1943 to 1948	428,571.43	
Sundry securities and receivables (including em-		
ployees' receivables, \$73,364.76) (less reserve,		
\$121,212.88)	538,911.81	
Total investments and sundry receivables		3,205,483.24

PROPERTY (including emergency facilities for national defense, completed and in progress, with a gross book value (cost) of \$24,409,906.33 subject to amortization):

Plant properties and equipment—at cost (less		
reserves for depreciation and amortization,		
\$27,248,904.73)	\$68,356,269.77	
Housing properties—at cost (less reserves for		
depreciation and amortization, \$160,730.78) ..	1,469,527.95	
Total property		69,825,797.72

PATENTS—At cost or nominal value (less reserves for amortization, \$50,101.18)

65,673.22

DEFERRED CHARGES—Unexpired insurance premiums, unamortized debenture discount and expense, deferred cost of power facilities, and sundry

784,482.14

TOTAL \$103,094,230.70

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THE DOW CHEMICAL COMPANY
(Incorporated in Michigan)
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, MAY 31, 1942

LIABILITIES

CURRENT LIABILITIES:

Notes payable—Banks	\$ 1,000,000.00
Accounts payable—Trade and sundry	4,730,241.51
Federal income and excess profits taxes (including provision for current year at rates under law existing at May 31, 1942; and provision for estimated additional taxes of prior years)	10,336,621.85
Customers' special deposits for purchase of product	635,059.79
Serial debentures maturing September 1, 1942	750,000.00
Accrued liabilities:	
Payrolls	761,562.98
Taxes (other than Federal income and excess profits taxes)	1,042,074.29
Interest	95,471.26
Rents	167,032.86
Sundry	124,936.09
Total current liabilities	\$ 19,643,000.63

FUNDED DEBT:

Ten year 2¼% debentures, due September 1, 1950	\$ 7,500,000.00
Serial debentures maturing in the amount of \$750,000.00 on September 1, 1943 and annually thereafter until September 1, 1950 (debentures maturing in 1942 included in current liabilities)	6,000,000.00
Total funded debt	13,500,000.00

RESERVES FOR FIRE AND ACCIDENT LOSSES, DAMAGE CLAIMS, ELECTROLYTIC CELL REPLACEMENTS, AND SUNDRY

734,820.31

MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OR DEFICIT OF SUBSIDIARIES

1,073,655.11

CAPITAL STOCK:

Preferred capital stock—5% cumulative (authorized and outstanding, 60,000 shares of \$100.00 par value each)	\$ 6,000,000.00
Common capital stock (authorized, 2,000,000 shares without par value; outstanding, 1,248,706 shares)	37,293,908.83
Total capital stock	43,293,908.83

SURPLUS:

Capital surplus (decreased during the year ended May 31, 1942 by expenses in connection with sale of additional shares of common capital stock, \$39,937.65)	\$ 36,539.01
Earned surplus	24,812,306.81
Total surplus	24,848,845.82
TOTAL	<u>\$103,094,230.70</u>

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THE DOW CHEMICAL COMPANY AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME FOR THE YEAR ENDED MAY 31, 1942

SALES (net of returns, allowances, cash discounts, and freight) -----		\$78,359,997.24
COST OF SALES -----		56,338,933.18
GROSS PROFIT -----		\$22,021,064.06
SELLING AND ADMINISTRATIVE EXPENSES -----		3,929,984.30
PROFIT FROM OPERATIONS -----		\$18,091,079.76
OTHER INCOME:		
Dividends, \$1,350,000.00, and interest, \$155,610.97, from associated company -----	\$ 1,505,610.97	
Fees received in connection with construction of certain government owned plants -----	268,375.06	
Royalties, rentals, and miscellaneous -----	252,126.83	2,026,112.86
GROSS INCOME -----		\$20,117,192.62
INCOME CHARGES:		
Interest and amortization of discount and expense on debentures -----	\$ 289,964.16	
Other interest expense, loss on disposal of fixed assets, and miscellaneous -----	284,980.47	574,944.63
NET INCOME BEFORE PROVIDING FOR FEDERAL INCOME AND EXCESS PROFIT TAXES -----		\$19,542,247.99
PROVISION FOR FEDERAL INCOME AND EXCESS PROFIT TAXES (at rates under law existing at May 31, 1942):		
Normal tax and surtax -----	\$ 3,948,067.35	
Excess profits tax -----	6,131,058.48	10,079,125.83
NET INCOME BEFORE DEDUCTING MINORITY INTERESTS IN INCOME OF SUBSIDIARIES -----		\$ 9,463,122.16
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES -----		241,636.40
NET INCOME FOR THE YEAR -----		<u>\$ 9,221,485.76</u>

NOTES: The provision for depreciation and the amortization (as provided under the Internal Revenue Code) of emergency defense facilities charged against income for the year ended May 31, 1942 amounted to \$3,628,103.12 and \$3,075,568.39, respectively. During the year adjustments were made of depreciation rates on certain classes of property which were applied retroactively to the years ended May 31, 1941, 1940, and 1939 with the result that by credits to surplus the depreciation previously provided for those years was reduced \$325,264.22, \$278,848.54, and \$216,111.48, respectively. The net effect of these adjustments and miscellaneous other small adjustments of income of prior years, less the provision for additional Federal income and excess profits taxes thereon, was to credit earned surplus with \$617,955.45, representing net increases in previously reported income for the years ended May 31, 1941, 1940, and 1939 of \$248,032.51, \$185,240.46, and \$184,682.48, respectively.

Research and experimental expenses which have been shown in previous years under the caption "Selling and General Expenses" are now included in cost of sales.

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THE DOW CHEMICAL COMPANY AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED EARNED SURPLUS FOR THE YEAR ENDED MAY 31, 1942

BALANCE, JUNE 1, 1941			\$18,933,844.35
CREDITS:			
Net income for the year			9,221,485.76
Adjustments to net income of prior years (see note to Statement of Consolidated Income)	\$ 856,743.26		
Less provision for additional Federal income and excess profits taxes thereon	238,787.81	617,955.45	
Total			\$28,773,285.56
CHARGE—Cash dividends:			
Common capital stock	\$ 3,660,978.75		
Preferred capital stock	300,000.00	3,960,978.75	
BALANCE, MAY 31, 1942			<u>\$24,812,306.81</u>

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