Mr. R. D. Horner

CITY Cleveland 2, Ohio DATE February 14, 1955 FOR ALL DIVISIONS AND OFFICERS

SUBJECT CONSOLIDATED OPERATING EXPENSES

FEB 18 1955

ANSWERING LETTER OF

Prior to 1954 our reports simply showed total operations for each plant. These were not self-analytical as to major product groups. We could only look at complete divisions and could not readily ascertain how an over-all product group, such as margarine, refinery products, etc., was doing.

During 1954 the Food and Naval Stores Supplemental Operating Statements were instituted. With the regular Consolidated statements reporting the total for each division the Supplemental then permits showing operations by product group, both for each individual division and in total for that product group.

With 1955 reports certain changes have been made in Chemicals and Chemurgy which permit better analyzation by product group.

In Chemurgy the reports now are broken down between (1) Processing - Crush, Soya Products (Flour, Protein, Lecithin,) and Fine Chemicals; (2) Hedging; and (3) Grain Merchandising. In addition to showing operations by plant, operations are also shown in memo form by the three major operational groupings. Studies are now being made as to the practicalness of breaking down the processing operations into their major component parts which would allow clearer analyzation of profitableness as to basic product operations.

In Chemicals-Pigments-Metals each plant reflects all sales of products manufactured at that plant, regardless of where sold. The line-up is:

St. Helena	- Zopaque, Cadmium Colors
Collinsville	- Lithopone, Titanolith, Black Ash
Hammond	- Powdered Metals
Scranton	- White Lead

Regular sales are not intermixed; thus, St. Helena's regular sales reflect all sales of Zopaque and Cadmium Colors made outside the Company. This change also eliminates interdivision sales between Chemical Divisions so as in 1955 interdivision profits represent profits by products on sales to Paint Divisions.

It should be noted that St. Helena salesmen solicit orders for Lithopone (but sales are credited to Collinsville,) while Collinsville salesmen solicit orders for Zopaque and Cadmium Colors (but sales are credited to St. Helena.) Since the manufacturing division reflects these sales, Mr. Ruth has authorized a commission transfer between divisions. This commission transfer is reflected in a separate column in order to permit elimination of what would amount to a duplication and inflation of operating expenses on consolidation of total Chemicals.

N13462

GLD023782

For example, at January 31 Collinsville show total commission transferred from St. Helena of $66,460 (representing compensation for their efforts in selling Zopaque and Cadmium Colors which sales are reflected by St. Helena.) St. Helena has reflected this same amount as a selling expense. On consolidation of total Chemicals it is necessary to net this back against consolidated operating expense.

This new line-up for Chemicals gives a much clearer picture of regular operations for each product group, as well as allowing interdivision profit to appear as a pure Paint Division figure.

You will also note on Naval Stores the same duplication of commission expense exists, with Division No. 71 paying a commission to Colledge. In consolidating it is again necessary to eliminate this duplication so as not to erroneously inflate consolidated selling expenses.

With the present set-up in the Consolidated Operating Statement, plus the Supplemental Report for Foods and Naval Stores, it is felt that Directors, as well as operating heads of each major group, can better evaluate operations of the Company in terms of our basic product groups.

G S Warner

G. S. WARNER

GSW:jts

GLD023783