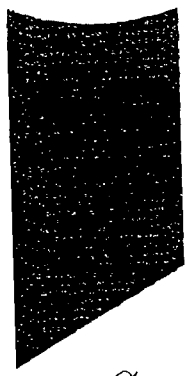


PLAINTIFF'S EXHIBIT

CT-264



1962 Annual Report

Certain-teed Products Corporation

CTD035966

Products

Asphalt Shingles and Sidings

Asphalt Roll Roofing and Sidings

Saturated Felts and Building Papers

Insulating Sidings

Asphalt Roof Coatings and Cements

Fiberglas Building Products

Asbestos Shingles and Sidings

Insulating Board Products

Hardboard Products

"IDEAL" Millwork

Certain-teed "K&M" Asbestos-Cement Pipe Products

"IEH" Construction and Financing Service



CTD035967

To the Stockholders:

In preparing the Report for the year 1962, we have adopted a change in accounting, which our accountants, S. D. Leidesdorf & Co., have approved, relating to customer installment notes received in connection with sales of houses by a wholly-owned subsidiary, Institute for Essential Housing, Inc. (IEH). The principal reason for the change in accounting was to establish a method of accounting which does not attempt to estimate losses on repossessions of houses for the five to twelve year lives of the installment notes receivable.

On the original method, the full cash sales price of the house was accrued and all related costs and expenses, including forecast losses on repossessions for the lives of the installment notes, were charged to operations. Our increased repossession experience during late 1962 and early 1963 made it evident that, based on a number of factors, losses over the lives of the notes could not be forecast with reasonable accuracy. Accordingly it was decided to adopt a more conservative approach of deferring income on notes until future installments are collected and deducting losses on repossessions of houses as incurred. (See Note 1 to Financial Statements.)

After giving effect to the change in accounting, net sales for the year 1962 were $151,942,111 compared with $138,314,147 in 1961. Net earnings for the year 1962 were $1,577,018, or 54 cents per share, based on the average number of shares outstanding during 1962, compared with $4,522,789, or $1.84 per share, as adjusted for the change in accounting, in 1961. Approximately $2,000,000 of the reduction in the 1962 earnings is attributable to the IEH housing program. The other major reason for the decline in earnings was lower selling prices on most of our products. There is approximately $600,000 of operating loss on the books of IEH which may be available under the carryover provision of the Internal Revenue Code. The net earnings reported for 1962 were not affected by "guideline" depreciation and 7% investment credit which the Company is claiming for Federal income tax purposes.

CTD035968

CAPITALIZATION, DIVIDENDS AND WORKING CAPITAL

In 1962, the Company increased its authorized Common Stock from 3,000,000 to 7,500,000 shares. During the year, 580,000 shares of the Company's Common Stock were issued in connection with the acquisition of plants, and other assets (including intangibles) incident to their operation, relative to the manufacture and sale of asbestos-cement pipe products. (For further details see Note 8 to Financial Statements.) Of the value assigned to the 580,000 shares, $2,554,470 was charged to intangible assets, which amount is being written off against earnings at the present annual rate of $245,000, based on varying lives of from five to fifteen years.

Cash dividends of $1,799,026 were paid in 1962, representing four quarterly dividends of 15 cents a share.

After giving effect to the change in accounting, the Company's working capital increased during the year to $30,878,317 at December 31, 1962.

IEH HOUSING PROGRAM

The IEH housing program was formulated late in 1960 with a newly organized subsidiary, Institute for Essential Housing, Inc. This program was an outgrowth of our Wm. Cameron & Co. Division's Easy-To-Own Homes program which we started in 1958. We made numerous studies of the market potential, and during the past two years extended this program throughout the United States and in Canada.

With changed conditions in the low cost housing industry, brought about by increased availability of mortgage money and increased number of repossessions, we concluded that the reduced profit potential is not adequate to justify the risk involved and the housing program, as presently constituted, should be modified. Accordingly we are now in the process of developing a plan of operation which will utilize financing without recourse to the Company. The expenses of operating IEH have been greatly reduced, and under the proposed plan further reductions of expenses are anticipated. We hope to have the new plan in effect in the near future.

As set forth in the Notes to Financial Statements at December 31, 1962, there was deferred discount of $7,702,716, which will be reflected as income in future statements of income as collections are received on customer installment notes, less any future losses and costs related to the notes.

During the year 1962 we completed 5,971 houses, compared with 7,010 houses completed in 1961. At the close of business December 31, 1962, we had an inventory of repossessed houses which have been written down to an estimated net sales value of $2,048,436.

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ASBESTOS-CEMENT PIPE DIVISION

On June 1, 1962, the Company acquired all the asbestos-cement pipe producing properties of Keasbey & Mattison Company. These include asbestos-cement pipe plants located in Ambler, Pennsylvania; St. Louis, Missouri; Hillsboro, Texas and Santa Clara, California, as well as research facilities at Ambler, Pennsylvania. The distribution of these products is nationwide.

After completing seven months' operation of these newly acquired facilities in 1962, we consider the results reasonably satisfactory, with the exception of start up problems of the recently constructed Hillsboro, Texas plant. Necessary steps have been taken to place the Hillsboro plant on a satisfactory operating basis during 1963. We are pleased with our entrance into the asbestos-cement pipe industry and intend to expand this Division. The asbestos-cement pipe industry has a promising future, both in our country and for export, and we can foresee a good future for our Company, not only in the products we are presently producing, but in the use of other asbestos-cement products in other fields. There is a section further on in this Report which furnishes additional information concerning asbestos-cement pipe and its future.

WM. CAMERON & CO. DIVISION

During the year, the Wm. Cameron & Co. Division, which is made up of the Ideal Millwork factory at Waco, Texas, nineteen distributing warehouses, and thirty three retail lumber yards and building materials stores throughout the Southwest, increased its sales, but due to depressed prices and increased costs of building materials the net profit did not equal 1961. We expanded the shipping areas of the Ideal Millwork factory to include the majority of the markets in the south, central and eastern parts of the United States and have greatly expanded the sales of our millwork products. Since, in this Division, the problem of handling and storing many bulky materials is a great cost factor, we are placing more emphasis on the use of mechanical equipment for the purpose of reducing costs and increasing efficiency.

CERTAIN-TEED BUILDING MATERIALS DIVISION

In the regular building material lines of Certain-teed we had a satisfactory year with respect to sales volume but, due to the depressed prices on building materials throughout most of the year, we did not maintain the profit and profit margins that were made in 1961. We have entered 1963 with moderately increased selling prices on our building materials. We are expanding our program of mechanization of our production facilities to make them as efficient as possible.

During the year 1962 the Company operated its building components plant at a loss. As a result, the Company closed this plant the latter part of the year.

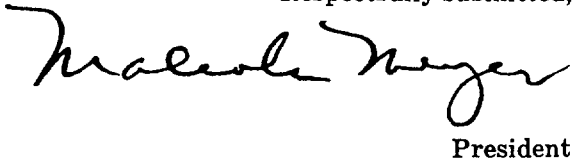
During the past year we attempted to promote the sale of houses in Latin America, utilizing conventional building materials. We now believe that a successful foreign housing program for this Company requires the development of new building materials that will be more suitable to that area. Our research and development people are actively engaged in this project.

As we enter 1963, we have eliminated and are continuing our efforts to eliminate to the extent possible those activities that do not show favorable results. We expect that earnings for 1963 will show a considerable improvement over those for 1962.

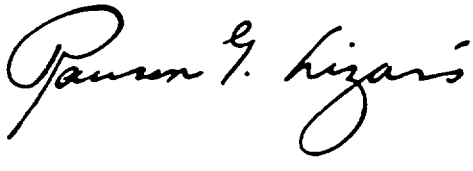
We announce with regret the deaths during 1962 of Thomas F. Brown, a Director of the Company since 1944, and Chairman of its Executive Committee since 1949, and Manuel Harris, a Vice President of the Company and in charge of the wholesale and millwork phases of the Wm. Cameron & Co. Division.

The cooperation of the Company's stockholders, friends and customers, and the efforts of its loyal and able employees have been of inestimable value to the Board of Directors and the Management during 1962.

Respectfully submitted,



President



Chairman of the Board

Ardmore, Pennsylvania
March 15, 1963

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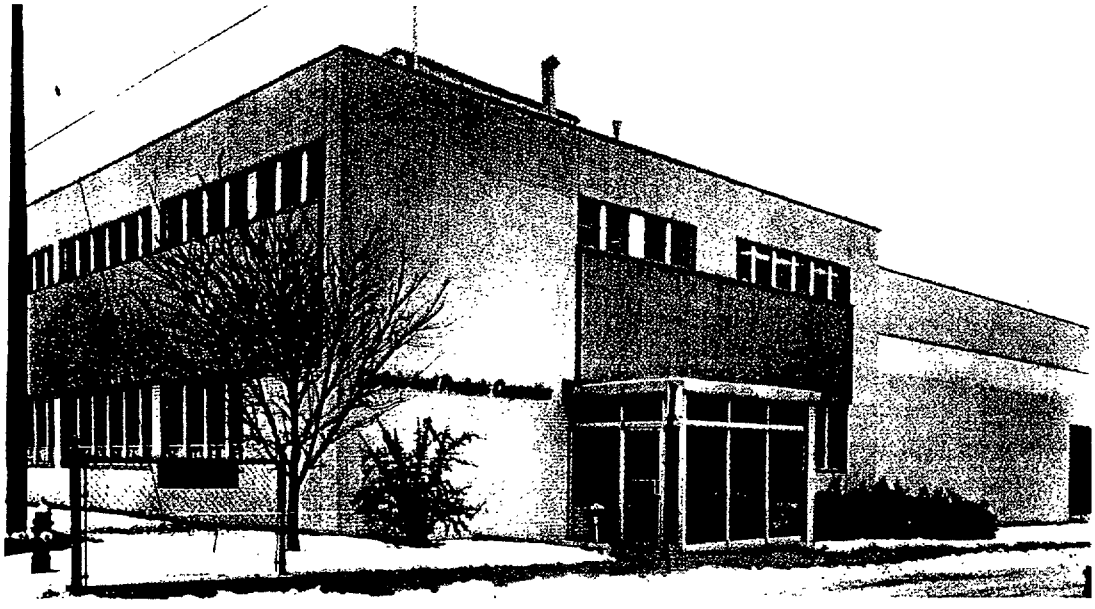
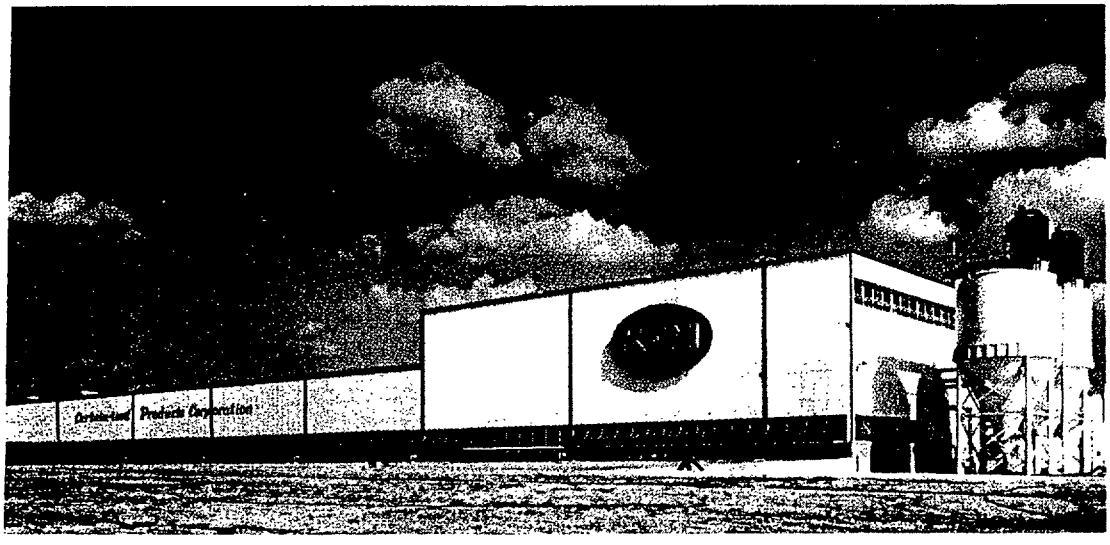


The modern Research and Development Center at Ambler, Pennsylvania is exploring new advances in asbestos-cement technology. A complete pilot plant is now being built within the Center.



The Hillsboro, Texas plant is the country's most modern, devoted exclusively to the manufacture of asbestos-cement pipe. It was selected as one of the "Top Ten Plants of 1962" being cited by FACTORY Magazine (May, 1962) for excellence in planning, construction and production facilities.

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Asbestos-Cement Pipe

On June 1, 1962, the Company purchased the asbestos-cement pipe producing facilities of Keasbey & Mattison Company which began production of asbestos-cement pipe in 1937-38 and as a result of this acquisition the Company became the nation's second largest producer of this material. Included in the acquisition were the manufacturing, research and marketing facilities, inventories, other assets and personnel necessary to the continued operation, expansion and sale of asbestos-cement pipe products. Manufacturing plants are strategically located at Ambler, Pennsylvania; St. Louis, Missouri; Hillsboro, Texas and Santa Clara, California. The research and development center at Ambler, Pennsylvania is one of the most modern of its type in the country and will shortly include a complete pilot plant where new techniques and technology can be developed to further the sales and acceptance of asbestos-cement pipe.

Among the many advantages of asbestos-cement pipe are lightness, resistance to corrosion, freedom from electrolytic action and the ability to withstand corrosive soils which can destroy metallic pipe. Products now offered for sale include pressure pipe for water distribution systems, gravity sewer pipe for sewage collection systems, irrigation pipe for both agricultural and turf irrigation, building sewer pipe for private residential sewage systems and air duct pipe for perimeter heating in home construction. Since most of these products are closely related to the construction industry they offer a substantial contribution to the Company's line of building material products.

The growth and acceptance of asbestos-cement pipe since the 30's has been outstanding and should continue to increase as more users of pipe are made aware of the unique properties of this material. Although the past record of growth has been encouraging, the future market potential for these products is one of great demand.

To provide the sewer pipe requirements in the United States for new sewer mains, for maintenance and repair, extensions to new and old homes, general improvements and to eradicate the backlog of deficiences that now exist, it is estimated that nearly 2 billion feet of sewer pipe will be required in the period up to and including 1975.

The outlook for the asbestos-cement pressure pipe market is equally encouraging for many reasons. The nation's water requirements are increasing so rapidly that the daily average intake by 1980 is estimated conservatively to reach a staggering figure of 494 million gallons compared with a daily average of about 299 million gallons in 1958. Projected pressure pipe requirements for the years up to and including 1975 are estimated at 2,507 million feet. These requirements are vitally necessary for maintenance and repair of the existing facilities as well as construction of new facilities to satisfy our nation's growth and replace material becoming obsolete.

The Company's new acquisition can be expected to expand and grow to meet the requirements of this ever increasing market potential. New and improved asbestos-cement pipe products which are constantly being worked upon will assist in our maintaining our present market position and permit us to expand our share of the total annual sales of pipe products.

The foregoing statistics are taken from the following U.S. Department of Commerce (BDSA) reports of the Water and Sewerage Industry Utilities Division—"Water and Sewerage Work Pressure Pipe Requirements" (June 1957), "Sewerage Utilities Sewer Pipe Requirements for Mains 1920-1958-1975" (July 1959) and "Water Use in the United States 1900-1980" (March 1960).

CERTAIN-TEED PRODUCTS CORPORATION and Subsidiaries

Consolidated Balance Sheet at December 31, 1962

ASSETS

CURRENT ASSETS:	
Cash	$ 5,907,578
U.S. Government securities, at cost (approximate market)	163,000
Receivables—Notes 1 and 2	22,245,438
Inventories—Note 3	20,855,462
Total current assets	49,171,478
NONCURRENT RECEIVABLES—Notes 1 and 2	65,387,974
PROPERTY, PLANT AND EQUIPMENT—Notes 4 and 8	31,157,017
OTHER ASSETS and DEFERRED CHARGES	1,158,280
INTANGIBLE ASSETS, at amortized cost or nominal amount—Note 8	2,418,741
	$149,293,490

The accompanying Notes to Financial Stat

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LIABILITIES

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 10,944,065
Note payable to bank—Note 5	3,000,000
Current installments on collateral notes payable—Note 6	3,766,881
Federal income taxes	582,215
Total current liabilities	18,293,161
COLLATERAL NOTES PAYABLE, less current installments—Note 6	62,301,228
DEFERRED FEDERAL INCOME TAXES—Note 7	1,153,600
OTHER NONCURRENT ITEMS	1,676,801
STOCKHOLDERS' EQUITY—Notes 5, 6, 8 and 9	65,868,700
	$149,293,490

ments are an integral part of this statement.

CERTAIN-TEED PRODUCTS CORPORATION and Subsidiaries

Consolidated Statement of Income and Retained Earnings
Year Ended December 31, 1962 (Note 1)

REVENUES:		
Net sales		$151,942,111
Time charges and discount earned on installment notes receivable		6,164,540
Other income		342,686
		158,449,337
COSTS AND EXPENSES:		
Cost of sales	$126,770,005	
Selling and administrative	19,966,162	
Loss on installment notes receivable	1,683,592	
Interest on long term debt	5,762,106	
Other deductions	213,454	154,395,319
		4,054,018
FEDERAL INCOME TAXES—Note 7		2,477,000
NET INCOME		1,577,018
RETAINED EARNINGS AT BEGINNING OF YEAR		29,384,092
		30,961,110
ADJUSTMENT TO REFLECT CHANGE IN ACCOUNTING RELATING TO INSTALLMENT NOTES—Note 1	1,387,836	
DIVIDENDS ON COMMON STOCK	1,799,026	3,186,862
RETAINED EARNINGS AT END OF YEAR		$ 27,774,248

Total depreciation of fixed assets and amortization of intangible assets amounted to $1,973,404 and $142,884, respectively.

The accompanying Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements at December 31, 1962

1. CHANGE IN ACCOUNTING:

Customer installment notes received in connection with sales of houses by a wholly-owned subsidiary, Institute for Essential Housing, Inc., are sold by the subsidiary to the Company at a discount of 10% of the face amount, exclusive of time charges, of such notes. At the time of the intercompany sale, the discount is charged to income (reduction of sales) by the subsidiary. Whereas this intercompany discount, after providing for applicable Federal income taxes, previously was eliminated by a credit to income (sales) in consolidation, the Company this year adopted the policy of deferring the credit to income until such time as collections are received on the notes and the discount considered earned. At the same time, an adjustment was made to Retained Earnings for the purpose of applying this policy with respect to notes held as at the beginning of the year. As at December 31, 1962, the aggregate amount of the deferred discount (see Note 2), in the opinion of Management, was adequate to cover the aggregate of any future losses and costs related to the notes. Had this revised method of accounting been employed during the year ended December 31, 1961, net income for that year would have been $4,522,789, which is $1,387,836 less than previously reported.

2. RECEIVABLES:

Receivables consist of the following:

Installment notes receivable, including $2,048,436 repossessions at estimated net sales value		$117,014,218
Less: Unearned time charges	$37,773,773	
Deferred discount—Note 1	7,702,716	45,476,489
		71,537,729
Other accounts and notes receivable, less estimated uncollectibles of $587,410		16,095,683
		$ 87,633,412

Included in assets as:

Current	$ 22,245,438
Noncurrent	65,387,974
	$ 87,633,412

Installment notes receivable, which arise from the sale of houses, are collateralized by mortgages on the houses and their related lots and are generally collectible over five year to twelve year periods. See Note 6 with respect to the financing of installment notes receivable.

3. INVENTORIES:

Inventories are classified as follows:

Merchandise inventories at lower of cost or market:	
Raw materials and supplies	$ 4,848,390
Finished goods and work in process	15,274,132
	20,122,522
Improved real estate, land and houses under construction, at cost or less	732,940
	$20,855,462

4. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, at cost, consist of the following:

Land	$ 1,917,559
Buildings and equipment, less depreciation of $16,403,595	29,239,458
	$31,157,017

5. NOTE PAYABLE TO BANK:

The 4½% note outstanding under a loan agreement with a bank may be repaid in cash on April 1, 1963 or, at the option of the Company, by the issuance of a 5% term note due in five equal annual installments to April 1, 1968. The loan agreement also provides, among other things, that until all borrowings thereunder shall be repaid the Company will maintain consolidated net current assets of at least $24,000,000. Based on such provision, the maximum aggregate amount of dividends on and purchases of the Company's capital stock was limited to approximately $6,800,000 at December 31, 1962.

6. COLLATERAL NOTES PAYABLE:

Under an amended agreement with Universal C.I.T. Credit Corporation, there is available to the Company, as required through December 31, 1966, up to $200,000,000 in connection with the financing of customer installment notes arising from the erection and sale of housing. A similar agreement exists between the Company's Canadian subsidiary and an affiliate of Universal C.I.T. Credit Corporation, the amount available being up to $10,000,000, as required through December 31, 1965. At December 31, 1962, there is approximately $134,200,000 and $9,700,000 available for borrowing under the respective agreements. Installment notes receivable aggregating approximately $66,000,000, net of unearned time charges and deferred discount, have been pledged as collateral for notes payable issued under the agreements.

With respect to the aforementioned financing agreements, amounts borrowed (limited to 90 per cent of the amount, net of time charges, of related customer installment notes) are required to be (a) collateralized by the installment notes, and (b) repaid from collections on such notes or, with respect to borrowings relating to a note any installment of which is 90 days past due, prepaid immediately. However, with respect to a portion of the outstanding borrowings and so long as it is not in default under its agreement, the Company shall be under no obligation to prepay amounts borrowed on past due notes then outstanding, if ever and so long as its cumulative aggregate net loss on the installment notes pledged exceeds a formula amount, the effect thereof being to limit any aggregate ultimate possible net loss on such notes to the formula amount. In the opinion of Management, future losses on these notes will be less than the formula amount.

Interest paid on the borrowings is equal to the amount of the earned time charges on the pledged installment notes receivable, computed on a basis that assigns a greater portion of earned time charges to the earlier installment periods ("Rule of 78").

During the term of the financing agreements and until all borrowings thereunder shall be repaid, the agreements further provide, among other things, for the maintenance of specific minimum amounts of consolidated net current assets (as defined) and consolidated net worth (as defined), and restrictions on the declaration of dividends, other than stock dividends, and the acquisition of shares of the Company's capital stock. At December 31, 1962, the amount of consolidated Retained Earnings not restricted for payment of dividends and for acquisition of shares of the Company's capital stock under these agreements approximated $16,000,000. See Note 5 for a more restrictive agreement relating to payment of dividends and acquisition of the Company's capital stock.

7. FEDERAL INCOME TAXES:

The deferred Federal income taxes shown in the accompanying consolidated balance sheet represent taxes payable in future years as a result of differing treatments for Federal income tax and financial accounting purposes with respect to time charges and discounts earned on customer installment notes, and depreciation.

The provision for Federal income taxes shown in the accompanying consolidated statement of income and retained earnings has been calculated on the basis of filing individual tax returns for each of the companies.

The accompanying consolidated financial statements are subject to final determination of Federal, state and local taxes.

8. STOCKHOLDERS' EQUITY:

Stockholders' Equity consists of the following:

Capital assigned to shares:	
4½% Cumulative Prior Preference Stock, $100 par value, authorized and unissued 50,000 shares	—
Common Stock, $1 par value, authorized 7,500,000 shares, issued 3,351,031 shares	$ 3,351,031
Capital in excess of par value	36,540,025
	39,891,056
Retained earnings	27,774,248
	67,665,304
Less: Common Stock held in treasury, at cost—201,917 shares	1,796,604
	$65,868,700

During the year, the Company increased its authorized Common Stock from 3,000,000 to 7,500,000 shares.

Other than through the issuance of shares in connection with stock options exercised, the Company, during 1962, increased its outstanding Common Stock by 580,000 shares which were issued in connection with the acquisition of plants, and other assets (including intangibles) incident to their operation, relating to the manufacture and sale of asbestos-cement pipe. An aggregate value of $17,400,000 (based on $30 a share, the closing price on the New York Stock Exchange on the day of the stockholders'

meeting at which the shares necessary to consummate the transaction were authorized) was assigned to the 580,000 shares, of which $14,845,530 was charged to property, plant and equipment and $2,554,470 charged to intangible assets. The excess ($16,820,000) of the amount assigned to the shares issued over the par value thereof was credited to capital in excess of par value.

During the current year, pursuant to stock option incentive plans for officers and key employees, options for 15,425 shares of Common Stock were exercised. At December 31, 1962, options to purchase 29,512 shares at $9.88 a share and 1,250 shares at $44.08 a share were outstanding and 29,000 shares were reserved for future grants. Shares issued in connection with options exercised during the year resulted in an increase of $136,894 in capital in excess of par value.

9. CONTINGENCIES AND OTHER COMMENTS:

The Company, along with eleven other companies, is a defendant in a pending lawsuit involving alleged violations of the anti-trust laws of the United States, in which the plaintiff seeks damages aggregating approximately $1,600,000, to be trebled in accordance with the pertinent statute. In the opinion of Company counsel, the Company's liability is doubtful but, in the event of an adverse decision, damages against the Company would be substantially less than claimed. The Company denies any liability in this litigation, and in other less significant pending litigation (and tax assessments) aggregating approximately $1,200,000, at December 31, 1962.

At December 31, 1962, the unfunded cost of past service benefits under existing pension plans, as amended to provide increased benefits for salaried employees and inclusive of coverage of certain employees of newly acquired asbestos-cement pipe operations, amounted to approximately $1,700,000.

The Company was contingently liable at December 31, 1962 on approximately $517,000 of mortgage notes receivable sold to a finance company.

Accountants' Report

To the Board of Directors
Certain-teed Products Corporation
Ardmore, Pennsylvania

We have examined the consolidated balance sheet of Certain-teed Products Corporation and subsidiaries as at December 31, 1962, and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings, together with the notes to financial statements, present fairly the consolidated financial position of Certain-teed Products Corporation and subsidiaries at December 31, 1962, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change commented on in Note 1.

S. D. LEIDESDORF & CO.

New York, N. Y.
February 20, 1963

Locations

GENERAL OFFICES

Ardmore, Pennsylvania
Waco, Texas, Cameron Division
Wayne, Pennsylvania, Institute for Essential Housing, Inc.

RESEARCH LABORATORIES

Ambler, Pennsylvania
Paoli, Pennsylvania

SALES OFFICES

Albany, New York
Ambler, Pennsylvania
Ardmore, Pennsylvania (Export Sales)
Arlington, Virginia
Atlanta, Georgia
Berkeley, Illinois
Brunswick, Georgia
Buffalo, New York
Burlingame, California
Charlotte, North Carolina
Cincinnati, Ohio
Clayton, Missouri
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
Detroit, Michigan
East St. Louis, Illinois
El Cerrito, California
Houston, Texas
Indianapolis, Indiana
Kansas City, Missouri
Los Angeles, California
Minneapolis, Minnesota
New Orleans, Louisiana
Omaha, Nebraska
Salt Lake City, Utah
Seattle, Washington
Summit, New Jersey
Wilmington, Delaware

PLANTS

Roofing

Chicago Heights, Illinois
Dallas, Texas
East St. Louis, Illinois
Kansas City, Missouri
Richmond, California
Savannah, Georgia
Tacoma, Washington
York, Pennsylvania

Asbestos-Cement Pipe

Ambler, Pennsylvania
Hillsboro, Texas
Santa Clara, California
St. Louis, Missouri

Millwork

Waco, Texas

CTD035981

Organization

BOARD OF DIRECTORS	Rawson G. Lizars, *Chairman* William C. Baird Donald N. Clausen Albert J. Hettinger, Jr. John R. Johnston I. S. Kampmann, Jr. Malcolm Meyer
EXECUTIVE COMMITTEE	Rawson G. Lizars, *Chairman* Malcolm Meyer William C. Baird
OFFICERS	
Chairman of the Board	Rawson G. Lizars
President	Malcolm Meyer
Vice President, Treasurer and Comptroller	John R. Johnston
Vice President	Dan LeBow
Vice President	Harold Barnard
Vice President	E. A. Diefenbach
Secretary	Arthur O. Graves
Assistant Secretary and Assistant Treasurer	James L. Strickland
Assistant Secretary	Tom Warren
Assistant Secretary and Assistant Treasurer	J. E. Schulze
Assistant Treasurer	Norman J. Mueger
TRANSFER AGENT	Bankers Trust Company, New York
REGISTRAR	The Chase Manhattan Bank, New York
GENERAL COUNSEL	Clausen, Hirsh, Miller and Gorman, Chicago
AUDITORS	S. D. Leidesdorf & Co., New York

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